Upbound Group, Inc. (Q2 2023 Earnings)
August 3, 2023

Corporate Speakers

- Brendan Metrano; Upbound Group, Inc.; Vice President of Investor Relations
- Mitchell Fadel; Upbound Group, Inc.; CEO & Director
- Fahmi Karam; Upbound Group, Inc.; Executive VP & CFO

Participants

- Robert Griffin; Raymond James & Associates, Inc.; Analyst
- Kyle Joseph; Jefferies LLC; Analyst
- Anthony Chukumba; Loop Capital Markets LLC; Analyst
- Bradley Thomas; KeyBanc Capital Markets Inc.; Analyst
- Alex Fuhrman; Craig-Hallum Capital Group LLC; Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the Upbound Group Inc's Second Quarter Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the call over to Brendan Metrano, Head of Investor Relations.

Brendan Metrano^ Good morning, and thank you all for joining us to discuss the company's results for the second quarter of 2023.

We issued our earnings release before the market opened today. And the release and 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 performance will generally refer to non-GAAP results. 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 will turn the call over to Mitch.

Mitchell Fadel^ Thank you, Brendan, and good morning, everyone, on the call today.

Second quarter results exceeded our internal expectations again this quarter with revenue of $979 million at the high-end of our expectations, while adjusted EBITDA of $130.6 million and non-GAAP earnings per share of $1.11 were above expectations. Similar to the first quarter, earnings upside was primarily attributable to effective underwriting execution and strong gross margin for the Acima segment, driven primarily by fewer customers electing the earliest lease payout option. Now, Fahmi will provide additional context on this in a few minutes with his discussion of our financial results and our outlook.

Closing out the first half of the year, we're pleased with the company's performance and confident in our ability to execute our strategy, which we believe positions us well to have the company back on the growth path in 2024. Concerning the better-than-expected second quarter earnings and early third quarter gross margin trends for Acima, we've raised our full-year 2023 guidance for the second time this year.

We now expect full-year 2023 non-GAAP EPS to be between $3.25 and $3.55, up from our previous guidance of $2.70 to $3.20. While we are cautiously optimistic about the company's prospects for the second half of the year, we also know it's critical to manage risk given the level of uncertainty that remains in the market and ongoing financial headwinds affecting less affluent households.

Before we review the highlights of our second quarter results, I'd like to touch on the progress of some of our key priorities for the year. We're really pleased with our underwriting and risk management performance for the first half of the year. We maintained our discipline, enhancing our underwriting and risk management with new tools and techniques. This will offer continued sequential progress, reducing delinquency and loss rates for the second quarter even though broader consumer credit trends deteriorated and we still achieved our top line targets.

Advancing the company's digital business is a top growth objective for the year and during the second quarter, we added more merchants to the Acima marketplace and 2 new merchants to the Rent-A-Center extended aisle offerings. At the end of the second quarter, the Acima app had approximately 1.1 million cumulative downloads and the Rent-A-Center app had over 3.1 million cumulative downloads.

The positive digital momentum was demonstrated by continued year-over-year and sequential increases in web traffic for the Acima marketplace and for rentacenter.com. In May, we announced the strategically significant partnership with Genesis Financial Solutions, one of the leaders in non-prime consumer financial services to provide credit solutions for financially underserved consumers.

The offerings will include a general-purpose credit card and the second-look point-of-sale private label credit card with merchant partners. Genesis will leverage its credit expertise and offering in servicing credit cards, and Upbound will provide proprietary customer data to help enhance Genesis credit decisions for our customers and access to our merchant base. We're very excited about this partnership as it offers a low-risk opportunity to expand our financial solutions platform beyond lease-to-own.

We've commenced the integration project, and launched the pilot marketing campaign on the general-purpose credit cards in July. And we expect the partnership to ramp up to a run rate towards the end of 2024. While it's still very early, we're encouraged by the progress and the initial feedback we receive from our merchant partners.

Also in May, we held the first in-person Investor Day event as Upbound Group in New York City. This was the most comprehensive update the company has given since the Acima transaction closed in February of 2021. Highlights included an overview of the market opportunity and strategy for the Upbound Group as parent company to both Rent-A-Center and Acima.

Business leaders from both segments provided updates to their strategic plans, growth opportunities and potential revenue share, cost-saving opportunities between the segments. We also provided an overview of the company's technology platform and plans to enhance our capabilities to achieve our target growth.

Lastly, we provided a 3-year financial outlook for fiscal years 2024 to 2026 for the total company and our 2 key operating segments. For the total company, we projected annualized growth of 6% to 8% for revenues and 8% to 10% for adjusted EBITDA, which translates to a 3-year annualized total shareholder return in the high teens to low 20% range after factoring in free cash flow benefits. For those that haven't seen those materials or the presentation, that presentation and the webcast replay are available on our Investor Relations website.

So, now moving on to the second quarter results. The Rent-A-Center segment performance was generally in line with our expectations. Same-store sales were down 4.9% year-over-year, which improved from down 6.6% in the first quarter. The focus on underwriting and account management over the past few quarters has been effective, lowering skip/stolen rates by 30 basis points sequentially to 4.5% in the second quarter.

Past due rates decreased 40 basis points sequentially. Web traffic grew 32% year-over-year, and e-commerce accounted for approximately 26% of second quarter revenues compared to 23% in the prior year period. Deliveries in our extended aisle solution tripled year-over-year and we advanced several growth initiatives, including launching jewelry as a product vertical, adding a clearance section on our website, expanding centralized sales and account support, and adding additional Whirlpool products to the extended aisle offering as well.

Shifting to Acima. GMV decreased 5.8% year-over-year in the second quarter, which was a meaningful improvement from a 12.6% decrease for the first quarter of 2023. On a sequential basis, the GMV improvement of approximately 700 basis points suggests that first quarter may have been the trough for GMV, and that we could be on a more normal growth path moving forward. The fact that we are positioned to potentially grow GMV year-over-year in the second half of the year is a testament to our underwriting approach over the past year and the execution of the Acima team.

Merchant partner growth and conversion rate trends were favorable year-over-year, while applications were down to the weaker demand and merchant partners primarily in the furniture vertical where we're still feeling the impact of demand pull forward from the pandemic stimulus programs. We made progress on several consumer and merchant-facing initiatives that should benefit both revenue growth and profitability.

Changes in account management contributed to better collections compared to the prior year period, which helped to control past due rates and loss rates. On the merger front, we continue to refine our value proposition to optimize yield and GMV and we expanded the strategic accounts team based on success in building a pipeline of quality prospects.

As I noted earlier Acima margins continued to benefit from a lower mix of customers executing the earliest payoff option during the second quarter. Coming out of the first quarter was unclear if this shift was a one-time event related to lower tax refunds or a reversion towards historical levels. At this point, it seems like a normalization of pre-pandemic levels following a temporary boost in early payouts that was due to the various stimulus programs for the last few years.

While this may benefit margins in the second half of 2023, the long-term impact is still somewhat uncertain until we get additional reads on how it affects loss rates. During the second quarter, we have not seen a notable increase in losses despite the reduced early payout. So, our outlook for the second half of the year assumes that customers continue to roll out fewer earlier payout options than they prior year, but not quite at the same level we see in the first half of the year.

To recap, we are pleased with the company's performance for the second quarter and first half of the year. We had a sound game plan focused on aspects of our business that we could control. We executed well and we remain on track to exceed operational and financial targets. Although, we believe the company is well positioned heading into the second half of the year, external conditions remain mixed.

On the positive side, credit conditions have continued to tighten in recent months, particularly for below prime consumers. As a result, we believe we're drawing higher credit quality customers to our solutions evidenced by sequential improvement in risk scores among applicants. Currently, this trade-down benefit remains a relatively small part of the portfolio and slightly more pronounced in the Acima segment. Tightening credit conditions suggest trade-down should increase further in the second half of the year, which we assume will help support these volumes as we continue to optimize our underwriting standards in the risker channels and categories.

However, the current economic environment remains uncertain for our customers. Our core consumer remains under pressure. Despite the rate of inflation cooling in the last couple of months, the price of non-discretionary products is materially higher today than it was just a couple of years ago. In addition, we felt the effect of stimulus pull forward, especially in furniture, which is pressuring demand. We must remain diligent in our underwriting to manage risk levels as consumer behavior can change quickly in this environment.

Now moving on to Slide 5 and an overview of our key priorities for the year at Rent-A-Center. Our strategic priorities include expanding the number of vendors in our extended aisle offering and making further enhancements to our e-commerce platform that will improve the customer experience and conversion rates. Additionally, we're progressing on key technology initiatives that should help position the business for success in 2024, including things like fleet enhancements that we expect to increase productivity, improve employee safety and drive efficiencies.

For Acima, priorities include continuing to work on reducing frictions in the origination process and customer journey to ensure our services offer best-in-class tools and experiences. We believe this is a key to our goal of differentiating Acima as the most effective LTO solution for merchant partners and advancing Acima's image to consumers as a trusted financial solutions brand. Along those lines, we are also committed to increasing traffic and conversion for the Acima marketplace to ensure customers are aware of our solutions and enable access to them, which we believe will result in incremental volume for our merchant partners.

Lastly, we continue to develop our strategic accounts resources, investing in people and capabilities that have already improved our pipeline over the past year, which we are confident will lead to wins with some well-known merchant partners. At the Upbound level, top priorities are implementing our partnership with Genesis Financial Solutions, advancing our collections and recovery efforts and investing in our technology organization to support our growth agenda as we head into 2024.

In closing, I want to acknowledge our 50th anniversary at Rent-A-Center. We're celebrating this milestone with 50 drops of premium products in 50 days. We're very proud of our history and our long-standing leadership in the lease-to-own space, which we believe is a great foundation for the next 50 years. I also want to thank the entire team for their continued effort and dedication. We're pleased with the progress we've made over the last year, and we believe that we have the right plan and the right team in place to continue building up our strong first half results. Our opportunity going forward is tremendous, and the efforts and initiatives we've highlighted here makes us optimistic about our future.

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 second quarter results and then discuss our updated fiscal year 2023 guidance, after which we will take questions.

Beginning on Page 6 of the presentation. Consolidated revenue for the second quarter was down 8.6% year-over-year, with Acima down 12.4% and Rent-A-Center down 4.9%. Rentals and fees revenues were down 5.8%, reflecting lower portfolio values for both businesses during the second quarter of this year. Merchandise sales revenue decreased 22.4% due to fewer customers electing earlier payout options, and a 9% year-over-year decline in combined GMV for the first and second quarters. The dollar decrease in revenue was fairly evenly split between rental and fee revenue and merchandise sales revenue.

Consolidated gross margin was 51.7% and increased 200 basis points year-over-year, led by improvement in the Acima segment, which is our lower gross margin business as well as a greater mix of Rent-A-Center segment revenue, which is our higher gross margin business. Partially offsetting these benefits was a year-over-year decrease in Rent-A-Center gross margin.

Second quarter results are a good example of our ability to manage costs, while still supporting growth initiatives. Consolidated operating expenses, excluding skip/stolen losses and depreciation and amortization were down low single digits, with a high single-digit decrease in store labor, largely offsetting an increase in general and administrative costs. Our disciplined approach to underwriting continues to generate improving results, with consolidated skip/stolen loss rate down 110 basis points year-over-year and 20 basis points sequentially, driven by continued improvement in the Rent-A-Center segment.

Putting the pieces together, consolidated adjusted EBITDA of $130.6 million increased 1.3% year-over-year, with 47% growth for Acima, offsetting a 20% decline for Rent-A-Center and 4.8% higher corporate costs, excluding special items and share-based compensation. Adjusted EBITDA margin of 13.3% was up approximately 130 basis points compared to the prior year period, with approximately 680 basis points of margin expansion for Acima, partially offset by approximately 330 basis points of contraction for Rent-A-Center. I will provide more detail on segment results in a moment.

Looking below the line. Second quarter net interest expense was $27 million compared to $19 million in the prior year due to approximately 450 basis points year-over-year increase in variable benchmark rates that affected our variable rate debt, which was approximately $815 million at quarter end. The effective tax rate on a non-GAAP basis was 25.5% compared to 26% for the prior year period.

The diluted average share count was 56.7 million in the quarter compared to 59.7 million in the prior year period. GAAP loss per share was $0.83 in the second quarter compared to earnings per share of $0.33 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 $1.11 in the second quarter of 2023 compared to $1.15 in the prior year period.

During the second quarter, we generated $25 million of free cash flow compared to $67 million in the prior year period, and we distributed a quarterly dividend of $0.34 per share. Additionally, we paid down $90 million of our asset-based lending facility and finished the quarter with a net leverage ratio of [2.5x], down from 2.6x at the end of the first quarter.

Drilling down to the segment results starting on Page 7. The Rent-A-Center business lease portfolio was down 4.7% year-over-year, which drove a 3.4% decrease in the second quarter rental and fees revenue and contributed to a 19% decrease in merchandise sales revenue. Merchandise sales were also impacted by fewer customers electing earlier payout options compared to the prior year period.

Total segment revenues decreased 4.9% year-over-year, in line with our expectations and improved from a 6.5% decrease in the first quarter. Skip/stolen losses continue to improve, reflecting our ongoing underwriting efforts, decreasing 30 basis points sequentially to 4.5%. Similarly, past due rates continued to move lower in the second quarter, with 30-day past due rates averaging 2.6% for the second quarter compared to 3% for the first quarter. The monthly upward trend during the quarter reflects normal seasonal patterns coming off the lows during tax season.

Adjusted EBITDA margin for the second quarter decreased 330 basis points year-over-year to 17.9%, primarily due to deleveraging effect of lower revenues on fixed costs. This is reflected by a 170 basis point year-over-year increase in the ratio of operating expenses, excluding skip/stolen losses as a percent of revenue, even though expense dollars decreased year-over-year.

Adjusted EBITDA margin increased 270 basis points from the first quarter, driven by higher gross profit margins, lower loss rates and lower expenses as a percent of revenue. For Acima, as we expected, GMV year-over-year trends continued to improve sequentially in the second quarter. Positive underlying drivers included modest year-over-year growth in active merchant locations and approximately 300 basis point improvement in converting application to funded leases.

Headwinds included a double-digit year-over-year decrease in applications and a slight decrease in average ticket size. In terms of the portfolio, open lease count increased sequentially, but was down low single digits year-over-year. This combined with slightly lower average ticket over the past few quarters drove a lower portfolio value that translated to a 12.4% year-over-year decrease in revenues, including a 9% decrease for rental and fees revenue.

Merchandise sales revenue decreased 23.5% year-over-year on a smaller portfolio and fewer customers electing earlier payout options. Given that we have continued to see fewer customers electing earlier payout options, which generate lower yields for us, we believe this is a trend that is normalizing to pre-pandemic levels. The gross margin impact of this factor is more pronounced for Acima due to structurally lower gross margins based on the segment's higher cost of goods sold.

Skip/stolen losses decreased 270 basis points year-over-year to 8.9%, as we cycled over significant changes in underwriting during the prior year period. The loss rate was unchanged sequentially with continued focus on risk management. We do not expect loss rates will continue to be incremental to margins year-over-year in the second half of 2023, given the sizable improvement in the second half of 2022. Longer term, we still believe the 6% to 8% loss rate for the segment is achievable as the virtual channel has averaged less than 8% for the past 4 quarters during a difficult macro backdrop.

Expense management also contributed to year-over-year margin expansion with operating costs, excluding skip/stolen losses as a percent of revenue, down approximately 80 basis points. Some of the primary areas of expense reductions include lower labor as we streamline operational headcount in certain areas and reductions in transaction processing costs.

Adjusted EBITDA of $77.8 million was up 46.8% year-over-year with lower losses, higher gross margins and lower operating costs more than offsetting lower revenue. Adjusted EBITDA margin of 16.8% increased 680 basis points year-over-year and was the highest since acquiring Acima in early 2021. For the franchise segment and the Mexico segment, adjusted EBITDA was lower year-over-year, but immaterial to the consolidated results. Corporate costs were 7% higher compared to the prior year, primarily due to higher projected performance-based compensation.

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 forecast incorporates the better-than-expected margins that Acima generated for the first half of the year and our continued focus on strong risk-adjusted returns with many less affluent households still experiencing pressure on discretionary spending.

For the full year, we expect to generate revenue of $3.9 billion to $4 billion, reflecting the first half of 2023 revenues towards the high-end of our range. Adjusted EBITDA is now expected to be $440 million to $465 million, excluding stock-based compensation of approximately $26 million. We are increasing our target range of fully diluted non-GAAP earnings per share to $3.25 to $3.55, 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 $230 million to $260 million of free cash flow, net interest expense of $105 million to $110 million and a non-GAAP 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. We did not incorporate any impacts from further trade-down or benefits from the credit card loan partnership.

For the Rent-A-Center segment, we expect the portfolio will finish the year down low single digits, with revenues down low to mid-single digits and adjusted EBITDA margin to be in the mid-teens. Loss rates should remain relatively flat to the second quarter around the 4.5% area, following seasonal patterns for the rest of the year. For Acima, no change to the full-year 2023 GMV outlook. We expect GMV to be down low to mid-single digits year-over-year with merchant partner volumes remaining under pressure from macroeconomic conditions and the demand pull forward from stimulus programs.

We now expect Acima revenues will be down high single digits to low double digits for the full year. Given more visibility into Acima's gross margin trends from the first half of the year, we are increasing the full-year adjusted EBITDA margin outlook to be in the mid-teens. This increase is primarily due to customers shifting away from earlier payout options, which we now expect will continue. The forecast assumes yields at Acima still benefit from lower early payouts, but not to the same degree we experienced in the first half of the year. We expect loss rates for the full year in the 9% area and to seasonally increase in the second half of 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.

Regarding expectations for the second half of the year, we believe earnings will be lower than the first half due to typical seasonality for the Rent-A-Center business and an overall increase in certain operating expenses and corporate investments. To give some perspective on seasonality, from 2018 to 2022, the Rent-A-Center segment on average, experienced an 18% sequential decrease in adjusted EBITDA from the second quarter to the third quarter, excluding 2020 when COVID-19 quarantine impacted the second quarter.

Both major segments will increase marketing expenditures to position the company for a strong holiday season in a larger portfolio heading into 2024. Although corporate costs are usually lower for the second half of the year, this year, we project an increase due to investments to support the Upbound growth strategy. Given the projected cadence of the second half earnings this year and the changes in customer payment behavior we have seen year-to-date, we think it is prudent to provide more specific outlook comments for the third quarter.

We expect third quarter revenue of $950 million to $980 million, adjusted EBITDA of $100 million to $110 million, with margins in the 10.5% to 11% range and non-GAAP EPS of $0.70 to $0.80. Interest expense and share count should be similar to the second quarter of 2023, and non-GAAP tax rate should be approximately 26%. For Rent-A-Center, we expect third quarter revenues to be down mid-single digits, with low to mid-teens adjusted EBITDA margin. We do believe the EBITDA margin will compress in the third quarter due to a lower portfolio value, increased marketing spend going into the holiday season and due to the second quarter benefiting from expense timing that will not occur in the third quarter.

For Acima, we expect the third quarter GMV will be approximately flat year-over-year as we continue to lap underwriting changes made in 2022. Revenue should be down mid- to high single digits, reflecting the lagged effect of GMV growth on the portfolio balance. As I've mentioned previously, we are expecting some of the betterment in yields to continue from the first half of the year, which should result in a Acima adjusted EBITDA margin in the mid-teens area but below the second quarter results.

Regarding capital allocation. Top priorities for 2023 continue to be reinvestment in the business, dividend payment and debt reduction. During the second quarter, we paid down $90 million that has been outstanding on our ABL facility and ended the quarter with 0 balance. We ended the second quarter with $1.3 billion of outstanding debt and 2.5x leverage, down from 2.6x at the end of the first quarter. Longer term, we are still targeting leverage of 1.5x, but we will continue to assess reasonable alternative uses of capital that generate favorable risk-adjusted returns and create shareholder value.

To conclude, we are encouraged by the progress the company has made over the past year in improving our risk processes and adapting to dynamic market conditions as evidenced by our strong performance in the first half of the year. The favorable trends we identified earlier this year continued into the second quarter, and we believe that we are in a strong position to keep building off the successes and momentum we've highlighted today.

Several tailwinds, including disciplined underwriting standards based on our data analytics and a resilient portfolio, position us to continue to outperform our initial outlook. At the same time, we understand there is still a high level of external uncertainty in the market and demand may continue to be under pressure for durable goods. So as we look out over the rest of this year, we are cautiously optimistic on the portfolio trends and are confident in our ability to continue to navigate through these uncertain times with our customers and our merchant partners. 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. Krystal, you there? We not hearing, Krystal, very well here. No.

Mitchell Fadel^ Krystal, can you hear us?

QUESTIONS AND ANSWERS

Operator^ Yes. Our first question comes from the line of Bobby Griffin of Raymond Jones.

Robert Griffin^ Can you hear me all right?

Mitchell Fadel^ We can, Bobby.

Robert Griffin^ All right. Good. Yes. Sorry about that. I didn't hear my name get announced. But yes, congrats on the good quarter and seeing some of the upside. So I guess, first, I just wanted to ask on the trade-down behavior. I mean, what is -- can you unpack a little bit of what you're seeing from that? And then b, I guess the second part of that question, is it a little too early to actually see the full benefit than where we would actually see more of the trade-down taking place during the holiday? Because typically, in this business, we build portfolios kind of on the holiday fourth quarter. And at that point, maybe we'll get a little bit more of kind of this credit tightening potential impact the results and coming into your favor in terms of new customers.

Mitchell Fadel^ Yes. I'll take that. And then if Fahmi has anything to add, he can add it, Bobby. Again, this is Mitch. Yes, we're seeing trade-down based on vantage scores or third-party scores, I should call them as they come into our risk engines, both at Rent-A-Center and at Acima. Sequentially, they're rising. It's most pronounced more in the first quarter than the second quarter, but they're still up there, certainly higher than 6 months ago and higher year-over-year. So, we're seeing the higher third-party scores coming in. So that's how we know we're getting a little bit of trade-down. It's not a ton yet.

We don't have it in our guidance for later in the year, but your theory that it should accelerate as the year goes on is certainly a plausible one, and we certainly hope to see that. Overall, like the GMV on the Acima side improved pretty dramatically sequentially, 700 basis points and it was just the fourth quarter last year, we're down in the 20s. And now we're talking in the 5s as far as down and flat, forecasted to be flat in the third quarter and slightly positive by the fourth quarter. So, we're seeing good trends there. Trade-down is a part of it. And certainly, if that accelerates, it will be even better.

Robert Griffin^ Okay. And then I guess the second part for me is just maybe thinking about some of the moving parts have been hitting the P&L this year. I mean, we have a shrinking portfolio. We have GMV negative. But at the same time, we've had the loss ratios come down in this weird -- I don't -- I guess, weird is not the best term, but maybe unique customer behavior where they're holding on to products longer and not exercising the early buyouts. So when we flow all that in and we kind of think about what that does to the model in 2024, is there any kind of moving parts or anything you would tell us to keep in mind? Because like where I get a little worried is like do we -- are we getting a benefit here this year that could reverse next year and then we still have to build back the portfolio, I guess, is the other side of the question?

Mitchell Fadel^ I think the -- it's a really good question. I think the important thing to remember when we talk about the lower percent of our customers exercising the earliest payout like within 90 days, is that it's really not -- this isn't the unique time. The unique time was over the last couple of years where it accelerated that number way up with the stimulus money. As we mentioned in the prepared comments, the number of people, the percentage of people exercising those early payout options is similar to pre-pandemic levels now. And in fact, it's similar to 2019 levels.

On the Acima side, it's actually still higher than 2018. So, I'd say the unique part was during the stimulus when those percentages were way up. I don't think going forward, we -- as Fahmi said, our forecast assumes the yields at Acima will continue to benefit from the low early payouts. We didn't forecast it to the exact same degree as the first half of the year. Being a little conservative there, but we don't expect them to go back the other way either because, again, we're more pre-pandemic levels now, not below that or anything where you would expect them to spike back up in 2024.

Fahmi Karam^ Yes. Bobby, just to add to that a little bit. I think the second quarter, obviously, was a really strong quarter for us really across the board. But thinking kind of long term as far as kind of adjusted EBITDA margins, we don't necessarily think 16% to 17% range for Acima as the right EBITDA margin. I don't know if that's sustainable, especially as we kind of prioritize growth in GMV.

We still think that low double digits to low teens with room to improve on the loss rate that we produced this quarter is kind of the right range for the Acima business. And then on the Rent-A-Center side, similar -- long term, we still think it's a high-teens margin business. Losses continued to improve this quarter. But I would say, long term, we still think there's room to improve losses on both segments.

Mitchell Fadel^ Kyle, I think you're next on our queue.

Kyle Joseph^ Okay. Sorry. I didn't hear my name announced. Apologies. Just wanted to get a sense for -- and it might be helpful to do by segment Acima versus RAC. But just the health of the underlying consumer, obviously, you guys talked about the -- what's going on with early buy-outs and then we weigh inflation and low unemployment. And obviously, your underwriting changes have had the desired impacts. But give us a sense for where you think the consumer is as they kind of adapted to the inflationary environment? And then maybe on a year-over-year basis, is the consumer a lot more comfortable here? But yes -- and if you can do it by segment, that would be helpful.

Mitchell Fadel^ Yes. I would say, starting with the Rent-A-Center segment, what we've seen through numerous economic downturns, it's a pretty resilient consumer and they adjust pretty quickly to make ends meet. Last year was a bit of a struggle because the inflation rate was so historically high. But yes, we've seen the adjustment by that consumer. You can see it in our delinquency and our loss rates. There's still more room to come down. Of course, our underwriting has been a big part of that. But you're not seeing us having to cut off a tremendous amount of demand when you start talking about mid-single-digit negative numbers on the Rent-A-Center and the Acima side when you think about the growth metrics.

In the Rent-A-Center side, sequentially, that's 2 quarters in a row where it's improved sequentially on the revenue or the same-store sales. So let's say that customers adjusted.

On the Acima side, the same thing. Acima will see and sees the trade-down benefit faster and more so than Rent-A-Center because it's direct, right? When you're in a retail store, you can get that directly the trade-down benefit versus having to -- on the Rent-A-Center side hope if somebody gets turned down somewhere for consumer credit, then they have to go to Rent-A-Center, go to rentacenter.com obviously, where it's more direct in retail waterfall. So the consumers definitely adjusted some benefits to trade-down and the yields are good. The losses and delinquency are coming in line, and we're getting better from a growth metric standpoint on both Rent-A-Center and Acima sequentially for numerous quarters in a row.

Kyle Joseph^ Got it. Helpful. And then just one follow-up to just kind of think about, kind of hear how you're thinking about the Genesis. I know it's obviously early -- in the early innings there. But is that going to be reported as part of the Acima segment? Is that going to be its own segment? And just kind of how you're thinking about it, the integration there and how it impacts the P&L really more into next year and beyond?

Mitchell Fadel^ Yes. So the majority of it, Kyle, will be in the Acima segment. If you think about the 2 products that we have with the Genesis partnership, the general-purpose credit card, that one will be split between the Rent-A-Center business and Acima depending on where the customer was sourced originally. But then on the other product, the SMB retail product that's going to be all flowing through the Acima segment with fee revenue.

I think next is Anthony Chukumba.

Operator^ Our next question comes from the line of Anthony Chukumba from Loop Capital Markets.

Anthony Chukumba^ I just wanted to focus on Acima. Just wanted to get an update on the retail partner pipeline, whether you're talking sort of small and regional chains and also large national retailers?

Mitchell Fadel^ Yes. Anthony, some nice regional wins. We don't talk specific names. Obviously, we will when there's bigger names. But specific names on the regional side, the SMB side, continuing to grow, continuing to grow our marketplace as we mentioned as well. But we've had some good wins, some good growth. Our team out there still signing up hundreds really of retail partners every month. And again, we've had some bigger regional wins. So pretty happy with the growth trajectory there.

On the largest accounts, it's just such a long cycle on those, but we continue to have great conversations. The team we mentioned adding to the strategic accounts team because they've got so much more in the pipeline and working with a lot of big names. And we've had some regional wins, not any nationwide big-box names yet, but working on a lot of them and the cycle is long, but certainly, the conversations are -- that are happening are the best -- in the best place we've been in since we started working on large accounts. So pretty optimistic we'll have some -- we'll continue to have good regional wins and optimistic we'll have some big national wins down the road.

Anthony Chukumba^ Got it. And then, I think Fahmi testing this a little bit in his remarks. But I guess when you think about potential share repurchases, I mean, are you thinking, well, we need to get down to a certain leverage ratio before we start buying back stock? Or would you maybe think about being opportunistic with that?

Fahmi Karam^ Yes. I think from a capital allocation standpoint, the priorities necessarily haven't changed from what we've given you commentary in the past, especially in this environment with some of the uncertainty that we've talked about kind of left in the market. Our first priority is still going to be to pay down debt and opportunistically look at share repurchases as they come up. And I think we've been -- we've demonstrated that ability in the past to be really good stewards of capital when we have excess capital to return that to shareholders. But the mindset we're in now is, again, reinvest in the business first, sustain what we think is a healthy dividend, pay down debt and then be opportunistic on anything else. And we demonstrated that in the second quarter. We paid down our ABL facility by $90 million, ended it there with fully unutilized at the end of the quarter. So, we feel good about what we've done from a liquidity and balance sheet standpoint.

Operator^ And I show our next question comes from the line of Brad Thomas from KeyBanc Capital Markets.

Bradley Thomas^ First, I want to ask about the outlook for GMV on Acima. I think we're all really excited about getting back to growth there. And so I was wondering if you could help put in a little more context, just some of the puts and takes on it for 3Q and the back half? Can you help us think about what the headwind has been from the kind of tighter underwriting, when you start to lap that, what the potential tailwind can be from incremental doors? And perhaps what kind of a headwind you may still be facing if the end market still has some challenges? And maybe just to start with that.

Mitchell Fadel^ I'd say when you think about the tighter underwriting, it started early in 2022. And I think that's why we're seeing the trajectory being what it is from minus 20s kind of numbers to minus roughly 13 in the first quarter and then 5.8 or whatever it was in the second quarter. And then by the third quarter, we pretty much where we wanted to be tightening wise, which is why we'll be flat year-over-year in the third quarter and then flat to slightly positive in the fourth quarter. So, we kind of fully start comping the underwriting tightening in the third quarter.

So then once you get there, Brad, you've got a combination of the pull forward, especially in furniture, reducing demand in our furniture partners. So how do you even get even if there's less demand on the retail side? Well, we've grown our retail pipeline. We've grown merchants. So, you got growth offsetting the retail softness, especially in furniture. We've done a nice job.

The team at Acima's done a really nice job of diversifying where furniture is only in the -- isn't 90% of our business anymore. It's more like 60% of our business. Wheel and tire is really strong, and that didn't have the pull forward. Jewelry is a big part of the business, but wheel and tire is a part of the business where we didn't have to pull forward. So it's a combination of growth making up for the pullback in furniture because of the stimulus programs, gets us flat once we're comping over the full impact of the underwriting changes.

Bradley Thomas^ That's great. Well, I'm really excited to see the improvement there. And on the RAC side, can you just talk a little bit more about the loss rates that you're seeing there? Obviously seeing some sequential improvements, but I think still a bit elevated from where you were pre-pandemic and of late. And are there additional initiatives you need to take there to be trying to bring down the loss rate?

Mitchell Fadel^ Yes. We'd still like to get -- we said at 4.5%, and that's probably where the -- roughly speaking, over the next couple of quarters come out. We think we can get it back into that 4% number, the 50 basis points lower, 50 basis points, 60 basis points lower and get down to 4% even in the high 3s. So, we still have that goal. It's really a matter of -- partially would raise it is a lot more coming through the web. So that's a riskier customer. So e-com is driving it up. We still think we can -- if not this year, next year get back closer to 4 than the high 3s or 4 instead of being in the 4, 5.

I think the key to doing that is just continuing to improve our underwriting and without cutting off too much, where the -- would it come green shoots or whatever, where do you have an opportunity to add some volume here and there and so forth. So trade-down to help a little bit. But basically, at this point, we're happy with the progress we've made. We just have to continue to work on the underwriting, and I think we can get it back to where it was next year. Just call it, 4 instead of 4.5.

Fahmi Karam^ And maybe I'll just add to that real quickly, Brad. We talked about the health of the consumer and they've been very resilient. They've had to adjust, but they're still under a lot of pressure from inflation. Inflation has cooled a little bit over the last couple of months. But if you think about it compared to where we were 2 years or 3 years ago, it's still a multiple of what it was. So it is definitely a balanced approach that we have to take between the underwriting and maintaining the portfolio, especially in this kind of macro backdrop where the consumer is still under pressure from inflation.

Operator^ (Operator Instructions). And I show our next question comes from the line of Alex Fuhrman from Craig-Hallum Capital Group.

Alex Fuhrman^ Congratulations on a strong quarter. I was hoping you could talk a little bit more about the Genesis partnership. It seems like with the big increase, the guidance for the year, sort of highlighting the value of the lease-to-own model. Can you talk a little bit about what you hope to achieve with the Genesis partnership and who you might be offering other types of credit to?

Mitchell Fadel^ Sure. So yes, we are -- Alex, as you said, early on, early stages of kind of working on the product and launching it. And as I referenced earlier, it's two-fold, right, a general-purpose credit card, where we leverage our past customers and our existing customers and offering them a chance at a traditional lending product using our customer history. And so that is an opportunity for them to get a small balance credit card. So, I think that's one way where we can further enhance our customers' value proposition.

And then on the retail side, if you think about where we focus our efforts today on the small- and medium-sized business, a lot of those merchants do not have access to the second-look credit card providers. And so having our own waterfall, if you will, between a second-look and the lease-to-own product, we think is a huge advantage for us to go into these merchants and I'll talk about one integration and getting 2 products.

So the feedback that we've gotten on the initial kind of pilot stores that we're hopefully launching in the third quarter has been extremely positive in their ability to see the incremental sales that the 2 products together can achieve for them. As far as the guide goes for this year, it's not -- there's not any benefit to it. If anything, I would say there's probably more expense as we get the project and some of the IT integration up and running in the third and fourth quarter.

Operator^ Thank you. I'm showing no further questions in the queue. At this time, I would like to turn the call back to Mitch Fadel for closing remarks.

Mitchell Fadel^ Thank you. Thank you, everyone, for joining us this morning.

It's always a pleasure to report our earnings to you. We're pretty excited about the progress we've made from our lowest level. So if you want to call it first quarter or last year in the fourth quarter, some trough levels when it comes to revenue or GMV growth or both, any of the growth metrics. So, we're certainly on the right trajectory there. The underwriting changes we've made in both segments, obviously, are working very well.

We'll continue to tweak them every day, but they're working really well when you look at delinquencies and losses in either segment. So growth is in the right direction and the underwriting side. We understand it's an uncertain market out there though, and our customer still faces a lot of headwinds. So, we'll continue to be prudent with the way we manage the business and look forward to reporting back to you next quarter.

Thank you, everyone.

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