

PROG Holdings Inc

4Q Recap: Performing well against a challenging demand backdrop

Reiterate Rating: BUY | PO: 40.00 USD | Price: 31.40 USD

Favorable Holiday GMV drove revenue beat

PRG reported 4Q gross merchandise value (GMV) +1.2% which was better than our expectation (-5.5%) and the -6.4% that PRG reported in 3Q, driven by better-than-expected customer demand for leasable items during the holidays. Sales decreased 5.7% YoY driven by a lower gross leased asset balance entering the quarter, but revenue exceeded the outlook due to better-than-expected customer payment behavior and a slight benefit from favorable GMV. E-comm penetration reached approximately 20% of total leasing GMV. Gross margin improved 39bp YoY to 35.20% (vs. BofAe 34.02% and consensus 34.36%). Opex delevered 241bp to 26.09%, compared to BofAe 24.89% and consensus 24.96%. EBITDA decreased 18.1%, driven by a decline in revenue and SG&A deleverage, partially offset by customer payment performance. PRG reported 7.0% 4Q write-offs, above our 6.1% estimate, but within mgmt.'s 6-8% annual target.

Guidance assumes soft demand environment continues

PRG's 2024 guidance assumes a difficult operating environment with continued soft demand for consumer durable goods. The company expects GMV headwinds to continue through at least 1H24, with 1Q GMV down low-single digits YoY. PRG expects revenue between \$2.235-2.335bn (vs. \$2.408bn in 2023), EBITDA between \$230mn-250mn, and EPS between \$2.70-3.00. For 1Q24, PRG expects revenue to be between \$620-640mn, EBITDA between \$14.5-19.5mn, and EPS between \$0.80-0.85. PRG also announced a quarterly cash dividend of \$0.12 per share going forward, therefore, we change the income rating from pays no cash dividend (9) to same/higher (7).

Confident in PRG's ability to operate in a tough backdrop

We continue to see PRG as best positioned to take advantage of higher tier lenders tightening credit given its high exposure to virtual lease-to-own (LTO). We also expect more retailers will utilize LTO to drive comps in a difficult macro backdrop. Reflecting 2024 guidance, we're lowering our 2024/2025 estimates by 9/3%. We're raising our PO from \$39 to \$40 as we roll forward the basis to 12x '25 P/E (12x '24 P/E prior). We reiterate our Buy rating as PRG remains a best-in-class virtual LTO operator with meaningful room to grow with new and existing retail partners.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.94	2.60	3.66	2.99	3.46
GAAP EPS	3.67	1.89	2.98	2.99	3.46
EPS Change (YoY)	14.2%	-34.0%	40.8%	-18.3%	15.7%
Consensus EPS (Bloomberg)			3.63	3.30	3.71
DPS	0	0	0	0.48	0.48
Valuation (Dec)					
P/E	8.0x	12.1x	8.6x	10.5x	9.1x
GAAP P/E	8.6x	16.6x	10.5x	10.5x	9.1x
Dividend Yield	0%	0%	0%	1.5%	1.5%
EV / EBITDA*	4.7x	7.2x	6.2x	7.5x	7.0x
Free Cash Flow Yield*	16.8%	16.6%	13.9%	13.1%	12.8%

* For full definitions of *IQmethod*SM measures, see page 4.

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-9	C-1-7
Price Obj.	39.00	40.00
2023E Rev (m)	2,412.0	2,408.3
2024E Rev (m)	2,297.9	2,279.7
2025E Rev (m)	2,335.6	2,362.0
2024E EPS	3.29	2.99
2025E EPS	3.58	3.46

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Stock Data

Price	31.40 USD
Price Objective	40.00 USD
Date Established	21-Feb-2024
Investment Opinion	C-1-7
52-Week Range	21.94 USD - 44.81 USD
Mrkt Val (mn) / Shares Out (mn)	1,404 USD / 44.7
Free Float	98.0%
Average Daily Value (mn)	11.15 USD
BofA Ticker / Exchange	PRG / NYS
Bloomberg / Reuters	PRG US / PRG.N
ROE (2023E)	29.4%
Net Dbt to Eqty (Dec-2022A)	80.5%
ESGMeter TM	High

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iQprofileSM PROG Holdings Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	22.5%	13.1%	16.1%	12.2%	12.7%
Return on Equity	31.4%	21.7%	29.4%	21.2%	21.4%
Operating Margin	13.3%	8.8%	10.9%	9.3%	9.7%
Free Cash Flow	236	233	195	184	180

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.9x	1.8x	1.2x	1.5x	1.4x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	25.4%	28.9%	27.0%	29.0%	29.0%
Net Debt-to-Equity Ratio	61.7%	80.5%	73.9%	53.6%	38.1%
Interest Cover	NM	6.1x	9.0x	7.7x	8.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,678	2,598	2,408	2,280	2,362
% Change	7.8%	-3.0%	-7.3%	-5.3%	3.6%
Gross Profit	858	840	832	774	808
% Change	8.1%	-2.1%	-1.0%	-6.9%	4.3%
EBITDA	389	256	297	245	264
% Change	13.9%	-34.1%	16.1%	-17.5%	7.7%
Net Interest & Other Income	(5)	(37)	(29)	(27)	(27)
Net Income (Adjusted)	262	135	171	130	144
% Change	11.5%	-48.3%	26.1%	-23.5%	10.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	262	135	171	130	144
Depreciation & Amortization	1,853	1,792	1,608	1,517	1,566
Change in Working Capital	(2,124)	(2,075)	(1,872)	(1,472)	(1,539)
Deferred Taxation Charge	16	(9)	(32)	0	0
Other Adjustments, Net	239	400	330	24	24
Capital Expenditure	(10)	(10)	(10)	(15)	(15)
Free Cash Flow	236	233	195	184	180
% Change	-39.6%	-1.5%	-16.4%	-5.5%	-2.3%
Share / Issue Repurchase	(566)	(222)	(138)	(85)	(85)
Cost of Dividends Paid	0	0	0	(21)	(20)
Change in Debt	592	0	0	8	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	170	132	155	257	332
Trade Receivables	66	65	68	64	67
Other Current Assets	762	697	684	650	637
Property, Plant & Equipment	26	24	24	28	31
Other Non-Current Assets	597	575	560	543	543
Total Assets	1,622	1,492	1,491	1,542	1,610
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	327	309	292	287	292
Long-Term Debt	590	591	592	600	600
Other Non-Current Liabilities	0	0	0	0	0
Total Liabilities	942	921	900	903	907
Total Equity	679	570	591	639	703
Total Equity & Liabilities	1,622	1,492	1,491	1,542	1,610

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Hardlines

Company Description

Progressive (PRG) is the market leader in the virtual lease-to-own (LTO) industry. PRG partners with retailers to offer LTO as a financing option at checkout. PRG has a number of large retail partners including Best Buy, Lowe's and Big Lots. PRG's largest product categories include furniture, electronics, appliances, jewelry & cell phones. The company was acquired by brick and mortar LTO store operator Aaron's in 2014. In 2020, Aaron's was spun off into a separate publicly traded entity.

Investment Rationale

PRG is a high-quality, asset-light business with recurring revenue and a sticky partnership base. We see substantial upside to revenue and earnings from its partnerships with Best Buy and Lowe's. Additional partnership wins could drive significant upside to our estimates.

Stock Data

Average Daily Volume 355,067

Quarterly Earnings Estimates

	2022	2023
Q1	0.57A	1.11A
Q2	0.52A	0.92A
Q3	0.68A	0.90A
Q4	0.84A	0.72E

Price objective basis & risk

PROG Holdings Inc (PRG)

Our price objective of \$40 is based on 12x '25E P/E. Our target multiple is near the middle (10x-16x) of other lease-to-own providers and subprime lenders given our view that PRG has substantial room to grow as the leading player in virtual LTO.

Upside risks to our PO are 1) higher revenue from new partnership wins, 2) faster-than-expected penetration of existing retail partners, 3) upside to margins from better-than-expected cost leverage, and 4) another round of stimulus checks are issued. Downside risks are 1) stricter regulation of the lease-to-own (LTO) industry, 2) higher write-offs due to poor decision and/or a recession, 3) competition from LTO marketplaces, and 4) slowing growth in invoice volumes, a key leading indicator.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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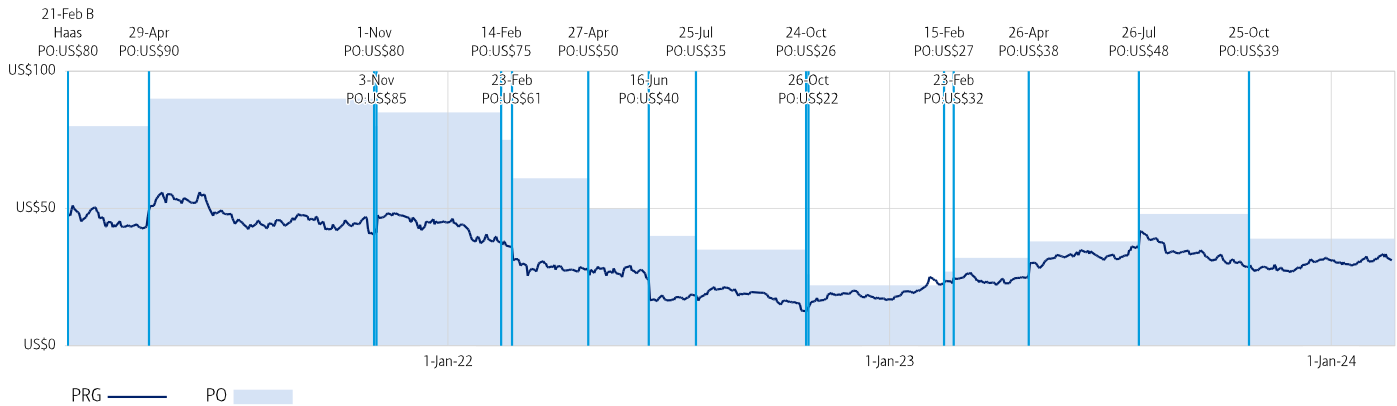
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PROG Holdings (PRG) Price Chart



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 ^{R1}	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 ^{R1}	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%

^{R1} 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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