

## Progressive Holdings Inc.(Q2 Earnings)

July 23, 2025

### Corporate Speakers:

- John Baugh; PROG Holdings; Vice President of Investor Relations
- Steven Michaels; PROG Holdings; President, Chief Executive Officer
- Brian Garner; PROG Holdings; Chief Financial Officer

### Participants:

- Kyle Joseph; Stephens; Analyst
- Robert Griffin; Raymond James; Analyst
- Bradley Thomas; KeyBanc Capital Markets; Analyst
- Hoang Nguyen; TD Cowen; Analyst
- Anthony Chukumba; Loop Capital Markets; Analyst
- John Hecht; Jefferies; Analyst
- Vincent Caintic; BTIG; Analyst

## PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the PROG Holdings Q2 2025 Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, John Baugh, Vice President, Investor Relations.

Please go ahead.

John Baugh^ Thank you. And good morning, everyone. Welcome to the PROG Holdings second quarter 2025 earnings call.

Joining me this morning are Steve Michaels, PROG Holdings' President and Chief Executive Officer; and Brian Garner, our Chief Financial Officer.

Many of you have already seen a copy of our earnings release issued this morning, which is available on our Investor Relations website, [investor.progholdings.com](http://investor.progholdings.com).

During this call certain statements we make will be forward-looking including comments regarding our revised 2025 full year outlook, and our guidance for the third quarter of 2025, the health of our lease portfolio and our capital allocation priorities.

Listeners are cautioned not to place undue emphasis on forward-looking statements we make today, all of which are subject to risks and uncertainties, which could cause actual results to differ materially from those contained in the forward-looking statements.

We undertake no obligation to update any such statements.

On today's call we will be referring to certain non-GAAP financial measures including adjusted EBITDA, and non-GAAP EPS, which have been adjusted for certain items which may affect the comparability of our performance with other companies.

These non-GAAP measures are detailed in the reconciliation tables included with our earnings release.

The company believes that these non-GAAP financial measures provide meaningful insight into the company's operational performance and cash flows, and provides these measures to investors to help facilitate comparisons of operating results with prior periods, and to assist them in understanding the company's ongoing operational performance.

With that, I would like to turn the call over to Steve Michaels, PROG Holdings President and Chief Executive Officer.

Steve?

Steven Michaels^ Thanks, John. Good morning, everyone. And thank you for joining us.

Today we will discuss our second quarter performance, update you on our business and provide insights on our outlook for the remainder of 2025.

We delivered revenue and earnings above the high end of our guidance, driven by effective portfolio management, continued strength in our pay in for Buy now Pay Later platform for technologies and disciplined cost control. Non-GAAP EPS of \$1.02 significantly exceeded our outlook range of \$0.75 to \$0.85 per share.

We are focused on improving results across the business as we lean into pipeline opportunities, expansion of our online platforms and removing friction from customer touch points. Progressive Leasing's year-over-year GMV performance was impacted in the period by two primary factors. The Big Lots bankruptcy from late 2024, which is approximately a \$40 million GMV headwind this quarter, and our deliberate tightening actions in the second half of 2024 and early 2025, which impacted GMV to a similar degree year-over-year. Adjusting for these relatively discrete events, we are executing nicely with expansion of our balance of share within key retail partners and ramping new partners year-over-year.

While the tightening actions have weighed on GMV, we've once again demonstrated our commitment and ability to deliver consistent portfolio performance within our targeted annual write-off range of 6% to 8%, a key guardrail for sustainable and profitable growth.

These results demonstrate the strength of our retail partnerships, the effectiveness of our commercial execution and the durability of our go-to-market model despite the ongoing soft demand for leasing categories we serve. Consolidated revenue came in at \$604.7 million, which was low single-digit growth year-over-year. This performance was led by another standout quarter from (inaudible) technologies, which delivered over 200% revenue growth. Consolidated adjusted EBITDA was \$73.5 million and non-GAAP EPS was \$1.02, both exceeding the high end of our outlook.

Our lease portfolio once again exceeded expectations with strong performance.

In Q2, write-offs came in at 7.5%, which is 20 basis points better than last year reinforcing our ability to actively manage portfolio risk and deliver consistent performance even amid a dynamic consumer environment. This strength is the result of proactive decisioning adjustments made in late '24 and early 2025, which continued to drive favorable early-stage indicators. These actions reflect our disciplined data-driven approach to portfolio optimization.

With the portfolio performing well and early-stage indicators trending favorably, our decision science teams are identifying pockets of opportunity to deliver incremental GMV.

We are committed to maintaining disciplined decisioning standards and expect write-offs to remain within our targeted annual range of 6% to 8%.

We generated meaningful momentum in Progressive leasing during the quarter, supported by strong execution across our direct-to-consumer initiatives. These efforts such as personalized life cycle campaigns and targeted digital outreach are driving engagement across new repeat and reactivated customer segments.

Additionally, we are scaling our PROG Marketplace platform, delivering double-digit GMV growth and staying on track to surpass \$75 million in GMV for 2025, reinforcing its role as a complementary channel that enhances our retail ecosystem and expand customer engagement opportunities. Efforts to increase our e-commerce business show progress.

In Q2, e-commerce as a percentage of progressive leasing GMV was at an all-time high, representing approximately 21% of total leasing GMV.

These results demonstrate our momentum under the [Grow] strategic pillar.

We are growing market share with existing retail partners by executing jointly on key initiatives.

Our marketing investments ranging from enhanced SEO to personalized data-driven campaigns are driving measurable gains in both customer acquisition and retention.

Under our [Enhanced] pillar, we are advancing technology initiatives that elevate the customer and retailer experience.

We are improving top-of-the-funnel web and mobile functionality for customers, streamlining the application process, and introducing AI-driven tools to improve customer engagement and reduce friction.

These investments will help us personalize segment and nurture with more precision.

Our PROG Labs team is leveraging generative AI to boost employee productivity and enhance customer tools including AI chatbots that provide real-time support, personalized recommendations and faster resolution of common service inquiries, ultimately improving the overall customer experience.

In Q2, we expanded our rollout of our new consumer chat feature to more progressive leasing customers after the success of our pilot from Q1, and now have consumer chat capabilities across leasing, Four and Money App, our cash advanced solution. This digital servicing initiative is already showing promising results, helping us better engage with customers.

We've seen a lift in application starts and completions through AI-assisted interactions, along with a reduction in call center volumes, indicators that these new AI tools have the potential to create value for both our customers and our business.

Looking ahead, we're preparing to expand the chat platform to include several self-service capabilities. These enhancements are designed to further improve the experience, reduce friction in our servicing model, and ultimately shift more volume into lower cost digital channels.

Our [Expand] pillar is building real momentum, and I'm particularly excited about the progress we're seeing from Four technologies. Four delivered its seventh consecutive quarter of triple-digit GMV and revenue growth, continuing a positive trajectory that reflects the strength of our strategy and execution.

We acquired Four Technologies in 2021 during a period of rapid expansion in the BNPL sector, though much of that industry growth lacked a clear path to profitability.

From the outset, our vision was to scale the business differently by integrating it into our broader ecosystem and aligning it with our mission to deliver flexible, empowering financial solutions for consumers, in a profitable manner.

Over the past several years, we remain focused on building Four deliberately, prioritizing sustainable unit economics and responsible growth.

I'm proud to share that in Q1 of 2025, we achieved profitability in the Four business. And with another profitable performance in Q2, we're now accelerating our momentum.

In the second quarter, Four delivered 167% GMV growth year-over-year, reflecting demand for our [Pay and For] BNPL product and increasing relevance with both consumers and merchants.

Revenue grew over 200% supported by a trailing 12-month take rate of approximately 10%, defined as revenue generated as a percentage of GMV over the 12-month period, which is a strong indicator of monetization efficiency as we scale the platform. From a customer lens, Four's engagement trends are strong. Average purchase frequency is steady year-over-year. And for the last four quarters, it was approximately 5x per quarter, coupled with over 130% growth in active shoppers year-over-year.

We're seeing growth in active shoppers and unique retailers, which is expanding the addressable opportunity in contributing to GMV.

Our Four+ subscription service launched in early 2024, has seen robust adoption, with more than 85% of GMV now driven by active subscribers. These results reinforce Four's growing role in our ecosystem, not just as a stand-alone growth engine, but as a compelling customer acquisition channel and catalyst for cross-sell into Progressive Leasing, driving deeper engagement and increasing customer lifetime value across the PROG platform.

I want to thank our team for their focused execution and disciplined approach, which advances our growth strategy while supporting margin expansion.

As we look ahead, we are committed to enhancing the user experience on the Four platform, and sustaining momentum through both direct initiatives and its strategic role within the broader PROG ecosystem.

Also within our Expand pillar, I'm pleased to share that Money App, our cash advanced solution is gaining traction.

The product is now delivering consistent unit-level profitability, an important milestone as we scale this offering thoughtfully.

We are focused on executing our strategy with discipline and intention.

While the macro environment presents headwinds, particularly as consumers remain cautious around large discretionary purchases, we factored these dynamics into our outlook for the balance of the year, which Brian will speak to in more detail.

Our guidance assumes ongoing softness in demand across key leasable categories, along with no changes to our current decisioning posture that has shaped much of the first half.

We've also accounted for higher 90-day purchase activity compared to 2024 and stable portfolio performance within our 6% to 8% right off range.

Despite the unpredictable environment, we are confident in our ability to continue gaining share and driving sustainable profitable growth, powered by our multiproduct ecosystem, disciplined portfolio performance, and scaled omnichannel leasing platform.

Our ability to consistently execute through volatility is a competitive strength and a driver of long-term shareholder value.

Our capital allocation priorities are unchanged.

We are reinvesting in high-impact growth initiatives, exploring strategic M&A opportunities, and returning excess capital to shareholders through a balanced approach of dividends and share repurchases.

Our businesses generate meaningful free cash flow, providing us with the flexibility to meet our priorities.

With that, I'll turn it over to Brian for a deeper look at our Q2 results and updated 2025 outlook.

Brian Garner^ Thanks, Steve. And good morning, everyone.

Our second quarter performance highlights the strength of our business and the growing impact of our ecosystem strategy, particularly in a challenging operating environment marked by macro volatility.

I'm pleased to report that consolidated revenue and earnings exceeded the high end of our outlook with non-GAAP EPS coming in at \$1.02 per share. This outperformance was driven by strong execution across the organization.

Our Progressive Leasing team effectively managed the lease portfolio and delivered a result meaningfully better than expectations.

At the same time our Four Technologies team delivered another quarter of profitable triple-digit growth. Together, these results reflect the power of our diversified platform and our ability to execute across multiple business models while investing in sustainable long-term growth.

Let me begin with an overview of the Progressive Leasing segment's performance in the second quarter. GMV came in at \$413.9 million, which is down 8.9% year-over-year, largely due to two primary factors. The previously disclosed Big Lots bankruptcy and our intentional (inaudible) of approval rates to manage portfolio performance underscored by ongoing soft consumer demand in our key leasable categories.

When adjusting for the impact of Big Lots, GMV was up approximately 1%.

In addition, the tightening efforts deployed late last year, and in Q1 of 2025, further impacted the growth rate by an estimated 800 to 900 basis points.

We expect the approval rate comparison to begin easing in Q3 of 2025 and will completely lap those tightening actions in Q1 of 2026.

Importantly, PROG Marketplace, our direct-to-consumer channel remains a meaningful contributor to growth, with Q2 GMV up 38% year-over-year.

As we look ahead, we are focused on improving conversion within the marketplace funnel by enhancing the consumer experience, from browse to application and checkout, ensuring we are capitalizing on this demand with greater efficiency and customer satisfaction.

Additionally, we continue to evaluate and improve the customer experience across all of our platforms with a focus on serving the evolving expectations of our core demographics. Millennials and Gen Z now account for approximately 70% of our GMV. Many of these customers begin their lease journey in-store and then could transition online, through either the retailer site or internal platforms such as PROG Marketplace, underscoring the importance of a seamless omnichannel experience. Q2 revenue for Progressive Leasing was close to flat to \$569.7 million, compared to [\$507.5] million in the prior year. Revenue benefited from a slightly higher customer utilization of 90-day purchase options.

These tailwinds, however, were offset by marginally lower pain performance, primarily tied to leases funded before the tightening actions we took in late 2024 and early 2025.

Looking ahead, we expect payment performance to improve year-over-year in the second half as those [pre-tightening] vintages roll off and higher quality leases comprise a greater portion of the portfolio. Portfolio performance was strong with Q2 write-offs of 7.5%. 20 basis points better than Q2 of 2024 is slightly better than our internal expectations. This performance reflects the effectiveness [of our] dynamic decision models and the deliberate tightening actions.

Progressive Leasing's gross margin for the quarter was 32.4%, in line with our expectations and down just 15 basis points year-over-year, primarily driven by increased customer utilization of 90-day purchase option, along with a loss of Big Lots, which had a below average number of customers utilizing the 90-day purchase option and above average gross margin. The overall estimated impact of the Big Lots bankruptcy to Progressive Leasing's gross margin is approximately 20 to 30 basis points in the period. Progressive Leasing's SG&A expenses were \$78.9 million, or 13.8% of revenue, up from 13% in Q2 of 2024.

As previously communicated, this expected deleverage reflects active investments in technology and sales enablement, partially offset by disciplined cost management.

We remain focused on cost efficiencies while prioritizing investments that we expect to provide a high return.

Adjusted EBITDA for Progressive Leasing was within our 11% to 13% annual target at \$69.7 million, or 12.2% of revenue, compared to \$73.8 million, or 12.9% of revenue in Q2 of 2024.

In terms of consolidated results, Q2 revenues grew 2.1% to \$604.7 million, from \$592.2 million in Q2 of 2024, primarily driven by over 200% revenue growth at Four technologies. Consolidated adjusted EBITDA was \$73.5 million, compared to \$72.3 million in Q2 of 2024, reflecting materially improved profitability of Four, slightly offset by progressive leasing margin pressures. Non-GAAP EPS was \$1.02, exceeding the high end of our outlook supported by strong earnings and a lower share count from our repurchase program. Turning to the balance sheet.

We ended Q2 with \$222 million in cash and \$600 million in gross debt, resulting in a net leverage ratio of 1.38x trailing 12 months adjusted EBITDA.

We are undrawn on our \$350 million revolver.

I also want to highlight a legislative development that we will positively impact our cash tax outlook. The Big Beautiful Bill, which makes permanent several key provisions of the Tax Cuts and Jobs Act, most notably 100% bonus depreciation on qualified property.

We expect this change to significantly reduce future cash taxes by allowing immediate expensing of lease merchandise for tax purposes.

In Q2, we continue to return meaningful capital to shareholders through both dividends and share repurchases.

We paid a quarterly dividend of \$0.13 per share and repurchased approximately 900,000 shares of our common stock at a weighted average price of \$28.51 per share, reflecting our ongoing commitment to a balanced capital return strategy.

As of quarter end, we had [\$309.6] million remaining authorized under our \$500 million share repurchase program, providing ample flexibility to deliver shareholder value. To recap some of the key highlights from the first half of the year includes strong portfolio performance, impactful marketing initiatives driven by enhanced SEO and personalization, progress on technology enhancements, improving customer experiences and meaningful traction on our ecosystem strategy with a profitable growth at Four.

We are anchored in the strength and stability of our lease portfolio, which we believe will remain on solid footing.

Our disciplined operating model, combined with the flexibility of our multiproduct platform positions us to deliver sustainable, profitable GMV, while creating long-term value for customers, partners and shareholders.

For our 2025 consolidated outlook, we are raising the midpoint of the range for revenues and earnings. Consolidated revenues in the range of \$2.45 billion to \$2.5 billion, adjusted EBITDA in the range of \$255 million to \$265 million, and non-GAAP EPS in the range of \$3.20 to \$3.35. This outlook assumes a difficult operating environment with soft demand for consumer durable goods, no material changes in the company's current decisioning posture, and effective tax rate for non-GAAP EPS of approximately 27%, and no impact from additional share repurchases.

We are focused on driving profitable growth, maintaining portfolio health and returning capital to shareholders, while continuing to invest in initiatives that position us for long-term value creation.

Our strategy is clear, operate with discipline, prioritize high-impact opportunities and build value deliberately over time.

With that, I'll turn the call back over to the operator for questions.

Operator?

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Kyle Joseph with Stephens.

Kyle Joseph^ Just kind of want to get to the kind of underlying growth, recognizing there's a lot of -- a lot of moving parts right now and I appreciate the color you provided on Big Lots in the appendix of your slides.

But I calculate kind of ex Big Lots GMV being flattish. And then I think you -- you talked about kind of some incremental headwinds from underwriting.

So kind of ex those two headwinds, do you think about the business as kind of like mid high single-digit growth right now? And then kind of remind us exactly when we lap both the underwriting and the Big Lots comps?

Steven Michaels^ Yes. Thanks, Kyle.

I mean you got it. I think we said in the prepared remarks that ex Big Lots, GMV would have been plus [1%] for the quarter. And then the new data point that we gave was related to the decisioning tightening.

And historically, we've talked about that in terms of year-over-year approval rates, but there's a lot of -- a lot of stuff that goes into approval rates.

So we changed our approach this quarter and actually represented as drag on GMV, and that was another kind of 800 to 900 basis points.

So yes, you would -- besides those events, if you will, you would get to kind of a high singles to basically 10% GMV growth rate.

Obviously we can't -- can't [ex] those out in the real world.

So those are challenges that we're working on, but that is the pro forma kind of trajectory of the business.

Big Lots from a GMV standpoint is largely lapped in Q4 of this year.

We did have about \$7 million of GMV in Q1 of '25, because of going out of business sales and various closing dates that were different for different stores.

On the decisioning, we talked a lot over the last year about the various tightening actions.

We took some in the back half of 2024, and as Brian said in his remarks, those will start to lap here as we enter the back half '25.

But the lion's share of the decisioning was really in kind of the first half of Q1 of this year.

So we still got a little bit to go to lapse the majority of the tightening.

I would say that portfolio is in a great spot.

We're -- I'm very pleased with the results of the decision science teams in their -- continue to demonstrate their ability to control a large portfolio with precision.

But that also allows us the opportunity to look for pockets of opportunity to approve more.

But I want to be careful to not set expectations too high.

We're talking about small pockets of opportunity versus some of the more larger tightening actions that we took earlier.

So we'll continue to look for those pockets of opportunity and hope that it can be an incremental positive for GMV in the next -- in the coming quarters.

So that's kind of how it went out.

We've also got a lot of marketing and initiative things that we're working jointly with our retail partners on in the back half. And so we're not just standing still.

We're trying to drive this business, but we do have these two headwinds with Big Lots and the decisioning posture. Nice eagle eyes on the additional slide in the appendix, and I'll let Brian provide a little bit of an explanation to that slide and some additional color.

Brian Garner^ Yes. No, Kyle, and thanks for pointing that out. The intent there is, as Steve mentioned, showing first GMV and how that's going to represent a difficult compare for the remainder of the year and into Q1. And also attempting to size up the direct portfolio impacts.

I think gross margins and write-offs and what pressure we're going to continue to fill there.

As we've talked about Big Lots previously one of the things that present itself is the fact that they had a better performing customer than our average customer. And so that's a dynamic that is working its way through margins and will continue to throughout the comparison period. And so we highlighted that. The only other thing I'd offer is that's a sizing of the portfolio impact, not necessarily the SG&A, or the direct SG&A costs that are tied to Big Lots as there's a lot of assumptions there. And we've not attempted to size that or provide color on it within that slide, but just be cognizant that, that is that would be additive to the impact that is shown there.

So hopefully, it's helpful, and we'll continue to reference it throughout the year and try to give some color on the actual performance relative to kind of maybe a sans Big Lots view.

Kyle Joseph^ Got it. Really helpful. And then just one follow-up for me.

I'm going to ask a pipeline question.

Obviously you can only say what you can say, but just where we stand now kind of -- I mean obviously there's still some uncertainty around tariffs, but kind of through the bankruptcies we saw at the end of last year in Furniture and whatnot.

But just give us a sense for your conversations with retailers and their willingness to consider adding the leasing product to their finance options.

Steven Michaels^ Yes.

As you said, we can only say what we can say, and I've learned over the years not to commit to certain logos because they -- always wrong from a timing standpoint.

But -- we have seen more engagement, I would say, even to the extent of some RFIs, or even RFPs, with some logos that have not traditionally been leaning into that.

So that's positive.

We continue to believe that we are kind of the obvious choice, especially for the enterprise size retail partners.

So nothing to report on that, but it is certainly a main focus of ours. And we're pleased with where the pipeline is and the progression.

Operator^ Our next question comes from Bobby Griffin with Raymond James.

Robert Griffin^ I guess, first for me, I wanted to maybe go back on just the core underlying progressive GMV and ask it a little bit different way.

But if I give you credit for the Big Lots add-backs, which their bankruptcy was out of your control, it still looks like you factor in the prior year comparisons in 1Q versus 2Q. The core business, even with the decision tightening is accelerating.

I guess the math I'm looking at is like 1Q ex Big Lots is up 3 or 4 in GMV, 2Q is up 1, but the prior year comparison was roughly 800 basis points harder.

So do you -- one, do you disagree with that type of analysis on it?

And two, if that's the case, what's driving that? Is that better trade down, market share gains, kind of anything there to unpack that?

Steven Michaels^ Yes.

It's interesting. You're right. Last year, in '24, we did start to see the acceleration in Q2 and Q3, and that was we believe, largely driven by the trade down.

It does not appear to us that the trade down is much of a factor this year.

I'm not saying it doesn't exist.

I don't think that the primes have loosened necessarily.

But as far as we've lapped it fully, we believe, and from the data we're seeing in the top of the funnel, we're not -- it's certainly not intensifying. And so from a year-over-year standpoint, it's probably flat to slightly negative because there is some change in our thin file no file and some potential impact from immigration actions that are affecting the top of the funnel.

So I wouldn't think -- I wouldn't call it trade down.

We do continue to have discrete wins, I would say, with existing retail partners. And we've talked about that for several -- multiple quarters now even in a couple of years, and they do continue to get deployed, and work jointly with our retail partners and are having success.

In fact, we called out the fact that e-comm was at an all-time high. And you wouldn't expect Q2 to be an all-time high for e-com before that, the two best quarters from a composition standpoint were both Q4s, and that's more intuitive.

But that is because of a particular initiative that we got across the goal line with a fairly long-term partner, and it allowed us to get productivity and gain balance of share and really drive a nice comp with that partner, well north of their business trends.

So those are the things.

I mean we clearly are ramping ASI, our great partner that we launched last year. and we're continuing to try and to add to the merchant partner list and the roster. There's certainly some challenges here, and we don't love the minus 8.9%, but we're doing everything we can to fight against the comps with Big Lots, and the necessary tightening actions that we took, and we feel good where the business is positioned and can dig out of this negative GMV over time.

Robert Griffin^ Understood. That's helpful. And I guess Brian, my second question is just kind of on the guidance, the update. You guys [beat] 2Q, it looks like the midpoint went up a little slightly less than the 2Q beat. And I appreciate just the environment and the fact that having some conservatism in there.

But what took place in 2Q that isn't really assumed to continue that you would say was upside in the quarter that you guys didn't assume go forward, to kind of just have the guide move up with the [2Q B] versus actually moving up more?

Brian Garner^ Yes.

I appreciate the question, Bobby. Maybe the easiest way to answer that is just giving some color on what I think are some margin dynamics in the back half that I think will present themselves a little bit more than what they did there in Q2. And I think -- starting with the positive, and what I think will be a bit of a tailwind in the back half. The write-off picture, as Steve mentioned, is on track, and we're encouraged by what we're seeing there.

We actually ended up lower write-offs here in Q2 than we anticipated as we reported out in April. And so that's a very favorable dynamic that we expect based upon everything that we're seeing to continue to work through the back half of the year. And so write-offs, and then portfolio performance overall, I think, are a tailwind. The headwinds, which I

think a bit more than offset that and why you're seeing the margin that you are in the back half.

I mean in order of magnitude, I think I'll just start at the top.

The Big Lots piece is meaningful. And while we've talked a lot about the GMV comparison, one thing I don't want to have get lost is the fact that, yes, we turned off the GMV faucet for Big Lots a couple of quarters ago, but what has remained and what has continued to present itself on the P&L for the first half is those customers that were originated, and we continue to service and their performance continues to flow through in the first half.

And so we benefited from the revenue and EBITDA, and those favorable margin profiles for the front half, even though Big Lots has not been generating GMV meaningfully this year. And so that's something that won't be there to the same degree in the back half.

So that's going to start working its way out.

The second thing I'd point out is portfolio size.

So we entered this quarter with the portfolio just slightly up. And we ended the quarter down 3% on gross leased assets. And so part of that is a seasonal dynamic as you work your way through.

But there's no doubt the higher 90-day buyouts, and just the GMV sales overall have put some pressure on the portfolio size.

And so as you -- as that's your starting point for the back half, you're going to see a feed through into the revenue numbers that are implied in the -- [on] applied, but explicitly provided there in the guidance.

So that's the -- I think the second item I'd point out. And then finally, on a consolidated basis, and this is, quite frankly, a welcome dynamic, even though it's a margin headwind, particularly in Q4, is the fact that we're seeing so much momentum of Four. And Four, unlike the leasing business, has a requirement around CECL, and CECL accounting, and it brings forward in a more meaningful way the requirement to reserve upfront for these loans. And we're going to experience that in Q4, and that will put some pressure on the margin profile of the business on a consolidated basis.

But that's something to quickly given the very short duration of those instruments. That will flip back pretty quickly. And so we'll take that.

We love to see those -- that GMV momentum of Four, and we'll have that kind of flow through into margins towards the end of the year.

So I think in a nutshell there's a lot to unpack.

I know I've said a lot there, but lower margins in the back half.

It's Big Lots. It's the portfolio size and the deleveraging of SG&A that, that represents to a degree, and then the Four CECL dynamic that are incorporated into this guide.

Operator^ Our next question comes from Brad Thomas with KeyBanc Capital Markets.

Bradley Thomas^ Steve, I was wondering if you could talk a little bit about what you're seeing from a category and channel perspective? And then perhaps if you could talk about efforts and initiatives to grow with a smaller and more medium-sized business, rather than just the enterprise?

Steven Michaels^ Sure. Yes.

Our GMV is probably more -- well it is more impacted by these specific initiatives at a retailer, or merchant level, at a partner level than it is necessarily at a category level. Clearly, there's still weakness in the ones that you guys -- you specifically write about a lot with mattress and furniture and large appliances. The replacement cycle has not kicked in there yet.

But we can see variations and outperformance within a particular retailer.

Looking back to the comment I had on an earlier question about that specific retailer, and how just kind of an initiative getting over the goal line can drive strength there.

So we're certainly impacted by the underlying demand for the categories, which is undeniably soft in most categories.

But the results that we deliver are a lot of times more impactful in the gains of balance of sale are results of the things that we work on jointly with our retail partners.

So that's a good data point that kind of can allow us to not be a victim to the comp.

But on the regions versus the enterprise, we've talked a lot about the regions. The regions are very aggressive. There are a lot of -- a lot of churn, a lot of players out there, but it's a big business that we're going after.

It's been -- it's a tough segment. We've got a great team.

And we're picking our spots there of where we're going to concentrate and what retailers appreciate the unique set of assets that we bring to the partnership.

We are giving our sales team more tools than they've ever had to go to market and to win, and we expect to compete hard there.

We're not going to compete on every front, but we'll pick our spots, and we believe that we'll have success.

So hopefully, a more positive trajectory to come in the regions.

Bradley Thomas^ That's helpful, Steve. And if I could ask a question about the outlook for Four.

I'd be interested in, for one, sort of how, if at all, you're leveraging the customer database you have of progressive customers? Are you using them to help advertise to help support the growth rate? And then as you see incremental customers taking on the NPL transactions.

How do they compare to the rent-to-own customers? And does it give you any more insights into what kind of risk, or lack of risk, the growth of the BNPL category may be for rent-to-own?

Steven Michaels^ Yes.

Well I'll just start with, we're very excited about where Four is and what it's accomplishing. The growth rates are very healthy, as you can see. And from an overlap standpoint, Four serves the whole spectrum from below prime to super prime. And so as you can imagine, there is overlap with a lease-to-own customer but not a complete overlap.

We do have initiatives in place for our ecosystem strategy and there are synergies going in both directions between Four and the leasing business. Currently, I would say the synergies are more from Four to leasing than the other way around because Four is such a robust customer acquisition channel that, and we do have internal targets and OKRs for GMV driven to the leasing business from Four and our Money App product, and we're executing well across those goals. There's a lot of good data that we can share across the organization from the affiliate products. The decision science teams at leasing and the underwriting teams at Four are working together. And we do believe there's additional opportunities for value creation within the ecosystem back and forth across the two products.

Because as you know the leasing -- the leasing offering is a different use case. It's a higher ticket durable good that has an average ticket of around \$1,200, higher than that in furniture, but the portfolio size is around \$1,100 to \$1,200 -- not portfolio size, but average ticket. Four is more \$120 average order value. And so they're not the same thing, and they don't serve the same purpose.

So we believe that we can have more frequency of engagement and transactions with our customers for various use cases, but we -- and we can also learn about the profile of the consumer and hopefully have derisked originations on both sides of the ledger by having the businesses work together.

Operator^ Our next question comes from Hoang Nguyen with TD Cowen.

Hoang Nguyen^ My first one is, you guys are looking for pocket of opportunities to kind of reverse some of the tightening that you guys did throughout last year.

If you have to think about it, I mean what would it take for you guys to kind of fully unwind these measures? I mean -- I think credit is getting better for you guys.

But I mean what would it take, I guess, I mean from a macro perspective for you to confidently, I guess, come -- go back to the level that the kind of underwriting that you guys had maybe in the first half of '24? And I have a follow-up.

Steven Michaels^ Yes.

Well I mean I think those are -- that's kind of like a self-fulfilling prophecy. Credit is decisioning and portfolio performance is getting better because of the actions we took.

So like absent those actions, we would not be in this position from a portfolio performance standpoint. And as we've said many, many times over the last 10 years, delivering the portfolio in a healthy spot and consistently is job one for us.

And so we're not going to deviate from that. Having said that, we're always evaluating the data.

We learn every month and every quarter, and the data science teams are the best in the business. And so they can find pockets of opportunity, but I don't want to set the expectation that we would be reverting back to where we were in the first half of '24, because based on the consumer and what we're observing in the data, that would not be the appropriate action.

So it would be incremental, small adjustments that can add up to being meaningful but not an unwind of the great work that was done to get us in the spot we're in.

And what would have to happen for us to do that? I mean we'd have to see it in the data.

We'd have to see the consumer health and the application profile and the quality of the profile change to give us the confidence in the early indicators in the portfolio to change. And I'm not saying that couldn't happen, but we -- but we won't preemptively make that choice before the data proved to us it's the right choice.

Hoang Nguyen^ Can you hear me?

Steven Michaels^ Yes. We have you.

Hoang Nguyen^ I just have a follow-up.

So maybe -- I mean your Four business is growing very strongly.

I think you cited the 85% of the GMV is by active subscribers.

So it looks like it's predominantly subscriber-only business.

Can you talk a little bit about maybe the competitive landscape in that kind of subscription product for buy now, pay later?

I mean is a competitive space. But I mean when we think about subscription, I mean how do you think about the competition?

Steven Michaels^ Yes. There's some great logos out there and great competitors. And with some small variations, the industry has kind of moved towards a similar offering with a paywall and a subscription service, and customers are fully accepting of that and adopting that. And so we're pleased with the quick and robust adoption of our Four+ subscription, the value that's being delivered to those customers, and our direct-to-consumer model.

So the Four business is almost exclusively direct-to-consumer.

So we don't have -- we're not even really with some exceptions exploring, or going after integrated retail partnerships.

So the traffic comes to the Four app and then gets directed to the retailer based on the customers' needs and certain of those retailers are behind the paywall. And as you said, as we said in our prepared remarks, 85% of the GMV comes from subscribers, which is a good metric for us. And -- but there's a lot of competition out there. There's some really valuable companies out there, and we believe -- and one of the reasons that we're talking more about Four is because it's gotten to the scale where it's profitable and growing quickly and has a lot of value.

We believe that our offering is not being recognized from a value standpoint like some of the other pure-play BMPL providers out there.

So we look forward to getting for that attention within the PROG ecosystem and continuing to grow.

We've got big plans for Four.

Operator^ Our next question comes from Anthony Chukumba with Loop Capital Markets.

Anthony Chukumba^ So I heard a brief mention of ASI, American Signature.

I guess my question was, how is American Signature ramping relative to your original expectations?

Steven Michaels^ Anthony, we're very pleased with the partnership with ASI. They've been great partners.

It's been a great launch, and we continue to get better. The teams are adopting our approach and our support approach.

We're based on the underlying business, we are ramping as expected.

I mean it's difficult to track against an actual dollar amount. You have to track against the actual -- the business that you're supporting. And from a balance of sales standpoint, we're -- we're where we expected to be, and we have expectations that we'll continue to improve that and partner well with ASI for many years to come, but certainly for the balance of this year in the holiday.

Anthony Chukumba^ Got it. And then just a quick follow-up.

One of the things that you had talked about Big Lots went out of business was some initiatives to try to retain as many of those customers as possible. Not just in terms of like, obviously servicing existing leases, but trying to get them to do like product marketplace, or convert them to another one of your retail partners. Would just love any update in terms of those efforts?

Steven Michaels^ Yes. You're right, Anthony. And certainly, that is an effort of ours, or an initiative of ours, not just with Big Lots, but with all of our customers to keep them in the preferred partner network of Progressive, but certainly with big lots because they don't have the option to go back to those stores. And so we've got marketing, nurture campaigns, and we are seeing some success.

I mean some of those Big Lots customers, even if Big Lots continue to exist, would have naturally, through our normal marketing campaigns and through their normal purchasing habits, would have kind of organically shown up in Best Buy, or in one of our other partners. And so we're tracking that as well as tracking the direct response from our marketing efforts to target them with a promotional campaign, or something to get them into one of our other partners.

And we're pleased with the results there.

It's something that we're way better at now than we would have been five or six years ago, or even three years ago.

So continue to track that, and it will be an ongoing effort so that we can keep as many of those customers in the family as possible.

Operator^ Our next question comes from John Hecht with Jefferies.

John Hecht^ Congratulations on a good quarter. My question maybe is a little bit of an extension of the question about when you would loosen. And it's more like we've been waiting for this replenishment cycle.

It feels like we're deeper into a more stable, although the -- forget the news headlines and more stable economic climate. Are you seeing any green shoots in terms of whether it's frequency of interaction with customers, or just general spend trends?

Is there anything that you would lean on that would say that you're getting more optimistic that maybe the discretionary spend cycle or replenishment cycle is on the horizon?

Steven Michaels^ Yes, John, thanks. The replacement cycle is -- has been proved to be elusive. And we don't -- we are not making a prediction that it's going to kick in, especially not for furniture mattress and large appliances. You could make an argument that on home compute, personal compute, maybe even electronics and certainly smartphones that we're probably within it, or in it, from a replacement cycle standpoint.

But we're not calling for a robust recovery in furniture and mattress and large appliance yet. We're certainly braced for it and rooting for it.

It's difficult when you listen to the headlines and it depends on if you're geared to be negative or positive. You have to filter through, as you well know for our customer because it's a tale of two tapes and our customer, no matter what the macro headlines say, it's usually a different story for our customer, and we continue to believe that our more conservative posture from a decisioning standpoint is the appropriate one. And we're always looking for green shoots, and we can have some good results from various retailers here or there and certainly adding a new retailer to the platform is always helpful.

But just macro-wise, I don't think -- we're not calling for green shoots, or for a robust recovery in the near term, but we're trying to execute as well as we can while we're waiting for that.

John Hecht^ Okay. That makes sense. And then second question more on the financial side. And it's a very, hopefully, quick question, but two quick questions.

One is kind of appetite for ongoing repurchases and capital returns in your near-term leverage target.

And second is on that -- the tax change, and you mentioned, the lower cash taxes.

Is there any point that, that would -- is this just a timing difference? Or would that affect potentially your accrual tax rate over time?

Steven Michaels^ Yes. I'll start, and Brian can correct me for whatever I say that's wrong.

We don't guide to repurchases.

We do, as you said in your question, you look at it through the lens of our net leverage ratio over a 12-month period, and that's in a healthy spot now.

But we've been a fairly aggressive acquirer of our stock since the [Spin] transaction and continue to believe that it doesn't reflect the true value of the underlying business.

So I'll just kind of leave that there as our capital allocation priorities.

The impact of the cash taxes from the immediate expensing is, I think, pretty impactful. This -- the one change in this bill is that it's made permanent, and we're not having to plan for a sunset, or reversal of it like we did in the 2017 Tax Act. And so it is a deferral.

It's not an additional tax break. It is a deferral of taxes, which means that you kind of push them out into the future. But in a flat to growing GMV environment, it does get pushed out quite a way.

So it is a benefit to us. But it will not impact the GAAP financials, or the GAAP income statement tax rate.

It's -- we have various periods where cash taxes are higher than GAAP taxes in this -- for the next several years, I would say that they'll be lower than the GAAP tax expense.

Operator^ Our next question comes from Vincent Caintic with BTIG.

Vincent Caintic^ I wanted to go back to talking about Four technologies.

I mean the growth with that business seems really impressive. And by my math, it looks like Four is GMV is now a third the size of the leasing business. And I guess if it's growing by over 100% year-over-year.

I'm wondering if -- how big that business can be, and if it could be even bigger than the leasing business?

So just wondering maybe if you could talk about how -- where you think the business could go? What would sustain that level of growth? And then if you could help us with the economics now that it's -- Four is becoming a core part of the overall Progressive business. Like how should we think about revenues off of the GMV, the write-off rates and margins on that business?

Steven Michaels^ Yes. Thanks, Vincent. Yes. We're very excited about Four.

As I've said, it's in a great spot. The team has executed very well over the last several years.

And we've kind of kept it quiet, while we were refining the model and working on the unit economics, and now that we're confident about the profitability profile of each individual transaction and having it scale up, and it slipped to profitability and has an opportunity for scale and margin expansion.

We're certainly going to be leaning into that. Yes. I mean the GMV, it's not exactly -- well it's not apples-to-apples to compare Four GMV to leasing GMV because the ticket size is so much different and the economics are so much different on an individual transaction.

But having said that, like it is -- it is a very profitable and has an opportunity to expand to margins that far exceed -- EBITDA margins that far exceed the leasing business. And so we've guided to more than doubling GMV for 2025 versus 2024.

And as a reference point, 2024 was about \$300 million of GMV.

We're well on our way to do that and then some in 2025. The growth rates naturally, when you get to the law of big numbers, will probably subside. And I'm not calling for 150% growth rates in 2026.

We'll give more color on Four in February of 2026.

But you can see the pure-play comps that are out there and what they're -- how they're doing and how they're being valued and how they're being rewarded by the capital markets, and we're very excited about that opportunity within the PROG Holdings ecosystem. And that's as a stand-alone business. Then you kind of overlay the ability to have value creation within our ecosystem strategy, and within the leasing business and that gets us even more excited.

So when you're talking about a customer acquisition channel that has hundreds of thousands of users per period. And as importantly, high frequency of transactions.

So you get to engage with that customer more frequently within a month, quarter and year, and you get more opportunities to serve up offers for affiliate products, that can get -- it can get pretty exciting pretty fast.

So I appreciate the question, and we'll continue to provide more color on Four.

We've given some more details this quarter than we ever gave before. Take rate is metric in the industry that is kind of a inefficiency or monetization KPI that basically says for a given period -- and we've given it for a 12-month period, what percentage of GMV

translates into revenue. And so we've said that for the trailing 12-month period, it's approximately 10%.

That's an important metric, and you'll see that being provided by competitors. Frequency of transaction is another one, and we're about 5x per quarter.

We track customers as new, repeat and what we refer to as long, which is essentially a multi -- customer who's done many transactions with us. And as you can imagine, those loss curves are different, right? So a new customer has a higher loss rate than a long customer, because [a long] customers have been derisked by improving their payment behavior over time.

At our stage in our scale, more of our growth is coming from new customers than it would if we were four or 5x our size. And so the loss rates on those new customers are higher.

It's still profitable on an origination basis but higher. And as the platform gets bigger, and more of those news that perform well become repeats and [longs], those loss rates will come down, and that will also help serve for margin expansion.

So a lot of good trends and opportunities within the Four business, as a stand-alone business as well as within the ecosystem.

Vincent Caintic^ Great. That's helpful. And yes, that take rate and frequency of transactions is higher than a couple of the buy-now-pay-later companies I cover, so that's helpful. Just one quick follow-up again on Four.

I mean I guess, is the business actually under earning in this -- as it's growing?

Because to your point earlier, with the CECL credit reserving having put all those reserves up front and then the business growing by over 100%.

I guess, with the underlying earnings power actually be higher than what's being reported now?

Steven Michaels^ I mean yes, you -- as -- yes, I mean the short answer is yes.

As growth rates moderate, then that change in provision isn't going to be as impactful and margins can and will expand.

I mean to go back to what Brian said earlier, I mean Q4 is growing.

It's such a seasonal business. Q4 will be by a wide margin, the largest GMV quarter for the business for 2025, and December specifically, will be larger than any month by a wide margin.

So it will actually swing the business to an adjusted EBITDA loss in Q4, and that's baked into our outlook.

But that, as you know from CECL, that's not a bad thing.

It just is a function of the growth.

So yes, as the business scales, and as we have healthy growth rates but not like uber charged kind of plus triple-digit growth rates, that margin will expand. And we expect that the margins that some of the public competitors are achieving are not out of the realm of possibility for us over time.

Operator^ Thank you. This concludes the question and answer session.

I would now like to turn it back to Steve Michaels for closing remarks.

Steven Michaels^ Yes. Thank you all for joining us this morning, and as always, for your interest in PROG Holdings.

We delivered another good quarter.

As we've discussed, we continue to deal with some leasing GMV headwinds, but that's nothing we haven't faced before. The teams are energized and up to the task.

Our portfolio is in good shape and we continue to actively manage it to ensure consistent performance.

As we've talked about, and I appreciate the questions, we are very excited about where Four is currently, and more excited about where it's going.

I want to thank all the team members for their tireless work and dedication.

And we look forward to updating you again on our October call.

Operator^ This concludes today's conference call. Thank you for participating.

You may now disconnect.