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Q2 2023 PROG Holdings Inc Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the PROG Holdings Second Quarter 2023 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions). As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Mr. John Baugh, Vice President, Investor Relations. Please go ahead, sir.

John Allen Baugh ***PROG Holdings, Inc. - VP of IR***

Thank you, and good morning, everyone. Welcome to the PROG Holdings Second Quarter 2023 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.

During this call, certain statements we make will be forward looking, including comments regarding our GMV performance and lease merchandise write-offs in future periods, shareholder return over time, our updated 2023 full year outlook, and our outlook for the third quarter of 2023. I want to call your attention to our safe harbor provision for forward-looking statements that can be found at the end of the earnings press release that we issued earlier this morning. That safe harbor provision identifies risks that may cause actual results to differ materially from the expectations discussed in our forward-looking statements.

There are additional risks that can be found in our annual report on Form 10-K for the year ended December 31, 2022, which we encourage you to read. Listeners are cautioned not to place undue emphasis on forward-looking statements we make today, and 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 A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Thank you, John, and good morning, everyone. I appreciate you being with us today as we discuss our second quarter results, share our thoughts on a few important Q3 metrics, and provide an update on our full year 2023 financial outlook. We had another excellent quarter with Q2 GMV slightly beating our expectations, net revenues above the high end of our expectations, and adjusted EBITDA well above the range we provided at the end of April.

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I'm proud of our team's performance as they executed at a high level in what remains a challenging retail environment. The trend of fewer customers choosing to utilize 90-day buyout options and the strong portfolio performance that we discussed in Q1 continued into the second quarter. As you may have seen in this morning's earnings release, we are incorporating our year-to-date outperformance and reflecting these favorable trends in our increased outlook for 2023. The strong customer payment behavior we experienced in Q2 is evidenced by our year-over-year 260 basis point gross margin expansion, improved write-offs of 7.1% and adjusted EBITDA growth of $22.8 million or 43.7% resulting in a 12.7% margin.

Our write-offs for the first half of 2023 were 6.5%, keeping us on track to deliver another year within our targeted annual range of 6% to 8%. The decline in GMV was largely due to our implementation of tighter decisioning in Q2 last year, which we believe accounted for approximately two-thirds of our GMV decline. As we look to July trends and our Q3 expectations, we anticipate the difficult year-over-year GMV comparisons to ease as we fully lap the introduction of last year's tighter decision.

We have yet to see any indicators leading us to assume that retail sales will materially rebound through the balance of 2023. Though we have not assumed any benefit in the revised outlook we provided this morning, we believe that the current macro environment will result in tightening of lending practices from credit providers above us in the stack.

Additionally, past experience demonstrates that consumers benefit from our flexible payment options during periods of sustained liquidity pressures. Our teams are working well with their counterparts at our retail partners to find GMV growth opportunities, including promotions, point-of-sale materials and tech integrations that improve application flows and conversion rates. We are on track to grow our balance of share with several large retail partners in the second half of this year through new e-commerce integrations.

Our three-pillared strategy to Grow, Enhance and Expand remains focused on sustainable growth rather than short-term gains.

Grow emphasizes dedication to our business development efforts. In a sluggish retail climate, our goal is to broaden new and existing retail partnerships, positioning ourselves for significant growth once conditions improve. We remain focused on regaining growth through sustainable strategies, including e-commerce, marketing and technology innovations, along with new retailer pipeline conversion.

Our efforts to increase our e-commerce business are showing solid progress. We added nearly four times the number of new partners in the first half of 2023 than we did in the same period last year, and the channel consistently contributes more than 15% of our total GMV. These new partners, along with upcoming e-commerce integrations with several existing retailers should contribute to our long-term GMV growth.

We are also planning second half promotions and cross-marketing with many of our key retailers in support of GMV. One specific example of this is last week's PROG Perks week where we provide daily offers from select retail partners to our large database of current and previous customers. We have run this promotion several times over the last two years with much success, and retail partners have enjoyed the incremental business the program drives. This is just one example of the benefit of being part of the PROG Preferred Partner Network.

Our high customer retention, illustrated by consistent repeat rates of over 50% is a testament to our customers' affinity for our leasing products and contributes to our higher than average lifetime value to customer acquisition cost ratio.

Lastly, our pursuit of new retail opportunities remains a key component of our strategy for long-term growth, especially in the current challenging retail environment that may motivate more retailers to seek avenues for revenue enhancement. We have added a number of regional accounts in the quarter and remain in ongoing discussions with many recognizable regional and national brands about the value Progressive Leasing can bring to their business and customers.

We're confident in our proven ability to increase share balance with existing retailers while converting retailers without a virtual lease-to-own payment option, and we'll continue to build the relationships and technologies that will enable us to capture more of our industry's $30 billion-$40 billion addressable market.

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Under Enhance, our technology initiatives aimed at improving the retailer experience and offering customers a more frictionless omnichannel journey are progressing nicely, and we believe those initiatives will bolster our GMV performance in future periods. Our tech road map is focused on three core areas: improving our customer-centric flexible lease platform, providing self-service tools to enable a superior retailer experience while helping the customer make the best and most informed choices and offering greater personalization for a streamlined shopping and decisioning experience.

We are also developing products that we believe will boost our direct-to-consumer business and give retail partners easier path to identify and convert potential LTO customers. We aim to enhance operating efficiency while addressing technical debt, an issue common in today's rapidly evolving technology landscape.

Lastly, our PROG Labs R&D group is innovating ways to enhance customer service, personalization and decisioning through generative AI.

As for Expand, in Q2, we announced a new product called Build, a credit management tool designed to aid consumers in enhancing their credit scores. Our leasing customers frequently express a desire to improve their credit profile. Build, which is a blend of an installment loan and a secured savings account, both issued by WebBank, can help to address this need while aiding in credit history and savings accumulation. Build, is a natural addition to our product suite, joining Progressive Leasing, Vive, and Four as inclusive and transparent financial products for consumers.

In addition to empowering our customers through their financial journey, we anticipate Build will boost Progressive Leasing and Vive volumes, catering to potential customers currently not qualifying for leases or loans.

These pillars are underpinned by our robust financial health, marked by strong profitability, substantial free cash flow and a healthy net leverage position, all of which we expect to continue going forward. This financial strength enables us to invest in areas promoting future growth.

Turning to capital allocation. We have acquired over 2.5 million shares of our outstanding common stock in the first six months of the year at an average price of $28.26 per share. These purchases account for approximately 5% of our outstanding shares. Since the company spin transaction two-and-a-half years ago, we have reduced our share count by roughly one-third. Year-to-date, we have generated $205 million of cash flow from operations, closing the quarter with a cash balance of $253 million. As a reminder, we typically generate the majority, if not all, of our operating cash flow in the first half of the calendar year, a seasonal pattern we expect again in 2023.

Our capital allocation priorities remain unchanged, and we expect to fund growth, look for strategic M&A opportunities and return excess cash to shareholders primarily through share purchases. While Brian will provide more detail on the upper division to our outlook for the year, I'd like to provide some high-level thoughts.

Our first half earnings outperformed expectations due to tailwinds that may not carry forward into the remainder of the year with the same magnitude. Our updated outlook reflects ongoing challenges to consumer demand resulting from the macro environment.

We expect that revenues in the second half of 2023 will show a mid-to-high single-digit percentage decline as compared to the same period last year, primarily due to GMV performance in the first half of the year, resulting in a smaller lease portfolio balance. However, there is an easing in a difficult year-over-year GMV comparison as we lap last year's decisioning changes.

My summary is consistent with last quarter's. Our strong first half far exceeded earnings expectations and is a result of the hard work of our teams, and strong customer payment behavior. We have a proven track record of navigating through dynamic and challenging environments, and we will adjust as macro conditions evolve. We believe our strong financial health and ongoing investments will drive compelling shareholder return over time.

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I'll now turn the call over to our CFO, Brian Garner, for more details on our second quarter results and 2023 outlook. Brian?

Brian J. Garner ***PROG Holdings, Inc. - CFO***

Thanks, Steve. Let me start by summarizing our Q2 highlights. For the second quarter in a row, we exceeded earnings expectations as we effectively managed our P&L in a highly uncertain environment. I want to thank the teams for their perseverance in managing portfolio health and SG&A expenditures in a retail challenged environment and for the pursuit of sustainable long-term growth opportunities.

During the quarter, our customer payment behavior remained strong as elevated portfolio yields contributed to increased gross margins in the period. Similar to Q1, we saw fewer customers choosing to utilize 90-day purchase options, yet our write-offs remained within our targeted annual range. As always, we are actively managing portfolio performance as consumer behavior and lease outcomes change.

Q2 consolidated revenue declined 8.7% year-over-year due to a lower portfolio balance entering the period. However, revenue exceeded expectations, driven by strong portfolio performance. Consolidated adjusted EBITDA increased by 43.7% to $75 million from $52.2 million in Q2 last year. Our better-than-expected consolidated adjusted EBITDA results were primarily driven by our Progressive Leasing segment's lower SG&A, lower write-offs, and stronger gross margins, and the favorable SG&A was driven by our focus on operational efficiencies.

Non-GAAP diluted EPS increased to $0.92 per share, growing 76.9% from $0.52 per share in Q2 of 2022. We continue to demonstrate the resiliency of our business model and our capacity to adapt to revenue headwinds while preserving margins and cash flow, and I'm extremely proud of our team's efforts to deliver these results.

For our Progressive Leasing segment, GMV decreased 14.7% year-over-year, which was slightly better than our internal expectations. We have improved the year-over-year GMV comparison from a 17% decline in Q1 to a 14.7% decline in Q2 and believe we are trending to a mid-single-digit decline for Q3. As Steve mentioned, we believe roughly two-thirds of the negative GMV comp in the first half is driven by the proactive steps we took to tighten our decisioning in Q2 of 2022, which has improved our write-offs and profitability. Q2 revenue declined 8.9% and was impacted by a lower gross lease asset balance throughout the quarter, ending the period down 10.7% year-over-year, as well as a decline in 90-day buyouts during the period, partially offset by improved portfolio yield.

However, similar to last quarter, year-over-year gross margin in Q2 improved 260 basis points to 33%, primarily driven by strong customer payment behavior and lower levels of 90-day buyouts, as fewer customers have elected to utilize the early buyout option. These lower buyouts in the first half of the year translated into higher margin outcomes in Q2, as write-offs remained at acceptable levels. Our revised outlook anticipates 90-day buyout activity and write-offs to follow pre-pandemic seasonal trends for the remainder of 2023, resulting in a slight decrease in gross margins versus the first half of 2023.

Progressive Leasing's SG&A expense in Q2 was $78.3 million, a decrease of $3.6 million, or 4.4%, compared to $81.9 million in the same quarter last year. SG&A as a percentage of revenue increased slightly to 13.6%, compared to 13% in Q2 of 2022. We expect that for the remainder of the year, SG&A as a percentage of revenues will be higher compared to the first half of 2023. We will continue to operate efficiently through a challenging consumer demand environment while balancing investment in key technology platforms, marketing and business development.

Progressive Leasing's write-offs were $41 million, or 7.1%, down from 9.8% in the previous year's period. The sequential quarterly increase in write-offs in the first half of 2023 was driven by seasonal trends, resulting in year-to-date write-offs of 6.5%. We remain on track to end the year within our targeted annual write-off range of 6% to 8%.

Moving to our balance sheet. We ended the quarter with $253 million of cash and gross debt of $600 million, resulting in a net leverage ratio of 1.14x our trailing 12 months adjusted EBITDA of $304.1 million.

In the second quarter, we purchased 1.1 million shares of our common stock at a weighted average price of $32.65 per share and have $265.4 million remaining under our previously authorized $1 billion share purchase program.

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To summarize our outperformance to expectations in the first half of 2023, we actively managed the portfolio return while driving efficiencies in our cost structure, and the shift we observed of fewer customers choosing to utilize 90-day buyout options resulted in higher gross margin.

I'd now like to touch on a few key aspects of our Q3 and revised full year outlook, which were provided in this morning's earnings press release. As a reminder, the guidance we provided on our Q1 earnings call in late April, assumed headwinds on GMV, with easing in the year-over-year comparison starting in July. The gross leased asset balance, which is a key driver of future period revenue, was expected to decline further at the end of Q2. Although we anticipated margin pressures as we move throughout the year, we assumed our lease portfolio performance and our low 90-day buyout rates would drive Progressive Leasing's margin to improve year-over-year. We projected 90-day buyout activity to be lower year-over-year for the remainder of 2023, although the variance was expected to narrow compared to Q1 over the course of the year.

Our performance in the second quarter gives us reason to believe that GMV is trending slightly better compared to what we expected in April. In addition to our favorable year-to-date performance, we feel a higher degree of confidence in our portfolio performance going forward.

Lastly, although SG&A as a percentage of revenue will increase as we move through the remainder of 2023, we will evaluate the timing and return of our investments to align with revenue trends and future growth opportunities. As a result, we are raising our full year revenue and earnings outlook.

We anticipate the Q3 GMV year-over-year comparison to ease to a mid-single-digit decline as we lap last year's tightening. Our revised consolidated outlook for 2023 includes revenues in the range of $2.36 billion to $2.39 billion; adjusted EBITDA to be in the range of $270 million to $280 million, and non-GAAP EPS in the range of $3.10 to $3.25.

This outlook assumes a continued soft demand for leasable consumer durable goods, no material changes in the company's decision posture and effective tax rate for non-GAAP EPS of approximately 27% and no impact from additional share repurchases.

Consistent with last quarter, our base case outlook for the remainder of the year considers current consumer trends, but does not assume further economic downturn, a material negative impact on the employment of our customers or a material benefit from tightening by providers above us in the credit stack.

I will now turn the call back to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Certainly, one moment for our first question. Our first question comes from the line of Kyle Joseph from Jefferies.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Just curious, your thoughts on kind of the health of your underlying consumer. Obviously, some moving parts in terms of less early buyout activity, but ongoing stable credit performance. Obviously, the employment environment is very strong still. But just kind of get a sense for the overall health of the underlying consumer and potentially, is there any sort of green shoots of improving demand or consumer confidence there?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Yes. Thanks, Kyle, good morning. I guess I'll start. When we spoke last quarter, we talked a lot about fewer consumers choosing to utilize their 90-day buyout option and its impacts on the overall margin -- the gross margin of the business. But what we were trying to assess at that point was how will those pools continue to mature? And would those customers that otherwise during a regular tax season that have -- would have utilized their 90-day buyout option, how would they perform. So far to-date, through Q2, the verdict is that they're performing fairly well. They're making their payments. There are still active leases. And so that's a good sign for the health of our

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consumer. You mentioned in kind of one of your data points there, strong employment, and that is always a big factor in our business, and we're not seeing any signs of weakness in the employment side of the business, or economy I should say -- as it relates to cost pressures and inflation rolling over, I think that's probably also fairly good news. You can see it in our portfolio performance and what we talked about in the prepared remarks around strong portfolio and strong customer payment behavior. The only -- what I would say, wild card that's out there is a very fluid and developing situation related to this student loan repayment that is facing us in the fall. And there's a lot of puts and takes on that to who will be impacted and what may happen between now and then. So I would say, generally, it's pretty good shape for the consumer with a little bit of a wildcard in the future that may or may not materialize.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

And then just one follow-up for me. I think on last quarter's call, you guys addressed kind of credit availability broadly. And I think you mentioned you saw some initial signs of tightening from those above you or trade down in other words. And any update there?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Yes. What we said last quarter was that we had only very recently begun to see some change in our applicant in the top of the funnel, if you will. The best way we have to monitor that is basically the FICO scores or -- and even our own internal risk scores of our applicants in the top quintile of our app funnel. And we saw in late April that had just recently begun, we did continue to see throughout the quarter. So we have seen a drift up in our FICO scores throughout our app funnel, but certainly at the -- in the top quintile.

There -- as has been widely reported -- there has been some FICO inflation. So a 660 might not perform like a 660 did a couple of years ago. So we're paying attention to that as well. As we mentioned in the prepared remarks, it's difficult for us to, at this point in the year, determine how large, if any, the benefit from that will be for us. But -- and so it's not baked into our outlook, at least the material benefit is not baked into our outlook. But we do believe and have believed for a long time that it is a potential tailwind for our business.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Great! Thanks for answering my question and congrats on a good quarter.

Operator

And our next question comes from the line of Jason Haas from Bank of America.

Jason Daniel Haas ***BofA Securities, Research Division - VP***

So it seems like the guidance implies a worsening of margins in the second half of the year, both versus the first half and also for look on a year-over-year basis. You talked about it a little bit in the prepared remarks, but can you just walk through why gross margins would soften in the second half? And then also what's driving that step up in SG&A spending as well?

Brian J. Garner ***PROG Holdings, Inc. - CFO***

This is Brian. The dynamic that's playing out is effectively -- we're starting with a lower GLA balance, or gross lease asset balance, entering the back half. And so that's going to put pressure on total dollars of revenue first and foremost. So you've got a fix -- you got some fixed costs within the SG&A structure, and you've got a lower revenue stream coming in the back half, so that's going to put some pressure on margins. The other dynamic that is happening -- is SG&A expected to step up? And that has to do with some technology initiatives, some back-end office initiatives that we are pursuing and also on the sales and marketing front. I think as we look forward to the end of the year and into next, we want to grow the gross lease asset balances -- or put on a trajectory towards a higher balance as we exit the year. So we can be at a good footing entering into next year. So that's the primary reason for the margin pressures in Q3 and Q4 -- and it's not unexpected from what we communicated in our previous outlook. We've anticipated this SG&A ramp and some of these revenue pressures from a declining GLA at this point in the year.

Jason Daniel Haas ***BofA Securities, Research Division - VP***

That's great. And then for my follow-up, are the margins that you're expecting in 2023? Is that a good framework to use for like 2024 and beyond. I think historically, you've talked about for the Progressive segment. The goal is to be in that 11% to 13% range for EBITDA margins. I think you should be well within that range this year based on the guidance? And then is the expectation just to be able to grow revenue from there and maintain that margin rate? Or is there any -- do you have any goals to grow margins from here?

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Brian J. Garner ***PROG Holdings, Inc. - CFO***

I'm not going to get specific on 2024, but I do think, from a long-term margin expectation, where we're at this year and where we've been trending, I think, is within a comfortable range for us. And it's not happened on its own. It's been actively managed through portfolio management, and watching SG&A, and aligning SG&A with our top line performance. And so I think that 11% to 13% that you highlighted for Progressive Leasing remains unchanged. I think it's -- here in the quarter, Progressive Leasing was about 13.5% for Q2, and that's obviously a very strong quarterly result. I don't expect it to remain that high on a quarter-to-quarter basis. But we had a great quarter, and I think that 11% to 13% is a good guideline for long term.

Operator

And our next question comes from the line of Brad Thomas from KeyBanc Capital Markets.

Bradley Bingham Thomas ***KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst***

I wanted to follow up on the GMV a bit. I was wondering if you could talk a little bit more about how you're thinking about the cadence of GMV in the second half of the year, does seem like in the end market, what we're hearing out of retailers is kind getting less bad and in some cases, even retailers moving to positive territory more recently. So again, curious a little bit more how you're thinking about GMV growth in the second half. And then if you could also just remind us how much of a headwind the underwriting has been as we think about maybe what the more organic run rate trends have been?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

^ We did give the range, I would say, of kind of negative mid-single digits for Q3. We did not speak to Q4 as of yet from a GMV standpoint, and that -- I guess, rolling it back a little bit, as you think about Q2, we heard the same things from the retail earnings season that April was bad, and May was less bad, and June was less bad. So if you carry those things into the third quarter, I would expect we would participate in that less bad scenario as well. On top of that, we've got the lapping of the decision tightening from last year. And we've said a number of times that we believe that about two-thirds of our negative GMV pressures were from the year-over-year decisioning changes or approval rates, if you will.

As it relates to approval rates, we generally look at a trailing 4-week average because approvals are good for about 90 days. It doesn't -- it's rare that somebody comes in on the 89th day and funds a lease, but it does take a bit for those approved leases to flow through the funded GMV. And so we look at a trailing 4-week average. And as we sit here today, we're still not -- we're still several weeks away from getting back to parity with last year as those decision changes happened late in Q2 of last year. So still a little bit of a headwind, but certainly less of a headwind as the quarter progresses. And so that's the decisioning and the retail environment. On top of that, I would say I'm encouraged by the receptivity and the partnerships of our retailers looking for ways to deepen our integrations and deploy tools that we have like we've talked about for several quarters, even the sense of urgency to get some of that stuff done before holiday of this year. Obviously, we're fast approaching code freeze for most retailers, and so time is of the essence. But to the extent we can get some of those done, we look forward to the benefit that can have in the balance of 2023, but also as we roll into '24.

Bradley Bingham Thomas ***KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst***

That's great. And then, Steve, you all talked about what you're seeing kind of above you all in the site stack, but I was curious if you could comment a little bit more about what you're seeing from a competitive standpoint. Are you seeing those in the least-owned group tightening more? Are you seeing anyone loosening? Do you feel like competitors are playing defense here? Or are they getting more aggressive with trying to win business away from you? I'm just curious what you're seeing out there right now.

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Yes. I mean competition is strong, as it usually is. And as we always talk about the bifurcated business, the book of business that we have with the enterprise accounts, and their exclusivities, along with the regionals, where there may be multiple players there. I would not say that I've seen the evidence that our competitors are tightening from an approved rate standpoint. In fact, on the margin, it might be a little bit the other way. And so the competition remains strong and we're out there fighting day to-day.

Operator

Thank you. (Operator Instructions) our next question comes from the line of Anthony Chukumba from Loop Capital Markets.

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Anthony Chinonye Chukumba ***Loop Capital Markets LLC, Research Division - MD***

Congrats on a nice quarter. So can you just provide some more color on the Build product? I guess I was getting a little confused on that. What exactly is that? And when would you be rolling that out?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Thanks, Anthony. Yes. Build is a -- it's a credit builder loan -- a combination of a credit builder loan and a savings accumulation vehicle, and we're proud to be partnering with WebBank to offer that. And what we saw there is our -- we survey a lot -- our customers quite frequently, and many of them have said that they're looking for ways to improve their credit score or profile, however you want to characterize that. And Build is a credit builder loan. It is not a new product. It's a tried and true way to do that, or, it can do that if it's done properly. And so we're excited to add it to the PROG ecosystem suite of products, and it helps to further our mission of improving the lives of our customers through financial empowerment.

There's lots of opportunities for us to acquire new customers into the ecosystem using Build. We -- as you can imagine, with our approval rates, we declined a number of customers every year. And we believe there's -- to the extent that we could offer them to build product and have them grow back into a lease approval and then effectively maybe over time or hopefully, over time, grow into Vive product or a more near-prime product.

And so there's -- we've got a lot of plans for -- well, Build is launched, just to be clear, it's not in all states yet, but we expect to be in all states by the end of this year. We have active customers. We have active loans out there. We're going to be launching a secured card that will allow the customers to be able to access the accumulated savings. And we will be doing cross marketing promotional activity between the products to help our customers access Build, but also have Build help to grow the leasing business.

Anthony Chinonye Chukumba ***Loop Capital Markets LLC, Research Division - MD***

And just a follow-up. So how is that being market -- is that being market under Progressive or under WebBank?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

It's being marketed under Build. Build is the product's name. Getbuild.com, and it is being marketed through to the Progressive [Leasing] database, but also in other forms.

Operator

And our next question comes from the line of Bobby Griffin from Raymond James.

Bobby Griffin

I guess my first question is, Steve or Brian, can you guys just provide any type of context or numbers to kind of maybe help us understand the number of customers that are hanging on the leases longer than maybe historical standards. Because I'm just asking in the sense that as we roll into next year, this behavior could be relatively unique, and I'm trying to get a gauge on the size of that or any type of estimate just to help us think about it.

Brian J. Garner ***PROG Holdings, Inc. - CFO***

Yes. I mean, Bobby, we haven't disclosed the revenue component of the 90-day buyout or the number of customers. I guess what I would say is it's the primary driver of the gross margin improvement that you have seen year-to-date. That along -- I mean there's that component and then you've got the strong customer paying performance overall that are influencing gross margins. And so I think our expectations around this lower 90-day take rate is that it will subside over the course of time. And as I mentioned in my prepared remarks, the variance year-over-year and versus pre-pandemic is expected to kind of narrow as we move throughout the year. And so as we edge into next year, obviously, we'll take a look at what the customer behavior is. But we have not made public that revenue tranche that's coming from 90-day. So I think the way to think about it is normalized gross margins that we experienced pre-pandemic are really probably what we would expect longer term and not necessarily counting on this being a permanent dynamic in the model.

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Bobby Griffin

And then I guess to follow up on that, then the right way to think about like the flow through of the guide is not necessarily that you're betting the 90-day behavior continues. It's just more that you feel more comfortable about those customers that didn't buy out, staying on lease longer. So you're implying some of that upside that's been taking place actually continues in 3Q and 4Q. Is that correct?

Brian J. Garner ***PROG Holdings, Inc. - CFO***

Yes. I think there -- I think you're right on that. There're two primary components from the previous outlook to the current outlook that would highlight. The 90-day is certainly at the top of the list and the performance we've seen in Q1 and Q2 now, like Steve mentioned, what do those customers do and where do they go from a performance standpoint after they elect not to do the 90-day buyout? I think what we've got incorporated in the model is some level of degradation or an allowance for some performance decline from where it's been right now. And if payments continue the way they have been in the first half, then that's upside to the base case that we've laid out. But we are not counting on the customer kind of at this elevated level of portfolio performance and the low level of 90-days. So now a day, it will start to normalize a bit as we move throughout the year, payment performance will show maybe a slight tick down from where we've been in the first half. But overall, still has incorporated the year with strong EBITDA performance and EBITDA margins along the lines of what we would have expected. So I think that's the commentary I give.

Bobby Griffin

Okay. And then lastly for me, just any -- we talked last quarter just about some of the product category performance within GMV. Any interesting changes in that? I know some of these larger ticket home durable categories likely over earned a little bit more during the pandemic. So just anything interesting to call out from a product category standpoint within the GMV and how it played out during the quarter?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

No, Bobby -- nothing that we would note. I mean, obviously, we are -- we participate in the categories and how they're doing generally, but we can also have results that might deviate from that just because of some new integration or new initiative that we're doing within a door, And so, obviously, we're focused on all the categories and some are stronger and some are weaker, but nothing specific to call out.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Steve Michaels for any further remarks.

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Thank you. I'd like to, again, thank you for joining us this morning, and for your continued interest in PROG Holdings. Our teams did a great job and delivered another strong quarter. We feel good about the positioning of our portfolio, and we're making the right investments in people and technology to further our three-pillar Grow, Enhance, Expand strategy. We look forward to updating you on our progress next quarter, and hope you have a great day.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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