

## Upbound Group Inc.

## 4Q Recap: GMV and portfolio growth should drive higher revenue

Reiterate Rating: BUY | PO: 42.00 USD | Price: 32.10 USD

## GMV momentum positions Acima for strong growth

UPBD reported 4Q revenue growth of 2.8% which was above our estimate of 0.9% and consensus of 0.4%. Acima gross merchandise value (GMV) increased 18.9% YoY (vs. our forecast of 3.0% growth) due to active merchant locations up mid-single digits, applications up over 20% from strong demand and average ticket size up high single digits. Acima revenue grew 6.6% YoY which was above our forecast of 3.5%. Acima EBITDA margin contracted 28bp YoY to 14.8% which was stronger than the 65bp decrease we had forecasted. Acima skip/stolen losses rose from 8.9% in 4Q22 to 9.9% in 4Q23 and were above our forecast of 9.7%. RAC segment comps were -1.6% (vs. our -1.5% forecast), and the RAC lease portfolio value grew 1.5% YoY, showing sequential improvement. The decrease in revenues was driven by a decrease in merchandise sales due to fewer customers electing early purchase options. RAC skip/stolen losses declined from 5.8% in 4Q22 to 4.2% in 4Q23 and were slightly below our forecast of 4.3%.

## Expect growth in both Acima and RAC

UPBD provided its 2024 guidance and expects total company revenue of \$4.00-\$4.20bn and EPS of \$3.5-\$4.00. The company expects adj. EBITDA to be in the range of \$455-\$485mn and free cash flow to be between \$100-\$130mn. For Acima, UPBD expects GMV will grow in the mid to high-single digits YoY with a high single digit increase in revenue. For RAC, the company expects the portfolio revenues and comp to be flat to up low single digits. 1Q total company revenue is expected to be up low to mid-single digit.

## Potential trade down benefit from credit tightening

Given Acima's long-term growth potential, we reiterate our Buy rating. We're raising our '24/25/26E EPS by 7/8/8% to reflect 2024 guidance and thus raising our PO from \$39 to \$42 still based on 11x '24E P/E. If card issuers tighten credit, UPBD expects to see more consumers with a stronger and more resilient credit profile apply for leases. UPBD has seen this trade-down benefit for the past few quarters and although 2024 guidance does not factor in trade down benefit, it could represent a potential tailwind. We see virtual lease-to-own (LTO) as best positioned to take advantage of this trade-down. We also expect more merchants will utilize virtual LTO to drive sales given the weak spending backdrop.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.70	3.58	3.80	3.91	4.01
GAAP EPS	0.21	(0.09)	3.80	3.91	4.01
EPS Change (YoY)	-33.6%	-3.2%	6.1%	2.9%	2.6%
Consensus EPS (Bloomberg)			3.79	4.32	4.68
DPS	1.36	1.43	1.50	1.57	1.65
Valuation (Dec)					
P/E	8.7x	9.0x	8.4x	8.2x	8.0x
GAAP P/E	152.9x	NM	8.4x	8.2x	8.0x
Dividend Yield	4.2%	4.4%	4.7%	4.9%	5.1%
EV / EBITDA*	6.9x	6.9x	6.7x	6.7x	6.8x
Free Cash Flow Yield*	23.4%	8.4%	8.2%	19.5%	19.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

22 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	39.00	42.00
2024E Rev (m)	3,993.2	4,113.9
2025E Rev (m)	4,013.9	4,136.2
2026E Rev (m)	4,035.5	4,159.6
2024E EPS	3.54	3.80
2025E EPS	3.62	3.91
2026E EPS	3.70	4.01

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## Stock Data

Price	32.10 USD
Price Objective	42.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-1-7
52-Week Range	22.42 USD - 36.17 USD
Mrkt Val (mn) / Shares Out (mn)	1,743 USD / 54.3
Free Float	83.5%
Average Daily Value (mn)	10.99 USD
BofA Ticker / Exchange	UPBD / NAS
Bloomberg / Reuters	UPBD US / UPBD.OQ
ROE (2024E)	31.6%
Net Dbt to Eqty (Dec-2023A)	228.0%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

UPBD: Upbound Group

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Timestamp: 22 February 2024 04:45PM EST

# iQprofile<sup>SM</sup> Upbound Group Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.6%	14.8%	14.8%	13.4%	12.4%
Return on Equity	42.0%	38.0%	31.6%	23.4%	19.0%
Operating Margin	39.9%	41.1%	40.5%	40.3%	40.0%
Free Cash Flow	407	146	143	341	344

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.1x	1.0x	1.0x	1.9x	1.9x
Asset Replacement Ratio	0.9x	1.1x	1.2x	1.2x	1.2x
Tax Rate	25.8%	25.8%	26.1%	26.0%	26.0%
Net Debt-to-Equity Ratio	233.2%	228.0%	143.3%	92.1%	59.3%
Interest Cover	4.3x	3.3x	3.6x	3.8x	4.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,245	3,992	4,114	4,136	4,160
% Change	-7.4%	-6.0%	3.0%	0.5%	0.6%
Gross Profit	2,077	2,022	2,061	2,055	2,050
% Change	-6.5%	-2.6%	1.9%	-0.3%	-0.3%
EBITDA	434	431	446	442	438
% Change	-29.0%	-0.7%	3.5%	-0.9%	-0.9%
Net Interest & Other Income	(87)	(110)	(109)	(101)	(94)
<b>Net Income (Adjusted)</b>	<b>218</b>	<b>200</b>	<b>210</b>	<b>213</b>	<b>216</b>
<b>% Change</b>	<b>-41.4%</b>	<b>-8.2%</b>	<b>5.0%</b>	<b>1.5%</b>	<b>1.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	218	200	210	213	216
Depreciation & Amortization	68	51	53	53	53
Change in Working Capital	(1,062)	(1,085)	(1,326)	(1,147)	(1,153)
Deferred Taxation Charge	(41)	0	0	0	0
Other Adjustments, Net	1,286	1,034	1,271	1,286	1,293
Capital Expenditure	(61)	(55)	(65)	(65)	(65)
<b>Free Cash Flow</b>	<b>407</b>	<b>146</b>	<b>143</b>	<b>341</b>	<b>344</b>
<b>% Change</b>	<b>23.4%</b>	<b>-64.1%</b>	<b>-2.3%</b>	<b>138.5%</b>	<b>0.9%</b>
Share / Issue Repurchase	(73)	(50)	0	(50)	(50)
Cost of Dividends Paid	(79)	(80)	(83)	(86)	(89)
Change in Debt	(209)	(134)	(40)	(80)	(80)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	144	26	46	171	296
Trade Receivables	112	80	123	124	125
Other Current Assets	1,178	1,170	1,307	1,314	1,321
Property, Plant & Equipment	295	299	311	323	335
Other Non-Current Assets	1,034	1,034	1,034	1,034	1,034
<b>Total Assets</b>	<b>2,764</b>	<b>2,610</b>	<b>2,822</b>	<b>2,966</b>	<b>3,110</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	782	757	738	739	741
Long-Term Debt	1,369	1,235	1,195	1,115	1,035
Other Non-Current Liabilities	88	88	88	88	88
<b>Total Liabilities</b>	<b>2,238</b>	<b>2,080</b>	<b>2,020</b>	<b>1,942</b>	<b>1,863</b>
<b>Total Equity</b>	<b>525</b>	<b>530</b>	<b>802</b>	<b>1,024</b>	<b>1,247</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,764</b>	<b>2,610</b>	<b>2,822</b>	<b>2,966</b>	<b>3,110</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Retailing-Hardlines

## Company Description

Upbound Group is a leading omni-channel lease-to-own provider primarily serving credit constrained consumers. It comprises of four operating segments: (1) Acima: virtual and staffed LTO solutions for retail partners in stores and online, (2) Rent-A-Center Business: e-commerce platform and nearly 2,000 company-owned stores, (3) Mexico: over 100 company-owned lease-to-own stores, (4) Franchising: several hundred franchised stores under Rent-A-Center, ColorTyme, and RimTyme names.

## Investment Rationale

We see Upbound Group's Acima segment as well positioned to grow in the virtual lease-to-own industry by increasing penetration at existing retail partners as well as adding new ones. We view the Rent-A-Center Business as better insulated from virtual lease-to-own competition than the market realizes given its focus on especially credit-constrained customers. The growth prospects of the overall entity are compelling.

## Stock Data

Average Daily Volume 342,223

## Quarterly Earnings Estimates

	2023	2024
Q1	0.83A	0.77E
Q2	1.11A	1.01E
Q3	0.79A	0.96E
Q4	0.84A	1.06E

## Price objective basis & risk

### Upbound Group Inc. (UPBD)

Our price objective of \$42 is based on 11x '24E P/E. Our target multiple is in-line with other lease-to-own providers and subprime lenders given similar growth profiles.

Upside risks to our PO are: 1) higher revenue from new partnership wins, 2) faster-than-expected penetration of existing retail partners, and 3) upside to margins from better-than-expected cost leverage. Downside risks are: 1) stricter regulation of the lease-to-own (LTO) industry, 2) cannibalization of the Rent-A-Center Business by Acima and the virtual LTO industry broadly, 3) lower margins due to higher write-offs and/or other costs, and 4) slower-than-expected growth in GMV and/or comps.

## Analyst Certification

I, Jason Haas, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
<b>UNDERPERFORM</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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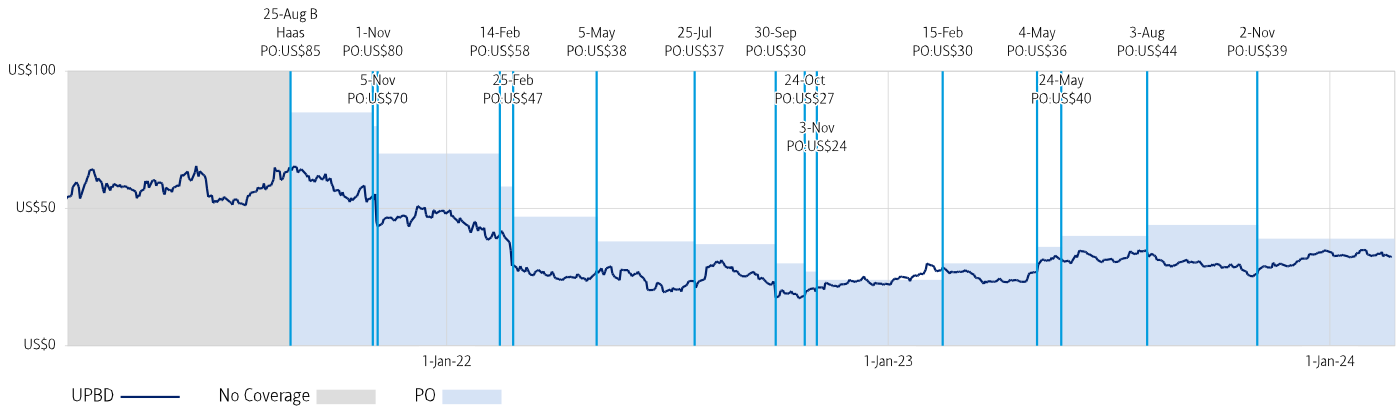
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### Upbound Group (UPBD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
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