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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the PROG Holdings First Quarter Earnings Conference Call. (Operator Instructions)

At this time, I would like to turn the conference over to Mr. John Baugh, Vice President of Investor Relations. Mr. Baugh, you may begin.

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

Thank you, and good morning, everyone. Welcome to the PROG Holdings' First 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 expectations related to the range of 2023 write-offs, resulting from our lease decisioning posture, our GMV, gross lease assets balance, and levels of 90-day buyouts in future periods, the strength of our balance sheet and our capital allocation priorities and our revised outlook for the 2023 full year, as well as our outlook for the second 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 provide 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 joining us as we report our first quarter results, share our thoughts on a few important Q2 metrics, and provide an update on our 2023 full-year financial outlook. We had an excellent first quarter, meeting our expectations for GMV and net revenues. We also materially exceeded our earnings expectations due to lower 90-day buyouts, better-than-expected customer payment behavior and continued portfolio management.

Last 36 months have presented unprecedented challenges, but I'm proud of our team's efforts in overcoming these obstacles to deliver such strong results. Our actions to improve portfolio performance and right-size costs in Q2 of last year continue to benefit us, as evidenced by our year-over-year gross margin expansion, improved write-offs of 6%, and SG&A leverage. Despite consolidated revenues declining 8%, we still grew our adjusted EBITDA by $25 million, or 39% from a 13.7% margin, and our non-GAAP EPS by 94.7% as compared to the first quarter of 2022.

This great start to the year has led us to significantly raise our full-year earnings outlook. While we were pleased with our strong first quarter results, there were factors contributing to our outperformance that may not carry forward, which Brian will discuss in more detail. Still, our first quarter demonstrates our ability to manage our business with healthy returns despite a persistent macroeconomic backdrop of inflationary pressures, economic instability and strained customer liquidity.

We remain cautiously optimistic about our portfolio health and gross margin. And while we are prepared to optimize our decisioning to shifts in the economic environment, we believe that our current decisioning positions us to deliver another year within our targeted annual 6% to 8% write-off range, which is a key goal post.

Turning to our GMV. The double-digit declines over the past 3 quarters are largely a byproduct of tighter decisioning we implemented in Q2 of last year. We believe that those decisioning changes have accounted for approximately two-thirds of the pressure we have experienced in GMV over the past 3 quarters. In terms of GMV outlook, we expect our second quarter GMV to decline at a similar rate to Q1 on a year-over-year basis due to our current decisioning posture, though we expect these difficult comparisons to ease in the back half of the year as we fully lap the introduction of last year's decisioning changes.

Soft retail demand continues for big-ticket consumer durables in many of our leasable product categories, with data showing that this slowing demand is primarily due to our consumer base, redirecting more of their income to essentials in response to the liquidity pressures. We have seen no indicators leading us to assume that retail sales will materially rebound through the balance of 2023. We have very recently begun to see evidence that credit providers above us are starting to tighten their underwriting.

The recent challenges in the banking sector that developed late in Q1 further speaks to the likelihood that credit providers will increasingly look to restrict the level of funding that fuel consumer borrowing for most of the past decade. Delinquencies that we track for prime lenders are moving higher, albeit in many cases, still below pre-pandemic levels. While we believe the credit supply is becoming more restricted, there may be some delay as to when it will impact consumers. Because it is still too early to predict the timing of this potential tailwind for our business, we have not assumed any benefit to our GMV for the balance of 2023. We continue to closely track the overall quality of our applicant pools and only very recently, have we started to see improvements in the top quintile.

Moving on to profitability. We expect to maintain our strong portfolio performance and our ability to deliver healthy margins in our core leasing business despite the outlook for our revenues to decline near term. The tighter decisioning posture we took in Q2 of last year helped the portfolio recover, with leases originated in the second half of the year performing on par with pre-pandemic levels. Because of our short duration portfolio, leases originated in the first half of 2022 now represent an immaterial portion of our remaining active leases.

In February, we elaborated on our 3 key strategic pillars: Grow, Enhance and Expand. We believe our strong profitability and balance sheet will allow us to continue to make selective growth investments that position us to capitalize on market share gains in the near term, while capturing more of our addressable market in the long term. For example, those investments will allow us to continue to build and enhance our technologies for an evolving consumer that we know better than anyone after more than 20 years as a VLTO leader.

Today, roughly two-thirds of our customers are millennial or Gen Z, groups that have shown a more omnichannel approach, vacillating between online and in-store when researching and making key purchases. We also know these demographics interact with their personal finances differently than previous generations, adopting emerging products and technologies as part of their personal financial solutions.

As a result, today's consumers have come to expect more flexibility and control over their payment options, especially for larger ticket items. We continue to address this demand by enhancing and developing products that offer a more frictionless omnichannel customer journey while simultaneously providing consumers with the educational tools, price discovery, and disclosure transparency they need to help them make the best and most informed choices.

We also continue to invest in further integration with existing retail partners while converting new lease-to-own pipeline opportunities, as we believe these actions will benefit all stakeholders long term, even with the challenging revenue backdrop in 2023.

E-commerce integrations with new and existing partners remain a key focus, and the pace of our efforts in this area has accelerated, as we continue to enhance and innovate technologies that offer retailers flexible, customizable and secure ways to add LTO to their online checkouts. While e-commerce GMV in Q1 was down year-over-year, that decline was less than what we saw for comparable in-store results, and e-commerce as a percentage of total Progressive Leasing GMV continued to grow, coming in 100 basis points higher than the same period last year.

Additional key technology initiatives that were completed within the quarter include enhancements to decrease the time it takes customers to complete an LTO transaction, optimizations to the customer and retailer experience, and updates to payment and lease systems. While Brian will provide more detail on the upward revision to our earnings outlook for the year, I'd like to summarize a few key themes.

Our Q1 performance was stronger than we expected from a margin perspective, driven by materially low 90-day buyouts and better-than-expected customer payment behavior. Revenue at March from 90-day buy-outs was at a historic low, which we believe was driven by the average tax refund decrease of approximately 10% year-over-year. While this was a tailwind for Q1 gross margin, it will be important to monitor whether the low buy-out performance continues and how the portfolio performs with a lower percentage of customers executing buy-out options.

Should we see normal delinquency trends in the lease pools for the remainder of 2023, the lower 90-day buyouts we experience should be a positive impact to our financial results. However, should the decline in 90-day buyouts proven to be a leading indicator of stress on our customers and portfolio performance, we may experience higher delinquencies, which could prompt us to tighten our decisioning.

Onto the topic of capital allocation, we purchased $36.5 million in shares during the first quarter, representing 3% of our outstanding stock. We also generated $157.4 million in cash flow from operations, further illustrating our ability to show financial strength in an unstable economic environment. Our capital allocation priorities remain unchanged, and we expect to continue to fund growth, look for strategic M&A opportunities, and return excess cash to shareholders, primarily through share repurchases.

In close, I want to emphasize that our strong Q1 was a direct result of the hard work and strategic efforts that our teams have put in over the past several quarters. Our mission to create a better today and unlock the possibilities of tomorrow through financial empowerment remains at the core of how we operate, and we will continue to grow, enhance and expand to help improve the lives of our customers.

I will now turn the call over to our CFO, Brian Garner, for more details on our fourth quarter results and 2023 financial outlook. Brian?

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

Thank you, Steve, and good morning, everyone. I'd like to start by thanking our teams, retail partners, and customers for helping us deliver a strong quarter to start the year.

Our first quarter results highlight the resilience of our business model and teams in overcoming the macroeconomic headwinds, including inflationary pressures and the liquidity strains experienced by our consumer. Q1 2023 consolidated revenues declined 8% to $655 million. Consolidated adjusted EBITDA increased approximately 39% to $89.7 million in Q1 of 2023, from $64.6 million in Q1 of

2022, outperforming our expectations.

Our better-than-expected consolidated results were primarily driven by margin improvement and lower write-offs at our Progressive Leasing segment. Non-GAAP diluted EPS for Q1 of 2023 increased to $1.11, growing 94.7% from $0.57 in Q1 of 2022. Liquidity pressure on our customer, partially driven by tax refund checks that were approximately 10% lower on average compared to last year, resulted in a record low 90-day buyout activity in Q1, which is a headwind to current period revenue, but a benefit to gross margins.

Additionally, we experienced lower-than-expected charge-offs in the quarter due to our tightening efforts in Q2 of last year, which resulted in better payment performance, driving higher margins and increased profitability. For our Progressive Leasing segment, GMV decreased 17% to $418.7 million in Q1 of 2023 as compared to $504.5 million in Q1 of 2022, largely driven by our current decisioning posture, continued weak retail traffic, and the double-digit percentage decline in tax refunds.

Revenue in the period declined 8% year-over-year, driven by lower gross leased asset balance heading into Q1, softer GMV in the quarter, and a material decline in revenue from 90-day buyouts, partially offset by improved customer payment behavior. However, the segment's Q1 gross margins improved 340 basis points year-over-year to 31.7%, primarily due to the 90-day buyout activity in Q1 that reached record lows, and last year's decisioning actions that improved portfolio yield. While a 90-day buyout result is significantly lower gross margin than an average lease, it remains more beneficial to gross margin than most charge-offs. We still expect 90-day buyout activity to be lower year-over-year for the remainder of 2023, although the variance is expected to narrow over the course of the year.

Progressive Leasing's SG&A expense as a percentage of revenue declined to 11.9% in Q1 of 2023 from 12.4% in Q1 of 2022, while SG&A expense decreased $10 million year-over-year, primarily due to the cost actions in Q2 of last year. Progressive Leasing write-offs were $38.4 million, or 6% of revenues in Q1, down from 7.3% in the previous year's period. I continue to be encouraged by the trends we've seen thus far in 2023, and we remain on track to end the year within our targeted annual write-off range.

Looking at our balance sheet. We ended the quarter with $249.8 million in cash and gross debt of $600 million, resulting in a net leverage ratio of 1.24x our trailing 12-month adjusted EBITDA. In the first quarter, we purchased 1.46 million shares of our common stock at a weighted average price of $25, and have $300.8 million remaining under our previously authorized $1 billion share repurchase program.

I'd now like to touch on a few key aspects of our Q2 and revised full-year 2023 outlook, which were provided in this morning's earnings release.

Despite our strong first quarter results for adjusted EBITDA, we continue to experience headwinds on expected GMV due to economic and liquidity pressures felt by our consumers. As Steve mentioned, we expect the year-over-year percentage decline of our second quarter GMV to be roughly in line with our Q1 rate. This decline should lessen in the second half of 2023, as we compare against lower GMV year-over-year due to the timing decisions we implemented last year.

Our gross leased asset balance, which is a key driver of future period revenue, entered 2023 5.3% lower year-over-year, and ended the first quarter 8.3% lower year-over-year. This gross leased asset balance will likely decline further through the second quarter of 2023 due to the GMV decline, serving as a headwind to revenues in future periods. Our base case for the remainder of the year considers current consumer trends, but does not assume further economic downturn, a materially negative impact on the employment of our consumers, or a material benefit from tightening by providers above us in the credit stack.

Despite revenue headwinds, we anticipate that our lease portfolio performance and low 90-day buyout rates will continue to drive Progressive Leasing's margin improvement year-over-year. As a result, we are raising our full-year earnings outlook and slightly decreasing our expected revenues.

Our revised consolidated outlook for 2023 expects revenue in the range of $2.3 billion to $2.375 billion, adjusted EBITDA to be in the range of $235 million to $255 million, and non-GAAP EPS in the range of $2.50 to $2.77. This outlook assumes a difficult operating environment with continued soft demand for leasable consumer durable goods, no material changes in the company's decisioning posture, an effective tax rate for non-GAAP EPS of approximately 28% and no impact from additional share repurchases.

Finally, I would like to address how we're thinking about the strength of the first quarter and our increased earnings outlook as they pertain to the remainder of the year. While we are encouraged by the strong financial results that we achieved in Q1, we are cautious about the continuing headwinds on GMV, and expect margin pressures as we move throughout the year. Soft consumer demand trends we observed exiting Q1 and into April have caused us to adjust downward our expectations for GMV and revenue.

Our revised outlook assumes adjusted EBITDA margins for the remainder of the year that are lower than Q1 due to the dissipation of some of the 90-day buyout dynamic that benefited margins in Q1, an increase in run rate for SG&A costs due to wage inflation and specific initiatives targeting key technology platforms, and full-year write-offs within our targeted annual 6% to 8% range.

In short, we're optimistic about the 2023 prospects following our strong start to the year and remain committed to the disciplined decisioning and other strategic efforts that have helped us achieve those results as we look to capitalize on the positive momentum gained from our Q1 performance.

I will now turn the call back over to the operator for the Q&A portion of the call. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Kyle Joseph from Jefferies.

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

Good job navigating a difficult environment. Obviously, on the credit side of things, a lot of moving parts. You guys have your underwriting changes implemented last year, lower tax refunds this year. But just trying to get a sense for the health of the underlying consumer. Obviously, they are employees, but facing elevated expenses. Have they kind of adapted to this inflationary environment as we've been in for, going on a year now? But just kind of want to get that sense for some of the dynamics that played out in the quarter given some of the moving parts.

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

Yes. Thanks, Kyle. Good morning, this is Steve. There's certainly a lot there. We did, as you mentioned, make our decisioning changes throughout Q2 of last year, and the portfolio has responded nicely and as expected to those changes. Underlying that is the consumers and the customers that we were approving and having funded GMV, were performing per our expectations, which, as you know, we track kind of against the pre-pandemic pool performance because we have history that those pools delivered our portfolio performance within our targeted ranges.

So throughout the back half of '22, we saw that performance and that the portfolio turned over due to our short duration leases. It was reflected in the metrics that we provide externally. Q1 was an interesting story, right? We saw, from a portfolio performance standpoint, similar trends as expected, although slightly better than expected from a customer payment behavior standpoint. The wildcard was the tax refund what we believe was driven by the tax refund season. We expected it to be lower. And as many of you all report fairly frequently, it did come in lower. We built that into our original outlook as it related to some pressure on GMV just kind of on the origination side.

What we saw -- and it's not a perfect read through, but it's our -- just our experience and our history dictates this or leads us to believe that this driver is that those lower refunds were the primary driver of a materially lower 90-day buyout activity by our consumer. And as Brian and I both said in our prepared remarks, that resulted in higher gross margin than we were anticipating and that we have seen in previous tax refund seasons. The question that is -- remains to play out is why did the 90-buyouts react so materially lower? Was it due to some new set of stress on the consumer that caused them to not have a liquidity to do the 90-day buyout?

And while we're in this kind of interesting situation right now, where we had lower 90-day buyouts, which was a tailwind to margin, yet our delinquency picture is still in good shape. Will that persist? And we need a few more cycles of data that come through to convince us that it will persist because it's -- we believe it's naive to think that someone who did a 90-day or would have done a 90-day and wasn't able to is just going to magically march on to be a full margin lease. There's going to be some other stress and dispositions throughout that customer's life cycle that didn't do the 90 day. So that remains to play out. So it's still a little bit of a mixed bag. We had strong performance in Q1. If that persists, we're going to have some tailwinds to margin throughout the balance of the year. We're anticipating that customer payment performance -- outperformance to dissipate.

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

That's really helpful clarification. And then just one follow-up for me. I know you guys talked to a lot of retail partners and just want to get the sense for, I guess, first, kind of their take in terms of the potential for demand to recover. Do we have any precedents? Do we have to go back and look at the 70s and see how long it took for kind of consumer durables to recover? And then in this more challenging environment, have you seen a greater desire to add the products from new retailers?

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

Yes. I've been in the business a long time but not since '70s. But yes, we definitely talk to our retailers very frequently, as you can imagine. And it's one of the benefits of us having the large enterprise retail partners. They have sophisticated shops. And obviously, we're not going to out them on what they say and what they tell us. But it's a challenging environment out there. And as Brian said in his prepared remarks, we saw some weakness really exiting March and into April. And I would not make a direct correlation between SVB and the banking crisis to our consumer because I'm not sure they're impacted by that. But something from an animal spirit/consumer confidence happened, and we saw some weakness coming out of Q1 and into the first few weeks in April. So as we alluded to, we've got the lapping of our decisioning changes here towards the end of Q2. So, that will be a removal of the headwinds. But it continues to be a challenged demand environment for our retailers and then ultimately for us.

Operator

Our next question or comment comes from the line of Brad Thomas from KeyBanc.

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

And a nice execution here. Let me add my complements. Wanted to ask first about the gross margin outlook. Even though they were lower refund [tax base] on year-over-year and year-over-year, that reduced early buyouts. I know that 1Q is usually the big quarter for that. So as I look out at the balance of the year, it does look like there's a pretty good outlook here for gross margin. Maybe you could just talk a little bit more about how you're thinking about that?

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

Brad, I can take that. Yes, I think that's driven by primarily by our assumptions around how these customers behave. Those that did not take the 90-day here in Q1 and ultimately, the dispositions that they work towards, we expect to be a more favorable mix. Based on what we're seeing thus far and where our delinquency profile is sitting, we're more optimistic around those customers who elected not to do a 90-day to go into an outcome that is favorable to gross margins. And so we've incorporated that into our guide, and that's what you're seeing in terms of the -- I think the trends that are reflected and the favorable gross margin trends going forward. So we'll see what happens. Obviously, this is -- the model is very sensitive to consumer behavior and what they elect to do, but based on everything we're seeing right now, delinquencies are holding, I would say, within our comfortable balance.

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

That's really helpful, Brian. And then, Steve, I'd just be curious little more color. As you're talking to your retail company customers, many of which are dealing with the declines in sales right now coming off of tough pandemic comparisons. I guess, what do they need most from Progressive here right now? And how do you think about maybe the opportunity to get more share of wallet with them?

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

Yes. Thanks, Brad. Yes, I mean, it continued -- it existed in 2022 and it continues into this year, our partnering well with the retailers that are currently in our preferred partner network and them reaching, as we've discussed before, for more tools in the tool belt. And so what they need from us, obviously, is for us to drive more traffic to them and also save more sales and convert more traffic and ultimately, increase their sales and return on ad spend. And the way we can do that is by making these payment types in progressive, more visible within their environment, whether it's on the site or in the store, easier for the consumer to do business with Progressive, also increased training efforts for the retail sales associates in the retailers in-store environment.

So all of the -- whether it be point of purchase material for awareness, whether it be direct co-branded marketing with Progressive and the retailer, whether it be a PROG Partner week, or a PROG Perk Week as we call it, where we have daily deals sponsored by various partners. Those things are things that we can do that may not take a lot of tech lift. And then on the other end of the spectrum, or a sliding scale, I should say, are other things like waterfalls and transactional e-com carts and better placement on product display pages online and those things. We're also seeing a lot of appetite from our retailers to partner with us and pull those levers to help save more sales for them. So, we're encouraged by the partnership that we've had, and we believe that these -- this set of -- this environment will allow us to come out of this environment with much deeper integrations with our existing partners and kind of be a springboard for growth when that underlying demand returns.

Operator

Our next question or comment comes from the line of Anthony Chukumba from Loop Capital.

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

And great job on the pronunciation of my last name. So, I guess my first question. So, you talked about the fact that you started tightening in the back half of last year and given the short duration of your leases, most of those sort of pre-tightening leases are pretty much gone by this point. So would that imply then that your lease merchandise write-off rate for the remainder of this year? I know you're saying it's going to be in that 6% to 8% range, but that would imply to me that it should be everything else being equal toward the low end of that range, right? I mean I guess, am I thinking about that the right way?

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

I mean I guess where I'd point you towards -- Anthony, it's Brian, is what we've been targeting towards in our decisioning efforts is really trying to get back to pre-pandemic level of performance in terms of our last point of normal. And as you saw during those periods, we were kind of in the midpoint of that 6% to 8% range. And so, really, that's our target. I don't want to overpromise on the low end. Here, we saw a base 6% here in Q1, which is great. But seasonally, what you would expect is a sequential step-up in Q2 and Q3, just as you get further away from tax season and you experience perhaps just more strain on the consumer, the further away you get from tax season. Q4 tends to be the lowest write-off rate seasonally. So, I would just caution you about taking Q1 and stating that as a run rate and make sure we incorporate the seasonality there. Again, we're really trying to get back to -- within the range of reasonableness that we saw pre-pandemic.

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

Got it. Fair enough. And then just a quick follow-up. Obviously, you increased your earnings guidance and GMV will remain pressured for the reasons that you mentioned. So that would imply that -- and I know you didn't give free cash flow guidance, but that would imply that you'll have incredibly strong free cash flow this year and your leverage is at 1.2x. So, I guess how should we think about capital allocation for the remainder of this year? I mean, is it a reasonable assumption that you'll -- I know you're not building to your guidance, but is it a reasonable assumption that you could at least potentially step up your share repurchases given those free cash flow dynamics?

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

Yes, Anthony. I mean, you nailed kind of the variables. We talked about our capital allocation. We're able to fund growth with internally generated cash. Our history has shown that we figure our repurchases of our stock as the way to return capital to shareholders. We will have good free cash flow generation this year. A reminder, there's a little bit of seasonality on that as well, where we will generate -- we will likely generate more than 100% of our annual free cash flow in the first 6 months of the year just because of the seasonality of GMV. Even in a declining GMV environment, the dollars of GMV will be higher in Q4. And we also look at that through the lens of our net leverage ratio, and we're in a comfortable spot at 1.24x as of 3/31. But we look at that over the course of a 12-month period, and it's probably going to tick up a little bit just because of the use of cash in the back half for GMV funding, as well as some seasonality on the EBITDA. But having said all that, should the equity remain in these price ranges that we deem attractive, that has been our preferred vehicle and I would expect it to continue to be.

Operator

Our next question or comment comes from the line of Bobby Griffin from Raymond James.

Robert Kenneth Griffin ***Raymond James & Associates, Inc., Research Division - Director***

I guess, Steve, I want to first circle back on GMV. I think in your prepared remarks, you mentioned that 2/3 of the decline was driven by your internal leasing decisions. I want to maybe see if you could unpack that a little. Does that mean you're seeing outflow in kind of "demand" to use the product stronger than what the GMV trends that we're seeing on a reported basis are? Or how exactly are you kind of getting at that figure?

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

Yes. I mean we do -- we analyze all of our channel metrics, top funnel, mid-funnel, bottom funnel source, whether it be online or in-store. We even try and parse out whether it's from someone's phone while they're in the store, and we analyze all of those outflows. So, we can look at our apps by channel and then kind of just follow it down the funnel and say, okay, well, your approval rate is x, whereas same period last year it was y. Conversion has done this or that, and average ticket has changed this or that. So, that's how we get to kind of the rough 2/3 analysis of the GMV pressure was from effectively in simplistic terms, just lower approval rates. There's a lot of moving parts as was implied in your question, but that is the driving factor.

And so as we turn the page into the back half of this year, we will be on a neutral footing, all things being equal, as it relates to decisioning. And so then it will be more of an app in underlying retail demand story. But as I've talked about before, we stand ready to potentially loosen approval rates if the data warrant. Or if we see additional stress in the data, we also have a series of adjustments at the ready if we had to tighten additionally. But all other things being equal, that headwind will go away in the back half.

Robert Kenneth Griffin ***Raymond James & Associates, Inc., Research Division - Director***

Okay. Yes. And I guess that was going to be my second part of the question. I guess with that, that would imply that there is a greater demand than I guess we can approve that during the current economic environment for the product. But I guess, what would you want to see economically to maybe start to loosening a tiny bit to go after that delta, that gap between your app flow and what the GMV's performance at? Is it loss ratios continue to hang out here at the bottom of the range at 6%? Or is it some type of payment trends or some type of category performance? I guess, like what would you like to see where we can kind of maybe get a view of when there could be maybe a chance to potentially loosen [and check] with the GMV?

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

Yes. I mean, ultimately, the loss rates are over time a good indicator. But in the shorter term, there's components to that. There's reserve buildup or reserve release versus underlying lease performance. And obviously, the reserves are built based on our expectations of how the leases are going to perform. But we're tracking delinquencies against pre-pandemic buckets, or I should say, lease pools. We're tracking all the indicators that you would think we're tracking, ACH bounces and first payment defaults and all kinds of things.

If you were just looking in isolation on March 15 at our lease pools, you would say, okay, it's time to loosen. But there's more nuance to it than that because as we -- as I talked about in Kyle's question, we don't want to naively create another pig going through the python if there's liquidity stress out there for the consumer because of something happened why they weren't executing those 90-day buyouts and Goldilocks situations don't last forever. So, we're defensively postured. We think that's appropriate. But as I've said and as it sounds like you want us to be doing, we're looking for opportunities to loosen. And if the data warrant that and prove to us that that's the appropriate decision, then I stand ready to do it. And so we're just going to have to get a few more cycles of data in the door before the team feels comfortable doing that.

Robert Kenneth Griffin ***Raymond James & Associates, Inc., Research Division - Director***

Okay. Yes, that's the answer I was just looking for. Yes, it makes perfect sense. And I guess lastly, just, Brian, on cash OpEx. Was the comment meant to imply that cash OpEx is probably going to step up sequentially from the 1Q levels despite kind of, I guess, the revenue down a little bit, and that's some of the margin pressure sequentially?

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

You're speaking from a cash flow from operations perspective?

Robert Kenneth Griffin ***Raymond James & Associates, Inc., Research Division - Director***

Yes. I look at cash OpEx. I just look at OpEx ex write-offs for the cash.

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

Right, got it. Got it.

Robert Kenneth Griffin ***Raymond James & Associates, Inc., Research Division - Director***

Yes.

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

Yes. Sorry, I got you. I think that's -- I think there's going to be a step up in SG&A as a percentage of revenue move throughout the year. There's a couple of reasons for that. There's wage inflation that obviously we're dealing with. And there's also an element, as you feel those top line pressures, there's a deleveraging aspect that happens with respect to that ratio. And we are -- while we are highly variable in our cost structure, we do have some fixed costs, and that will start to reflect in that metric. So yes, to answer your question, I think there's going to be, I would say, a moderate increase in -- from Q1 run rate levels.

Operator

(Operator Instructions) Our next question or comment comes from the line of Jason Haas from Bank of America.

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

I'm curious to know to what extent do you think the current results are benefiting from any sort of credit tightening or trade down? Are you not really seeing a benefit yet and that's potentially to come even though I know it's not included in the guidance?

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

Yes, Jason. Certainly, I don't believe that the Q1 results were benefited by credit tightening. In the prepared remarks, we said -- and this is really kind of really recently developing news, but we have started to see the beginnings of what we think is tightening above us in the stack. We look at it very precisely, whether it be by vertical or by region or by retailer or by actually primary lender. As you know, the secondary lenders, the near prime lenders have been tightening for some time now.

We have not seen it happening in the prime lenders. Only in the very last couple of weeks, have we seen evidence that it might be happening. But there's certainly a delay in what that means for GMV trends or even app trends for us. So it's encouraging because as I've admitted on previous calls, I was expecting it to happen quarters ago, and we saw no evidence of it. The fact that we're starting to see some evidence is kind of a stay-tuned comment. And as you said, and we said in our prepared remarks, we have not built anything into the back half or really the full-year GMV expectations from a tailwind from that. And so to the extent it continues to play out that way, it could be a tailwind for us.

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

Got it. And then over the next few months here, we should start to lap some of the highest gas prices from last year. I was curious, is that a factor that impacts payment rates? I don't know if it's something you're able to see a correlation there in your data. So maybe that could potentially be a benefit. But I'm just not sure how impactful something like that is for your business.

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

Well, I mean, I would definitely say it's not a negative. It would be a benefit. It's been difficult to parse out with all of the moving parts that have happened during the pandemic, like what is the driver of this or that. Certainly, we know that our customer was more impacted by the inflationary pressures across food, energy and shelter than the prime customer. And to the extent there is an easing there, that's a good thing for us, especially since employment is still strong, and there has been some wage gains. That could be -- that will be a good thing for us. It's difficult to tell how much is driven by gas versus prices of eggs or something like that. But we'll take it. And hopefully, it continues to show in the portfolio performance and strong gross margin.

Operator

Our next question or comment comes from the line of Vincent Caintic from Stephens.

Vincent Albert Caintic ***Stephens Inc., Research Division - MD & Equity Research Analyst***

Most of my questions have been asked. But one question on just trying to dissect, parse out consumer demand. Understanding the GMV guidance maybe is kind of weaker through the year, but I'm just trying to separate out how much of that comes from your tight underwriting posture versus consumer demand maybe picking up, maybe there's more need for the product. So, I don't know if there's a metric like application volume or something like that, so we can kind of see how much demand might be moving over time.

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

Yes. Vincent, I'd just I guess point you back to our comments about the kind of mid-teens decline in GMV that we've seen over the last 3-ish quarters. We believe about 2/3 of that is driven by our own decisioning -- necessary decisioning adjustments. So, that would lead you to believe that there's another 1/3 of that kind of mid-single digits driven by lower demand for the product. That could be offset by moving further away from the large purchases and the demand pull forward during the pandemic. It could be offset by break/fix cycles as things need to be replaced or laptops become obsolete. So, we would look forward to those trends, but we do see some continued soft consumer demand outside of our decisioning adjustments.

Operator

Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to management for any closing remarks.

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

Thank you.

I'd like to thank you again for joining us this morning and for your interest in PROG Holdings. Our team did a great job, getting us off to a strong start for the year. We feel good about the positioning of our portfolio, and we're making the right investments in people and technology to further our 3-pillar strategy of Grow, Enhance, and Expand. We look forward to updating you on our progress next quarter, and we hope you have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone have a wonderful day.