PROG Holdings Q3 Financial Results Conference Call

Wednesday, November 3, 2021, 8:30 AM Eastern

PARTICIPANTS

John Baugh - *Vice President, Investor Relations*

Steve Michaels - *President and Chief Executive Officer*

Brian Garner - *Chief Financial Officer*

PRESENTATION

Operator

Good day and welcome to the PROG Holdings, Inc. Q3 2021 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key following by zero. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to John Baugh, Vice President of Investor Relations. Please go ahead.

John Baugh

Thank you, and good morning, everyone. Welcome to the PROG Holdings third quarter 2021 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 expectations related to the execution, amount, and timing of and benefits expected from the modified Dutch auction tender offer to purchase up to $425 million of our shares of common stock, our new $1 billion repurchase program, and any further or future share repurchases under that program, the levels of GMV delinquencies, write-offs and other performance metrics we expect in future periods, and our updated 2021 financial performance outlook.

I want to call your attention to our safe harbor provision for forward-looking statements that can be found at the end of our 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 content of our forward-looking statements. There are additional risks that can be found in our latest 10-K filing and in our subsequent SEC filings. 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 EBITDA and adjusted EBITDA, non-GAAP net earnings 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 will turn the call over to Steve Michaels. Steve?

Steve Michaels

Thank you, John, and good morning, everyone. I appreciate you all joining us this morning. I couldn't be more proud of our team as we look to close out a strong year. We have made great progress in our first year as a standalone public company, positioning PROG Holdings for significant long-term value creation as a profitable, high-growth, asset light FinTech company.

In Q3, we continued to navigate the pandemic's impact on our customers and partners and saw our portfolio trend towards normalized performance, although somewhat earlier than anticipated. The quarter benefited from accelerating growth in our lease portfolio, strong margin performance, exceptional e-commerce growth, continued technological innovation with the release of updated e-commerce plug-ins and merchant platforms, and the addition of buy now, pay later capabilities through our acquisition of Four Technologies.

This morning, we announced that the PROG Holdings board has authorized a new $1 billion share repurchase program replacing the $300 million authorization we announced in February. Tomorrow we intend to commence a modified Dutch auction tender offer to purchase up to $425 million in value of our common stock under this new authorization, which we expect to be funded through a combination of new debt and current cash.

We believe the tender offer, which represents approximately 15% of our market cap, and the significant new share repurchase authorization are clear demonstrations of our ongoing commitment to value creation through returning excess capital to shareholders. This transaction will also have the benefit of lowering our cost of capital.

The tender offer will be priced in an anticipated range between $44.00 and $50.00 per share, and we expect the offer to commence on November 4th, 2021 and expire at the end of the day on December 3rd, 2021. We believe the tender offer represents an opportunity to acquire our shares at an attractive price while preserving our ability to invest in both organic growth and M&A, which remain our top priorities. We also believe the increase in leverage resulting from the additional debt we expect to incur to fund the tender offer will be supported by the strong EBITDA and cash flow profile of our business.

Since last November's spin transaction, capital allocation has been a top priority for management and the board and for many of our shareholders too, based on my conversations with them. Our Progressive Leasing and Vive Financial segments are both well-established businesses with strong, proven models, and PROG Holdings, the holding company that remained following last year's spin, started with and has maintained a very strong unlevered balance sheet.

As you will remember on our first earnings call as PROG Holdings in February, we laid out our capital allocation priorities and announced that $300 million share repurchase program funded with excess cash flow. Over the past nine months, we have repurchased $128 million in shares under that program, including $51 million in the third quarter.

Our decision to significantly expand and accelerate our share repurchases is driven by the alignment of three key factors; first, our confidence in our long-term growth; second, the opportunity for value creation by more aggressively investing in our own shares; and third, an attractive interest rate environment that affords low-cost debt.

As I have previously shared, we are comfortable with a net leverage range of approximately 1 to 1.5 times adjusted EBITDA. Given our robust free cash flow in excess of organic growth needs, this leverage range maintains the flexibility to pursue attractive M&A opportunities and allows for continued ongoing share repurchases beyond this tender offer. Of course, the future price of our stock, the size of any M&A opportunities, general economic conditions, and other factors will influence our decisions on future share purchases.

I want to reiterate a key point here. We have diligently forecast our future capital needs and believe strongly that the modest amount of leverage we expect to add to execute the tender offer will not impact our ability to invest in the business or our ability to capitalize on the large unserved virtual lease to own addressable market.

As we have said consistently, we consider a strong balance sheet and access to liquidity to be sources of strength and optionality that we rely on when looking to convert large pipeline opportunities. We expect to continue to maintain those sources of strength going forward and to further leverage the competitive advantage they provide us.

Now I'd like to turn to our third quarter results, which reflect the growth in our portfolio and our strong profitability against a backdrop of continued and modestly accelerating normalization of portfolio performance. GMV for our Progressive Leasing segment increased 10% in the third quarter and is up 15% year-to-date, both in line with expectations.

As I stated on last quarter's call, we expect Q4 GMV growth to exceed Q3's growth rate. Factors that should drive the GMV acceleration in Q4 include a more robust promotional schedule planned by many of our POS partners, an easier comparison to last year when store traffic was unfavorably impacted by COVID, and a seasonal shift to e-commerce, where we have an even stronger presence than we did in the prior year.

We are well-positioned to deliver on our previously provided outlook of GMV growth in the mid to high teens for 2021. As always, a significant change in the macroenvironment, including the global supply chain, could impact results.

E-commerce GMV grew 192% year-over-year in Q3 and represented 14.5% of our total GMV in the quarter. We remain on track to deliver a midteens contribution from e-commerce GMV for the full year 2021, up from 7% in 2020, and expect this channel to be a key driver of future GMV growth. We continue to invest in innovative technology that is designed to make our products easier to use and increase transaction speed and conversion rates.

We launched Progressive Leasing plug-ins for some of the largest e-commerce platforms, including Salesforce Commerce Cloud, Magento 2, and WooCommerce, and we expect customized integrations with key retailers and these more user-friendly plug-ins to help drive future growth in e-commerce GMV.

We have increased our investment in the small and medium-sized business market, and we remain focused on growing with new and existing SMB retailers. During Q3, we rolled out PROG Central, a retailer management platform that greatly enhances our SMB partners' ability to access and manage individual lease details, lowering our cost to serve over time while simultaneously creating a better experience for retailers and customers. We expect to begin realizing the benefits of these products and initiatives in the quarters to come.

As we have noted in recent quarters, significant federal stimulus payments and enhanced unemployment benefits in 2020 and 2021 were unprecedented and had a significant short-term impact on our business. We experienced record low levels of delinquencies and write-offs during much of the pandemic. Conversely, this stimulus has been a headwind to GMV and lease portfolio growth, as more customers elected to pay cash for purchases or opt into our 90 day early purchase option.

As we commented last quarter, we are beginning to see our customers trend back towards more typical behaviors across the board. In fact, as the impact of federal stimulus and other temporary economic support subsides, last quarter and during October, we saw key portfolio metrics returning closer to pre-pandemic levels.

Opt ins for our 90 day early purchase option have trended down through Q3. Write-offs for the period increased sequentially and year-over-year but remained below pre-COVID levels. As we have noted in recent quarters, we expect the write-offs to continue to normalize to our pre-pandemic annual range of 6% to 8%.

As seen in this morning's earnings release, we lowered our fiscal 2021 outlook for revenue and lowered the top end of the adjusted EBITDA range. This updated outlook is primarily driven by higher reserve provisions related to the sooner than expected normalization of portfolio performance, as Brian will discuss in a moment.

Having said that, our early pool performance indicators and metrics are in line with our pre-pandemic levels. We have proven over the past several years that we can manage the performance of our portfolio within our stated annual range of 6% to 8% write-offs, and we intend to continue to do so in the future.

Our consolidated revenues in the quarter were $650 million compared to $611 million last year, an increase of 6.4%. Our portfolio has now grown in our Progressive Leasing segment for two consecutive quarters, after hitting a low in March of 2021.

Our adjusted EBITDA margins remain elevated when compared to historical norms. While SG&A expenses did rise from the prior year, the strong portfolio performance drove our 14.4% adjusted EBITDA margins above our annual target of 11% and 13%. We expect Q4 adjusted EBITDA margins to decline from Q3 and the prior year Q4 as portfolio trends continue to normalize.

Finally, I want to thank all of our employees for their commitment to our customers and partners as we strive to innovate and tailor solutions that will enable consumers to shop however, wherever, and whenever they want.

I will now turn the call over to our CFO, Brian Garner, who will discuss our financial results in greater detail. Brian?

Brian Garner

Thanks, Steve. The third quarter results reflect a trend towards normalization of key portfolio metrics, including decreasing 90 day early buyout levels and higher write-offs as compared to the record low write-offs in the year ago quarter, which nevertheless still continued to perform better than our historical 6% to 8% annual range.

The net result of these, along with other less material portfolio dynamics, drove strong EBITDA margin in the quarter, exceeding our typical 11% to 13% annual range. Also as we expected, growth in our gross leased asset portfolio continue to accelerate, which stands to benefit future period revenues. We expect this ramp and gross leased assets to continue into the fourth quarter as we execute on our GMV initiatives.

As I move to the financial results for the Progressive Leasing segment, it's important to recall the backdrop of the Q3 2020 comparison when we had a 19.8% EBITDA margin, the highest in

Progressive Leasing's history. Last year's results were driven by record customer payment performance due to government stimulus programs, which present an unprecedented comparison for Q3 2021 results.

Revenues for the Progressive Leasing segment were $635 million, an increase of $33.9 million or 5.6% compared to the third quarter of 2020. The revenue growth rate for the period reflects a trend towards normalization of customer payment performance and declining year-over-year 90 day buyout rates. We expect to see an acceleration of revenue growth into Q4 as we benefit from a gross leased asset portfolio balance that grew 11.5% year-over-year in the period.

This growth represents the second consecutive quarter of acceleration and the first double-digit gain in our leased portfolio since Q1 of 2020. Portfolio size and portfolio yield will remain key variables for continued topline improvement.

Progressive Leasing's gross margin was 31.4% for the third quarter versus 32.6% in the same period last year, a 120 basis point decrease year-over-year as we trended closer to typical pre-pandemic third quarter gross margins.

As I mentioned on the Q2 earnings call of this year, SG&A was expected to trend higher in the Q3 2021 period as we increased year-over-year investments in marketing technologies and sales efforts and incurred standalone public company costs relative to the more conservative spend at the height of the pandemic in 2020.

SG&A for the Progressive Leasing segment was $80.2 million and 12.6% of revenues in the quarter compared to $69 million and 11.5% last year. The SG&A spend in the third quarter is in line with pre-pandemic levels for the same period as we reinvest the results of operational efficiencies towards revenue-generating activities.

Progressive Leasing's provision for write-offs has historically ranged between 6% and 8% as a percentage of revenues on an annual basis. In comparison, they were 5.4% in Q3 of 2021 versus 2.1% in the prior year. As discussed in our last earnings call, we expected our back half 2021 write-off levels to increase from the all-time low we saw in Q3 of 2020, when we benefited from strong payment performance driven by the stimulus environment in addition to the more conservative decision posture we adopted due to the pandemic.

For reference, pre-pandemic write-offs were 7.8% and 7.7% in Q3 '18 and Q3 '19 respectively, further reflecting the strong payment performance that drove the 5.4% for the third quarter of 2021. We believe Q4 write-offs will be in line with our seasonally adjusted typical pre-COVID rate. Write-offs were 5.8% in Q4 of 2018 and 6.6% in Q4 of 2019.

Adjusted EBITDA for Progressive Leasing in the third quarter was $88.4 million, a 13.9% margin. Though down from last year's record levels, the margin performance is favorable relative to our 11% to 13% annual historical range and was primarily driven by continued strong portfolio performance and associated lower write-offs.

Pivoting to consolidated results, consolidated adjusted EBITDA, including our Vive Financial and Four Technologies businesses, was $93.6 million for the third quarter of 2021 compared to $110.6 million for the same period last year. We generated $294.9 million in cash from operations for the first nine months of 2021, ending the quarter with a cash position of $128.8 million and debt of $50 million. We have $300 million available under our revolving credit facility.

GAAP diluted EPS was $0.86 compared to the $1.10 in the year ago period, and non-GAAP EPS was $0.94 compared to the $1.17 for the same period in 2020.

As noted in this morning's earnings release, as we enter the fourth quarter, we updated our full-year 2021 consolidated outlook for adjusted EBITDA to a range of $390 million to $395 million and lowered our revenue range to $2.68 billion to $2.7 billion. This outlook incorporates the recent trends we are seeing relating to the normalization of portfolio performance metrics.

Specifically, we are seeing the reserves relating to leased assets, which impact write-offs, and the reserves relating to accounts receivable, which impact revenue, begin to rebuild after the significant release in the second half of 2020 and into the beginning of 2021, driven by the stimulus environment and historically strong payment performance.

The pull-forward of these reserve increases into 2021 will impact the current year results more than anticipated when we provided our July outlook and are the primary driver for the changes in outlook. As Steve mentioned, the early indicators of portfolio performance remain strong and we believe will translate into write-offs and EBITDA margins more in line with pre-pandemic ranges over the next few quarters.

Finally, during the quarter the company acquired 1.1 million shares with a weighted average price of $45.43 totaling $51 million. Year-to-date purchases were 2.6 million shares at an average of $48.88 per share totaling $128.2 million. Beyond the tender offer, which Steve highlighted and as detailed in this morning's press release, we will continue to look for opportunities to acquire shares at favorable price levels under the new $1 billion repurchase authorization.

I'll now turn things over to the operator for the Q&A portion of the call. Operator?

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset for pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Anthony Chukumba with Loop Capital Markets. Please go ahead.

Anthony Chukumba
Good morning and thank you so much for taking my question. So, you talked about the normalization, which makes a lot of sense given the fact that everybody's not getting their stimulus checks anymore. But I guess my question is historically you've always guided to kind of a 6% to 8% write-off rate. Is that still the right way to think about the write-off rate long-term, or are there any sort of changes sort of post pandemic versus pre-pandemic where maybe that's not necessarily the right range? How do you sort of think about that?

Steve Michaels
Yes. Thank you, Anthony. This is Steve. Yes, we've been talking about normalization for several quarters, and we've actually been rooting for it, quite frankly, because we believe that in the normalized environment, while it will include increased write-offs and the build-up of the

reserves that we've discussed this morning, it also will include probably more pre-pandemic customer behavior from a GMV standpoint and from a demand for flexible payment options.

Specific to the write-offs, yes, we think that on an annual range, 6% to 8% is the right range that we're targeting. We put those guideposts out in early 2016. And until the pandemic hit, there was no trailing 12 month period where we didn't deliver within the 6% to 8% range, which we believe demonstrates our ability to manage the portfolio very tightly.

We believe that when the pandemic is a--we're living with it and it's a distant memory, that 6% to 8% will be the range and that's an appropriate way to run the business. We're constantly evaluating the data that we have in and learning from the pool performance, but we believe 6% to 8% is a comfortable range for us to help us on our growth initiatives as well as deliver within the earnings ranges that we've also laid out.

Anthony Chukumba
Got it. No, that's helpful. And then just two super quick follow-ups. Just any updates on Four Technologies? And then I guess somebody's got to ask the question, the retail partner pipeline? Thank you.

Steve Michaels
I appreciate that. Yes, Four, we're excited about Four. The team down in South Florida are doing an awesome job getting integrated into PROG Holdings. You'll notice there's an other category with a little bit of a EBITDA drag. And that's just kind of the spend to get the team--as we talked about last quarter, Four is a great tech platform and a great app and a great team but was a certainly a startup, so we've got some investment to do there.

We're having good conversations. We've had conversations with retail partners about multiple product solutions. Those would include existing retail partners. We've had conversations with prospective retail partners about multiple product solutions. We've also done some very limited cross marketing where we're getting good intel and good results to see how we can use Four to grow PROG and just increase the Progressive ecosystem. So, we're excited about that, but it's very early innings. As we've talked about, it was very incremental, not transformational, and we'll continue to run it that way.

And then on the partner pipeline, I know this is a frustrating answer, but there's a lot of opportunity out there, and we continue to believe that every retailer will have VLTO as a solution in their fully developed finance stack. It's not there yet. That's why we are so excited about the unserved addressable market that's out there.

Obviously, this time of year it's difficult to have an announcement around a partner, but we look forward to continuing the conversations that we're having and progressing them along in our business development process. And we'll update you as wins happen.

Anthony Chukumba
Got it. Thanks so much. Keep up the good work.

Steve Michaels
Thanks, Anthony.

Operator

Our next question comes from Kyle Joseph with Jefferies. Please go ahead.

Kyle Joseph
Hey, good morning. Thanks for taking my questions. Just wanted to talk about the GMV obviously a deceleration versus the second quarter. Can you walk us through was it more difficult comps? Was it supply chain issues? And then you talked about credit normalization but talk about kind of how GMV normalization plays out. Would you anticipate it getting back towards your kind of pre-pandemic levels as well?

Steve Michaels
Yes. Thanks, Kyle. Yes, so I would say GMV--well, we did say specifically that GMV was in line with our expectations for the quarter. And we said on the last call without giving quarterly guidance that we expected--well, we are confident in our mid to high teens GMV for the full year. We're still in that range. And we knew that Q4 would have a higher growth rate than Q3. So, I know that there may have been some expectations of a different number in Q3. But for us, that was in line with our expectations.

Certainly supply chain--we are exposed to supply chain to the extent that our retail partners are exposed to it. And we are not immune from inventory outages and long wait times. And as we've talked about on previous calls, if you execute a lease agreement for a group of furniture that may be coming in in 10 or 12 weeks, the likelihood of the customer canceling that before delivery is much, much higher than if it's ready and available now. So, we are impacted by that and will continue to be. But we still believe that, even when those pressures and headwinds, we will maintain or hit our mid to high teens GMV for 2021.

On the portfolio normalization, we've been expecting it. It probably happened a little faster or is happening a little faster than we anticipated. But again, it's not a bad thing for the model. It comes with these reserve buildups that Brian talked about and can talk about more.

We believe that it will come with a removal of the headwind on GMV originations. The unknown for us is does it happen simultaneously or is there a quarter or two lag or a few months lag. So, we're watching that and we're putting together--we've got our plans and will update you all on our '22 views in February. But overall, as we've said, normal is a more stable and predictable operating environment for us versus this pandemic over the last 18 months.

Kyle Joseph
Got it. Yes, and then on a follow-up to that, you talk about normalization but also talk about sort of consumer goods inflation prices and the demand for leases. In this sort of environment with higher costs, are you seeing--would you expect to see greater demand for essentially credit?

Steve Michaels
I think the short answer is yes. Inflation cuts both ways, right? So, what you just said is definitely a factor in that. To the extent that big-ticket consumer durables get a little more expensive, the need for flexible payment options should increase. On the flipside, we're watching the portfolio performance because our customers are probably exposed to higher gas prices and food prices and rent prices.

And so, it's a little bit of a double-edged sword. But from a demand on the front side, I think it is a slight help. And then we feel confident that we have the ability to decision and manage the portfolio to compensate for the other side.

Kyle Joseph
Got it. And one last one for me. 2021, I'd be remiss if I didn't ask about BNPL. Can you talk about how that's kind of impacting the waterfall at retailers as well as the pipeline?

Steve Michaels
Yes, I think it continues to be, as we've talked about before--and when I'm referring to BNPL, I'm specifically--well, I'm for the most part talking about the pay in four products on the left end of the spectrum. I know BNPL kind of gets broadly used as a term. But when you talk about the pay in four products, we continue think it's a compliment to our lease to own product, not a competitor, not only from average order size but also from the profile of the consumer.

When you go out to the other end of the spectrum, the longer term installment loans, they're not really active in the subprime space. So, from an education of the retailer standpoint, it's a positive thing because the retailer sees the power of the fully developed finance stack in offering all the payment options to the customers to widen the top of their funnel.

We've talked a little bit about somewhat of a headwind in that it could take some mind share and some IT prioritization if they prioritize a pay in four product in front of an LTO initiative. But I think the farther we get into that, the less that will be because pretty much everybody is talking to a BNPL provider.

Kyle Joseph
Appreciate it. Thanks for answering all my questions.

Steve Michaels
Thanks, Kyle.

Operator
Our next question comes from Jason Haas with Bank of America. Please go ahead.

Jason Haas
Hey, good morning, and thanks for taking my questions. I'm curious about the performance at your key large national retail partners. It sounds like that was a source of strength during the quarter, so I'm curious if you could talk about what was driving that.

Steve Michaels
Yes. Thanks, Jason. Good morning. I guess without getting specific, we just continue to have great partnership with our large partners, and we still are excited about being in the early innings. So, as we've talked about on previous quarters, we've had good luck and an increasing appetite for collaborative marketing and just partnering well and continuing to innovate the product and make it easier and more frictionless.

And so, we've still got work to do and we'll continue to partner with those retailers to do that. But I think as we would have expected and as we've seen in the past, it's just at a bigger scale. The more you get in, the more kind of comfort that you have. In years two and three, etc., you build that credibility with that retail partner and they're happy to take your suggestions, maybe more so than they were in the first couple quarters.

So, we're excited about the GMV production. We look forward to a great holiday season. We've got a good roadmap of product innovations that would be very specific to a retailer to help with not only the application funnel but also the conversion funnel. And those retailers would be--like I said, it's kind of still in the early innings, which is exciting for us.

Jason Haas
That's great to hear. And then you mentioned the supply chain shortages, which have been very topical lately, so I'm curious to what extent that impacted GMV within the quarter. And then I'm curious about your visibility as we look out into 4Q and just if you have an expectation as to whether those shortages could be more impactful or less impactful, just given your guidance for the acceleration. But I think a lot of people expect that those could worsen, so I'm curious, yes, to what extent that's a potential risk.

Steve Michaels
Yes. Definitely there is impact. There's no question. It's difficult for us. We talk to our retailers every day, obviously, and so we know and we have a good feel for where they are from an inventory position. We've talked in the past about inventory shortages may not even show up in the comps of that retailer, but it could show up in the balance of--or the composition of their sales in that it tacks more towards cash purchases or personal credit cards versus in-store payment options.

And so, it could be masked a little bit that they've got--they still have good sales and they're selling what they've got, but it's being sold on deposit before it even lands and we don't even get the at-bat. Having said that, the Q3 numbers that we printed from a GMV standpoint were in line with our expectations that we laid out at the end of July. And we still believe that we have the ability to accelerate GMV growth into Q4 and hit our mid to high teens GMV number even facing the pressures of the supply chain. I wouldn't speak to specific retailers' plans or confidence on being in stock during the holidays, but that certainly--it will have an impact on us. There's no question.

Jason Haas
Got it. That makes sense. Thanks.

Operator
Our next question comes from Bobby Griffin with Raymond James. Please go ahead.

Alessandra Jimenez
Good morning. This is Alessandra Jimenez on for Bobby Griffin. Thank you for taking our questions. First, I wanted to dive in a bit further into the strong e-commerce GMV growth in the quarter. What was the larger driver of the e-commerce GMV growth, existing customers or some of the new programs you have been working on and recently launched, including the plug-and-play platform?

Steve Michaels
Yes, thank you for the question. E-commerce continues to be an exciting growth channel for us, and I really feel like we're just scratching the surface. The specific--the answer to your specific question is while we are excited about the e-commerce plug-ins, the Salesforce Commerce Cloud, the WooCommerce, Magento 2, that's the smaller portion., and those things will help us to grow e-com GMV in the future quarters and in years to come.

But the majority of our e-com penetration and growth is still coming from our larger retail partners. But we are really excited about the opportunity to partner with the thousands and thousands of retailers that are using these leading e-com platforms that we have the capabilities to have plug-and-play optionality with.

Alessandra Jimenez
Okay, that's helpful. And then what impact do you believe the child tax credit had on your business? And did you see lower 90 day options across the retail accounts or only at larger accounts?

Steve Michaels
Yes, the child tax credit has been a difficult one to see, which is not the same case in other types forms of stimulus that we've observed, whether it be just tax season generally before the pandemic or the various rounds of stimulus during the pandemic. So, we haven't really seen an impact from child tax credit. We haven't seen--we have actually seen a decline in our 90 day buyout options, which was in your question. It's pretty much across the board. It's not retailer specific. And we would have expected that as we talked about portfolio normalization.

I can't sit here and say that the child tax credit, a monthly check, has hurt. It certainly--I don't think it could have hurt, but there's a lot of noise and a lot of ingredients in the mixing bowl. And when we look at the portfolio performance and it's trending back towards more normalization, that's in the face of some of our customers still receiving these monthly checks. And so, it's very difficult to see the direct impact from that monthly income.

Alessandra Jimenez
Understood. Thank you and best of luck on the balance of the year.

Steve Michaels
Thank you.

Operator
Our next question comes from Brad Thomas with KeyBanc Capital Markets. Please go ahead.

Brad Thomas
Hi. Good morning. Thanks for taking my question. I was hoping you could just remind us a little bit about how you all think about seasonality for write-offs for the fourth quarter. Obviously, last year was an unusual year. How do you normally see it trending for Progressive for the fourth quarter, and how are you thinking about it for this year?

Brian Garner
Yes. Hey, this is Brian. Typically, Q4 represents the lowest write-off percentage in the calendar year. I think there's dynamics happening, as Steve mentioned, with portfolio normalization and the reserve build up that will--while I still expect us to be at or below that 6% to 8% range, it's perhaps not as low as we would typically see.

And so, we'll be fairly close to the line with where we've been at an Q4 of, say, '18 and '19, for example. But the reserve build up is muting a bit of the performance, the lower than typical write-offs that we are experiencing as we trend back towards normal, if that makes sense.

Steve Michaels
And Brad, Brian gave those numbers, and I don't want to misspeak, so what were they for Q4 of '18 and '19?

Brian Garner
Q4 of 18 was 5.8% and Q4 was 6.6%.

Brad Thomas
Okay, great. So, just to be clear, you are expecting it to go up sequentially from the 5.4% as well as year-over-year?

Brian Garner
Yes, that's kind of the needle I'm threading, up from the 5.4% and then somewhere close to where we've been historically, even though we are dealing with this reserve build up and factoring into that.

Brad Thomas
Very helpful. And just as we think about your decisioning trends and underwriting trends, as you think about approval rates and things like that, do you feel like you're able to keep those in line, or are you in a position where you have been or may need to be doing some tightening with your decisioning? How should we think about that?

Steve Michaels
Yes. Hey, Brad, this is Steve. No, decisioning--well, first of all, we're constantly evaluating and tweaking and adjusting decisioning. The team is just really dialed in. As we've talked about over the last several quarters, we are in a current posture of having slightly higher approval rates than we had pre-pandemic after, obviously, tightening during the pandemic that we've talked about quite a bit.

But those higher approval rates come with some other changes, which are a changing retailer composition with the addition of some of the retailers that we've had over the last several years, along with a continually increasing repeat customer composition. And so, I wouldn't say that higher approval rates are necessarily a more aggressive decisioning posture. It's almost an output of what we see coming in the top of the funnel.

And so, we look at early indicators. We look at all these metrics at the seven days, 14 days, 30 days, and overall pool performance and constantly have our finger on the scale. But those indicators are telling us that the pool performance is in line with our expectations while trending back towards pre-pandemic, which we don't think is a bad thing. It's in line with our expectations. And so, while I would never rule out doing some tightening, it's not something that we feel like we have to do right now to manage the business within that 6% to 8% annual range where we were comfortably within before the pandemic.

Brad Thomas
That's really helpful. And if I can ask one more, Steve, just about the conversations that you're having with retailers, really more your existing partners. It seems to me that during the pandemic retailers had many things that they were focused on, and I don't think pushing Progressive was high on their list has been my own observation. As you have conversations with them in a more normal world, are you seeing them take more tools from the toolkit of Progressive, or should we be seeing more creative promotions, more advertising, more training? What other tidbits can you share with us about retailers re-engaging more with Progressive here?

Steve Michaels

Yes. No, it's a very--it's an interesting dynamic. And you're right. When a retailer is printing 20% comps, they're not all that interested in talking to you, even an existing retailer, to your point.

But, yes, we have seen as this year has progressed--and it's a function of a couple things, not only the desire to continue to drive incremental business and comps, but also the comfort with our team and with our program. And so, yes, we are seeing retailers across the board, not just newly on-boarded retailers, but ones we may have had for a number of years, and maybe they had some management change, but we're seeing retailers reach for, as I like to call it and you validated, our toolkit.

And that does include promotional campaigns that are digital in nature with email, but also the old-fashioned direct mail cobranded. And we've actually had--without naming names, we've had at least two major retailers for the first time in our relationship in 2021 agree to kind of do a cobranded, where it's their logo and the Progressive Leasing logo on the same collateral material.

And that's an exciting kind of inflection point for us, because we know that that means that we've got a lot of opportunity for future promotional campaigns once they've kind of made that internal decision. So, we're excited about that. We think that partially will help us with our acceleration of GMV in Q4, but it'll continue to pay dividends in the future periods as well.

Brad Thomas
That's great. Thanks so much, Steve.

Steve Michaels
Thanks, Brad.

Operator
Our next question comes from Vincent Caintic with Stephens. Please go ahead.

Vincent Caintic
Hey, thanks. Good morning. Thanks for taking my questions. First, just kind of a guidance question. And I know we'll be getting '22 guidance in February, but just kind of based on the fourth quarter. So, it seems like everything has kind of normalized. Let's say the write-offs are back to 6%. When I calculate the EBITDA margin, it seems like fourth quarter is going to be 12% by the guide. And GMV is growing 5% year-over-year, if I've got my math correctly. I'm just kind of wondering if the fourth quarter has anything unusual with any of these metrics or if it's kind of a good jumping off point as we're looking to update our estimates for go-forward. Thank you.

Steve Michaels
Yes, Vincent, I'll start and then Brian can chime in. I guess I just had a--and not to answer a question with a question, but I think you said that GMV was implied to grow at 5% in Q4 if you had your math right. Is that what you said?

Vincent Caintic
Yes, I think so. I might have to redo that, but please correct me if I'm wrong.

Steve Michaels
Yes, we're year-to-date 15% GMV growth, and we're guiding to a mid to high teens. So, I think you just have to maintain that type of a growth rate in order to maintain the mid to high teens.

So, it wouldn't be 5%. We're not guiding to the number, but I just wanted to make sure that--it wouldn't be 5%.

Vincent Caintic
Got you. Thank you.

Steve Michaels
So, Brian, on the guide?

Brian Garner
Yes. Vincent, a couple things with respect to Q4 and I think as we position ourselves into 2022, the metrics that we're watching here. I think first the growth of the portfolio is very encouraging, as we've seen that acceleration from a decline in Q1 accelerating into Q2, and then here into Q3. And as I mentioned in my prepared remarks, we expect it to accelerate again. So, that's our launching point, and so that portfolio, which you'll see on the balance sheet is gross leased assets, is in a good position as we look to exit the year.

The other piece that I would draw you to as you think about the undercurrents within the financials and the trends that are happening, Steve's exactly right. The reserves that really saw a significant decline in the back half of last year into the front half of this year is customer paying performance was extremely strong and just did not necessitate the reserves that we had on the books so we began to bring them down. And inevitably, we knew at a future point, as the portfolio normalized, we were going to have to rebuild those reserves. And whether that occurred this year or next year, that was an eventuality that just was going to happen.

And so, the pull forward of that dynamic into this year, while it's certainly caused us to take a look at our outlook in a different light for this year, I think without getting into 2022 results, again, that was something that was forecasted to happen anyway.

And so, those of the main undercurrents that I see as we exit the year, and I think it bodes well for a 2022 picture and the GMV growth that Steve is talking about accelerating into Q4. So, I think there's a lot to be optimistic about with respect to the financial movement and the write-offs staying in check at 6% to 8%. All the early indicators that we are watching in terms of early stages of delinquency, etc., while they're moving up, they're not outside of what we would typically expect. It's just happening a bit sooner. Hopefully that answers your questions.

Vincent Caintic
Okay. Yes, that is really helpful. Thank you. And it's not like--I guess when you think about your underwriting or your credit box, it's not like you are changing that all through this entire process. Am I right that that's been fairly consistent actually throughout the pandemic and as we're going into fourth quarter?

Steve Michaels
Well, Vincent, from a decisioning standpoint, we tightened at the onset of the pandemic, as we've talked about. But we rolled back some of that tightening starting in the fall of 2020 into the spring of 2021, and we've been pretty consistent for, call it, the last six months or so around our decisioning box. And so, yes, nothing's really--the dials are not--as I said, we're constantly evaluating the dials and we have our finger on the dial, but they're not really being tweaked that much in the last couple quarters.

Vincent Caintic

Okay, perfect. Thank you. And the next question, so was very nice to see the large share buyback and the capital returned and putting your free cash to work. And I'm just wondering if you can remind us what is the free cash flow generation of the company, and when you look at the different avenues that you can use that for, what your priorities are for this particular $1 billion share buyback. I know you talked about it in your prepared remarks, but maybe if you can go about in more detail, how much debt do you expect to raise to fund the share buybacks, and what do you expect your capital structure to look like going forward? Thank you.

Steve Michaels
Yes. Thanks, Vincent. Since the spin last year, which is almost a year ago, the board--we have been really focused on capital allocation. And I've acknowledged in the past that our net cash position was not the most efficient capital structure, and we were looking for evaluating ways and opportunities to deploy capital very prudently and judiciously.

And as a reminder, our capital priorities are to invest in organic growth, reinvest in ourselves and reinvest in our business. And we're fortunate that the business has a great cash flow profile and can self-fund at pretty high growth rates, far in excess of where we're growing now.

And so, kind of when you check the box and say, okay, well, organic growth is--there's plenty of capital for that. Then you look to opportunistic and strategic M&A, and we've talked about that and how that we're looking for platforms and tech and capabilities and extensions of our current products. And then the third thing would be to return excess capital shareholders.

And so, that's been the framework, and we announced the $300 million authorization to repurchase shares that the board authorized in February. We've been executing against that to the tune of $128 million year-to-date. Based on our average daily trading volume, it's more difficult to do open market purchases and get an aggressive amount of shares back in. So, that's one of the reasons that we look to do the tender that we're planning to launch tomorrow.

As we sit here on 9/30, we still have net cash. So, we would look to raise some debt to execute on this tender. We haven't said what form or how we're going to do that. We look forward to updating you all fairly soon on that. But as you can imagine, we're in a great position because the balance sheet's strong, business model's strong, and the credit markets are pretty attractive right now. We've got a great supportive bank group.

So, the pro rata market is open, but also the public debt capital markets are available and attractive, and we look to take advantage of that environment and those rates and put some leverage on the balance sheet. We're not focused on the $1 billion right now. We're focused on executing on the tender, the $425 million tender that we'll launch, that we intend to launch tomorrow. But I've also said in the past that we're comfortable kind of in a net leverage range of 1 to 1.5 times, which is a decent number from where we are today.

But having said that, we'll constantly run a strong balance sheet with a conservative structure for the reasons I outlined in my prepared remarks, which are the fact that we want to project strength to current and existing and future prospective retail partners.

Brian Garner
Yes. And Vincent, with respect to free cash flow, year-to-date $295 million cash flow from operations, and then you can adjust when you look at that for capital expenditures, which are pretty nominal, generally speaking. So, that gives you a sense of the cash generation power the business.

Obviously, it's been a bit elevated in the first half because of the stimulus environment. But I think going forward--and that's taking into account, I think, meaningful investments that we've made into our organic growth. So, going forward, I think we're on a very strong footing for optionality.

Vincent Caintic
Great, very helpful. Thanks very much.

Operator
Our next question is a follow-up from Anthony Chukumba with Loop Capital Markets. Please go ahead.

Anthony Chukumba
Thanks for taking my question and allowing me to double dip. So, I just wanted to get your thoughts on last week's announcement of the FirstCash acquisition of American First Finance. I guess two question somewhat related. What are your thoughts just in terms of what the impact will be from a competitive landscape perspective from that deal? And then also, what do you think that that deal says about the current valuation of your stack, right? Because that deal was done at nine times their 2022 EBITDA estimate, 11 times if you assume the earn out. So, how do you think about where your stack is? Or maybe that's part of why you did the tender offer. Would love to just get your thoughts. Thanks.

Steve Michaels
Yes. Thanks, Anthony. I would be consistent in that I think it's positive for the industry that our private competitors become part of public companies. And I think that helps us from a industry standpoint, from a profile standpoint, from a competitive standpoint, from a compliance standpoint, all of the above. So, I view the transaction as positive in that regard.

I've talked about how it's somewhat difficult to compete against the private companies that have single shareholders that might not have the same guardrails or even margin expectations. So, I think it's a positive thing, and I think that being under a public company and having that infrastructure will be positive.

From a valuation standpoint, well, first of all, FirstCash is not a pure play VLTO player, right? They've got--a decent size of their business is kind of high APR installment loans, so it's got a little bit of a different--I'm sorry, not FirstCash, American First Finance, AFF, a little bit of a different profile from a valuation standpoint. But clearly, we believe we're undervalued and we're not commanding the multiple that this business profile should command.

Eleven times, I'm not sure exactly what the earn out is, but an 11 times EV to EBITDA multiple for AFF, sitting where we're sitting, we believe that we should have a higher multiple than that because we don't have that larger percentage that's in a different business segment. And that's one of the reasons why we feel like these levels are so attractive for us to really use other vehicles to execute against a share repurchase program and be able to get more aggressive. And so, I think it's a good thing net-net for the industry, and hopefully the valuations will continue to tick up.

Anthony Chukumba
Got it. Thank you.

Operator
Our next question comes from Hal Goetsch with Loop Capital Markets. Please go ahead.

Hal Goetsch
Okay, thank you. There's a shift in the market taking place where FinTechs like buy now, pay later providers are becoming the channel or becoming the funnel for customer acquisition. And you just mentioned this chance to co-brand with some of your customers. I was wondering if this market's heading toward maybe even more like if you visited the website of a firm or a quad pay where they literally profile all the merchants that you can use their financing with, and they link them from the financing option first back to the retailer. Like to get your thoughts on the where that might be in your playbook over the long run. Thank you.

Steve Michaels
Yes. Thank you. Listen, there's a couple--I guess a couple thoughts on that. One is our retail partners are a great customer acquisition channel for us, but also we--and every time we add a new logo into our preferred partner network, it's kind of a virtuous cycle for the retailers because we continue to have higher or increased repeat business. We've got an engaged customer on our digital channels, and we can use that to direct them back into our preferred partner network.

And so, we've talked about a direct to consumer motion in the past, which is similar to what you're talking about. But as we can attract consumers and say, hey, here is where we're accepted through Vive, Four, and Progressive Leasing and direct them into our retail partner channels, it helps us not only grow GMV for both us and our retailers, but also helps us in our discussions with our retailers, saying that we're not just riding on their marketing rails but we're also driving incremental business into their ecosystem and into their environment. And so, certainly this network effect that you're referring to is front of our minds and something that we're leaning into.

Hal Goetsch
Great. Thank you very much.

Operator
This concludes our question and answer session. I would like to turn the conference back over to Steve Michaels for any closing remarks.

CONCLUSION

Steve Michaels
Yes. Thank you very much. Thank you all for joining us today. We appreciate your interest and support in PROG Holdings. We look forward to launching this tender offer tomorrow and updating you all during that process, and also updating you in February on the next quarter and our view of 2022. So, thanks very much.

Operator
The conference has now concluded. Thank you for your attending today's presentation. You may now disconnect.