REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2024 PROG HOLDINGS INC EARNINGS CALL

EVENT DATE/TIME: October 23, 2024 / 12:30PM UTC

REFINITIV

An LSEG Business

CORPORATE PARTICIPANTS

- **John Baugh** *PROG Holdings Inc - Vice President - Investor Relations*
- **Steven Michaels** *PROG Holdings Inc - President, Chief Executive Officer, Director*
- **Brian Garner** *PROG Holdings Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Brad Thomas** *KeyBanc Capital Markets Inc - Analyst*
- **John Hecht** *Jefferies LLC - Analyst*
- **Anthony Chukumba** *Loop Capital Markets LLC - Analyst*
- **Hoang Nguyen** *T D Cowen - Analyst*
- **Bobby Griffin** *Raymond James - Analyst*
- **Vincent Caintic** *BTIG LLC - Analyst*

PRESENTATION

Operator

Good day. And thank you for standing by. Welcome to PROG Holdings third quarter earnings conference call. (Operator Instructions)

Please note that today's conference is being recorded. I will now hand the conference over to your speaker host, John Baugh. Please go ahead.

John Baugh ***PROG Holdings Inc - Vice President - Investor Relations***

Thank you and good morning, everyone. Welcome to the PROG Holdings third quarter, 2024 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 revised 2024 full year outlook and our outlook for the fourth quarter of 2024. The health of our portfolio and our expectations for write offs for our progressive leasing segment for the full year 2024, our expectations regarding GMV for the fourth quarter and full year 2024 and our capital allocation priorities including our ability to continue returning capital to shareholders.

Listeners are cautioned not to place undue emphasis on forward-looking statements we make today, all of which are subject to risks and uncertainties which could cause actual results to differ materially from those contained in the forward-looking statements.

We undertake no obligation to update any such statements. On today's call, we will be referring to certain non-GAAP financial measures including adjusted EBITDA and non-GAAP EPS which have been adjusted for certain items which may affect the comparability of our performance with other companies.

These non-GAAP measures are detailed in the reconciliation tables included with our earnings release. The company believes that these non-GAAP financial measures provide meaningful insight into the company's operational performance and cash flows and provides these measures to investors to help facilitate comparisons of operating results with prior periods and to assist them in understanding the company's ongoing operational performance.

With that, I'd like to turn the call over to Steve Michaels, PROG Holdings President and Chief Executive Officer. Steve?

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Thanks John. Good morning everyone and thank you for joining us, as we discuss our third quarter results provide insights into Q4 and share updates to our full year 2024 financial outlook. As announced earlier today, we delivered another great quarter, surpassing expectations for GMV growth and approximating the high end of our revenue, earnings and non-GAAP diluted EPS outlook.

Our Q3 results highlight the effectiveness of our strategy and the strong execution by our team. With a relentless focus on enhancing both customer and retailer experiences, we successfully maintained top line momentum and gained balance of share.

Our direct to consumer efforts continue to deepen customer engagement, fueling growth. Additionally, external factors such as tighter approval rates from lenders higher up in the credit stack also contributed to the Q3 GMV growth for the progressive leasing segment.

I'm incredibly proud of our team for delivering consecutive quarters of accelerating GMV, with progressive leasing's Q3 GMV growth coming in at 11.6%.

Our strategic focus on the Grow, Enhance, and Expand pillars is driving meaningful improvements across key performance metrics. This year-over-year growth has been fueled by higher application volume, improved customer conversion and an increase in active doors and better productivity per door across both national and regional accounts.

We're excited about what this return to growth means for our team, our retail partners and our shareholders. In Q3, we achieved consolidated revenue of $606.1 million representing 4% growth compared to Q3 2023. Our consolidated adjusted EBITDA reached $63.5 million resulting in a 10.5% margin driven by GMV growth and supported by stable portfolio performance and disciplined spending.

Looking ahead, we expect this momentum to carry through the remainder of 2024. Our GMV outperformance throughout the year has led to a 3.8% increase in our gross least asset or GLA balance as of the end of Q3 2024 compared to the same period last year, which is the key indicator of future revenues.

For context, we started the year with a 5.2% year-over-year decline in GLA and we entered Q3 close to flat. This positive trend in our GLA balance positions us well, for a successful 2025. In July, we shared that we expected our Q2 write off rate of 7.7% to mark the peak of quarterly write offs. And in Q3 write offs remained at 7.7% consistent with pre pandemic Q3, 2019 levels.

Our dynamic decisioning posture supported by a short four to six week feedback cycle, allows us to swiftly adjust to customer and portfolio health trends. Our proprietary machine learning decisioning models rapidly incorporate real time information, enabling us to fine tune our approval rates and amounts.

While Brian will provide further details, I'm confident we are on track to maintain 2024 write offs within our targeted annual range of 6% to 8%. As part of our focus on the Grow, Enhance, and Expand strategy, we've made significant progress on our 2024 priorities.

These efforts have driven our year-to-date GMV growth and will fuel our success moving forward. Execution in these areas is essential to achieving our financial targets for 2025 and beyond sustainable and profitable growth remains at the core of our three pillar strategy.

Under our Grow pillar, I'm pleased to share that we signed a long term exclusive partnership with American Signature Inc, a top 15 retailer in furniture today's TOP 100 list. Further strengthening our regional market positioning alongside our national accounts.

Our regional business delivered another impressive quarter of GMV growth in the low double digits. We're driving growth across several dimensions to include investing in existing partnerships, expanding through new partnerships, increasing brand awareness to acquire new customers, engaging customers through targeted marketing efforts and strengthening our direct to consumer business and e-commerce penetration.

Our investments in sales, marketing and technology have delivered significant value to our retail partners and firmly positioned progressive leasing as a market leader. Key evidence of the value our retailers find in partnering with progressive leasing is their willingness to enter and renew long term exclusive contracts with us that give us both the ability to focus on deepening our partnership and integrations and prioritizing our initiative road maps.

At the end of Q3, over 75% of our progressive leasing GMV is under multiyear exclusive contracts with approximately half of all GMV under contract into the 2030. We take great pride in our track record of renewing and extending exclusive agreements with key retail partners, further solidifying our leadership in the industry.

As part of our direct to consumer initiatives, the PROG Marketplace platform which allows customers to shop anytime, anywhere through our mobile app continue to gain significant traction in Q3. Year-to-date, the platform has delivered over 300% growth and is on track to exceed our 2024 GMV target to roughly double GMV year-over-year.

I'm excited about this growth as the PROG Marketplace channel complements our retail partners by driving incremental traffic and sales for them as well as GMV for progressive leasing. Simultaneously direct to consumer marketing efforts drove PROG branded campaigns taking advantage of seasonal opportunities like Amazon Prime Day as well as launching multi-channel promotions coordinated with partner offers to drive additional traffic.

Overall as we execute on our sales, marketing, and product initiatives, our marketable database of highly engaged customers is growing. E-commerce remains a focus as we strive to meet customers wherever and however they choose to shop.

The two custom e-commerce integrations completed in Q2, drove material growth bringing e-commerce GMV to 16.6% of total progressive leasing GMV in Q3 2024, up from 14.4% in Q2 2024 and 14.8% in Q3 2023.

Under the Enhance pillar product and tech investments have improved customer experience and conversion rates. These advancements contributed to a 3.4% year-over-year increase in the total number of customers with active leases for our progressive leasing segment as of the end of Q3.

We segment customer activity into three groups, new, repeat, and reactivated. For clarification, we define reactivated customers as those that last funded a lease more than 24 months ago. This segmentation allows us to tailor our marketing strategies to each group's unique needs and behaviors.

For instance, new customers require more introductory information and incentives to try our product, while repeat customers benefit from personalized marketing as we gather deeper insights into their purchasing patterns. New and reactivated customers increased approximately 20% and 12% year-over-year respectively in Q3, while we maintained repeat customer contributions to GMV.

Our ability to expand our customer base while retaining loyal repeat customers who deliver a higher lifetime value is a critical driver of our business. By focusing on growth across all three customer segments of new, repeat, and reactivated, we are working to capture a larger share of our underserved addressable market in a cost effective manner.

We're innovating with AI driven solutions, rolling out enterprise wide and consumer facing AI tools that enhance both operational efficiency and customer satisfaction. We implemented an AI assistant to enable employee self-service for all inquiries related to policies and benefits information.

Additionally, we launched our first consumer facing AI assistant pilot program designed to enhance customer satisfaction by providing immediate assistance, marking a key step in transforming our customer support experience.

I want to take a moment to thank our entire team for their tremendous efforts in not only driving short term results but also embracing change to set the stage for our future through growth. Maintaining a healthy portfolio and remaining disciplined with spending.

Our performance is a direct result of their hard work and dedication to our mission, creating a better today and unlocking the possibilities of tomorrow through financial empowerment. Given the performance and momentum we've seen this year, we're pleased to update our full year 2024 outlook with both revenue and earnings now expected to exceed our prior expectations.

This outperformance is being driven by increased GMV for our progressive leasing segment, reflecting our efforts to deepen existing retail partnerships, on board new partners, enhance technology, attract new customers through targeted marketing and expand

PROG Marketplace.

For the fourth quarter, we expect GMV growth to be in the range of high single to low double digits, driven by the positive momentum we've observed while we monitor a dynamic consumer environment.

So far in October, we're off to a strong start though, as with every year at this time, we still have in front of us, the all-important holiday season where we have historically generated approximately 50% of the quarter's GMV in the five week period spanning Black Friday to Christmas Eve. We remain focused on executing our strategy to carry this momentum into the end of the year and position ourselves for success in 2025.

Finally, on the topic of capital allocation, our priorities remain unchanged and we expect to continue to fund growth, look for strategic M&A opportunities and return excess cash to shareholders through dividends and share repurchases.

I'll now turn the call over to our CFO, Brian Garner for more details on Q3 results and remainder of the year outlook. Brian?

Brian Garner *PROG Holdings Inc - Chief Financial Officer*

Thanks Steve and good morning everyone. We are pleased to report that our third quarter, 2024 results exceeded GMV expectations and came in near the high end of the range for revenues, earnings and non-GAAP diluted EPS that we provided in late July. I'd like to begin by thanking our team for delivering another successful quarter.

I'll now take you through a more detailed breakdown of our results, starting with progressive leasing segment, GMV exceeded expectations with an 11.6% year-over-year increase, surpassing our anticipated high single digit growth rate.

As Steve mentioned, we've successfully implemented multiple strategic initiatives that have boosted both applicant flow and conversion rates. Looking ahead, we have several additional initiatives in progress for Q4 which we believe will sustain this momentum.

Our GMV growth again outpaced most of our larger retail partners comparable store sales materially. Additionally, we are benefiting from the tightening of credit supply above us and we expect this environment to persist at least through the end of 2024.

As a result, one of the highlights this quarter is the growth of our gross least asset balance, a primary driver of future revenue which is now 3.8% higher than the same period last year, driven by two consecutive quarters of accelerating GMV growth.

This year-over-year growth marks the first time since Q3 of 2022 that we ended a quarter with a larger portfolio size. We expect the GLA balance to improve for the remainder of the year, contributing to revenue growth implied in our revised outlook.

Q3 revenues for progressive leasing segment increased 3.3% from $564.2 million in Q3 of 2023 to $582.6 million driven by the growth in our leased portfolio and higher 90 day early purchases that compared to the same period last year. This return to growth is exciting as it reflects the effective execution of our strategy, the strength of our partnerships and the demand for our product. We believe this momentum positions us well for sustained success moving forward.

The Q3 portfolio performance for progressive lease remained within our targeted annual write off range. The provision for lease merchandise write offs was 7.7% in Q3 which is consistent with the pre pandemic period of Q3 of 2019, however, slightly higher than our expectations due to higher delinquencies and an increase in the provision for lease merchandise write offs relating to the strong GMV growth in the period.

We are confident in our ability to continue to manage the lease portfolio real time with our dynamic decisioning models supported by a short duration portfolio which turns over on average every six to seven months. This allows us to swiftly adjust approval rates and amounts that customer and portfolio health trends while still maintaining growth. We anticipate full year write offs to be within our target range of 68%.

90-day early purchases remained elevated compared to historic lows in 2023 bolstered by higher than expected new customer growth rates. As expected, our gross margin of 31.2% in Q3 of 2024 was 110 basis points lower than prior year.

Progressive leasing's SG&A expense in Q3 was $76.5 million a decrease of approximately $700,00 or 0.9% compared to $77.2 million in the same quarter last year. As a percentage of revenue SG&A expenses decreased by 60 basis points year-over-year from 13.7% of revenues in Q3 of 2023 to 13.1% of revenues in Q3 of 2024.

As a reminder, this improvement was primarily due to the restructuring actions taken in Q1 of this year. Despite these cost cutting measures, we've maintained our investment in sales, marketing, and technology to drive profitable GMV.

Adjusted EBITDA for progressive leasing in Q3 was $66.5 million and 11.4% of revenue is within our 11% to 13% annual margin target for the progressive leasing segment. This adjusted EBITDA margin of 11.4% is 190 basis points lower compared to 13.3% in Q3 of 2023 driven by headwinds to gross margin with 90 day purchase options and write offs, approximating pre pandemic levels partially offset by SG&A discipline.

Turning to consolidated results. Q3 of 2024 revenues of $606.1 million compared to $582.9 million in the same quarter last year was driven by GMV growth along with an increase in customers exercising their 90 day purchase options at the progressive leasing segment. Consolidated adjusted EBITDA was $63.5 million and 10.5% of revenue compared to $71.7 million and 12.3% in the year ago period.

Looking at our balance sheet, we ended the third quarter of 2024 with $221.7 million cash and gross debt of $600 million resulting in a net leverage ratio of 1.4 times trailing 12 months adjusted EBITDA. We remain undrawn on our $350 million revolver at the end of the quarter. We paid a quarterly cash dividend of $0.12 per share in September. and during the quarter, we repurchased 810,000 shares of our common stock at a weighted average price of $45.69 per share. We have $401.8 million remaining under a recently reauthorized $500 million share repurchase program.

As we look ahead, we remain optimistic about finishing the year strong. We believe our Q4 GMV will maintain its positive trajectory delivering a high single digit to low double digit year over year growth for a progressive leasing segment.

With economic pressures continue to affect consumers across the credit spectrum, we anticipate that the benefits we saw in Q3 from the tightening of the credit supply above us will persist through the rest of the year, contributing to our overall performance.

Our outperformance with GMV improved the GLA balance which was roughly flat going into Q3 and is up 3.8% year-over-year going into Q4. This improvement in GLA along with our anticipated Q4 GMV growth benefits revenue and is reflected in our increased 2024 revenue outlook.

Our leasing portfolio performance is expected to remain within our target yields to deliver our provision for lease merchandise write offs for the full year within our annual target range of 60%. We believe liquidity pressures facing a portion of our consumers will persist for the remainder of the year and trends from these challenges have been incorporated into our decisioning model and financial forecast.

Q4 gross margin is expected to be a difficult comparison for Q4 2023 for the progressive leasing segment primarily due to below average number of customers choosing to exercise their 90 day purchases last year.

Regarding SG&A, we are maintaining our disciplined approach and remain on track to deliver SG&A as a percentage of revenue in line with our full year expectations for the progressive leasing segment.

Our revised consolidated outlook for 2024 calls for revenues in the range of $2.44 billion to $2.46 billion adjusted EBITDA to be in the range of $270 million to $275 million and non-GAAP EPS in the range of $3.30 to $3.40.

This outlook assumes a continuation that benefits from tightened credit above us, a difficult operating environment with soft demand for leasable consumer goods. No material changes in the company's decisioning posture, no material changes in the unemployment rate for our consumer base, an effective tax rate for non-GAAP EPS from approximately 28% and no impact from additional share repurchases.

In summary, we are extremely pleased with our team's performance this year, which has set us up well for revenue and earnings growth as we head into 2025. Combined with our free cash flow generation, we are well positioned to deliver meaningful shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brad Thomas, KeyBanc.

Brad Thomas *KeyBanc Capital Markets Inc - Analyst*

Hi, good morning and congratulations on the nice momentum in GMV in particular. I wanted to first, follow up on that topic and Steve, I was wondering if you could talk a little bit about some of the puts and takes in GMV obviously American Signature and exciting larger customer that you have by the same token, country kind of digesting a big lots of bankruptcies that's underway right now and some store closures that are happening over there.

Can you just talk about how you're -- what you're seeing from those customers and how you think about that impacting sales or GMV over the next few quarters?

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah, thanks Brad. Yeah, we're pleased with the GMV performance in the quarter and our outlook for the closing out the year. Clearly the quarter was a little bit above our expectations, nicely above our expectations actually. And kind of played out a little bit delay we thought it would, but there was some marketing campaigns and promos that performed maybe a little better than we were anticipating and so we're pleased with that.

And as I mentioned in the prepared remarks, October is starting out strong, but it's always difficult to predict Q4 GMV because of that holiday season. And it's such an acute period where -- and this year from a calendar standpoint, it's very tight between Black Friday and Christmas Eve.

But you mentioned American Signature, we're very proud of that partnership. As we said in the press release, it's not really going to impact 2024 that much because of the launch being late in the year and -- but we're excited about that for 2025 as it relates to Big Lots, certainly partnering well with them and it's well known as you said that the bankruptcy and the plan that they're executing, they've closed a number of waves of stores and that's starting to accelerate and will impact Q4.

Certainly, we believe for us it's probably 100 basis points to 150 basis points headwind for the quarter. We're not commenting on 2025 obviously. But there's a lot to be excited about as it relates to GMV. We've got really good partnerships, really good integrations and marketing partnerships with our retailers. The top of the funnel dynamics as it relates to the credit supply above us is certainly helping as well.

So there's always puts and takes, some customer stress out there as we referred to. But net-net, we're pleased with the various tailwinds that we've helped to create as well as a little bit of help from the macro on the credit supply side.

Brad Thomas *KeyBanc Capital Markets Inc - Analyst*

Great. That's helpful, Steve. And if I could just ask a follow up on the write off. Equate -- part of the equation, we know that the consumer in the US is on the stretch side to some extent that sends more customers to you. I think that 4Q typically is your seasonal highest quarter for write offs. Do you think that'll still be the case here in 4Q? And to what degree do you think you maybe need to tighten a little bit on the line in the range from a decisioning standpoint. Thanks.

Brian Garner *PROG Holdings Inc - Chief Financial Officer*

Hey, Brad, It's Brian. Just this like with the seasonality aspect of it, we actually expect Q4 to step down from Q3 here and that's not different than what we would have seen in a typical year normally, what you're looking at is you look forward to tax season and the high cash collections during that time, your reserves reflect that strong payment performance in Q1.

So, so from the 7.7%, we expect to step down. And, on the write offs, you've got a couple of dynamics, you've got some of this trade down that we referred to in our paper markets and at the bottom end of the funnel, we've got a little bit of stress as we indicated that we are actively managing. And I'll let Steve speak to the decisioning aspect of it.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah, I mean, from a decision standpoint, Brad, as we always say, we're constantly monitoring and adjusting that posture based on what we're seeing in the data. And we have a very quick feedback loop so we can react quickly. We did do some tightening throughout the third quarter kind of as the quarter progressed. And I like to use the scalpel terminology because it wasn't like wholesale changes, it was pockets and looking for opportunities to just trim a little bit.

So, as we ended the quarter and as we sit here today, we're probably 100 basis points to 150 basis points lower on approval rate than we were this time last year. And we'll continue to monitor that and see what we think is necessary. And we're squarely confidently in that -- in our portfolio performance range that we've been in for the last, eight years or so, of that 68% on an annual basis.

Brad Thomas *KeyBanc Capital Markets Inc - Analyst*

Great, very helpful and again, exciting to see the inflection building in the business. Thanks.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah, thanks Brad.

Operator

John Hecht, Jefferies.

John Hecht *Jefferies LLC - Analyst*

Morning guys. Thanks very much for taking my questions and congratulations on a good quarter. First one is I'm just trying to -- I think I understand the dynamics of the early stage buyout and the write off. But is it is straightforward is that the EBOs, the increase in EBOs during the quarters is coming from maybe some of the newer higher quality, higher income cohort, customers, whereas the write offs are more contained to the lower income bands or is there some other dynamic there that we should think about?

Brian Garner *PROG Holdings Inc - Chief Financial Officer*

Hey John, it's Brian. I think you're thinking about it right. Just specifically with that trade down population, if we look at that in isolation, what we're seeing with some of the early indicators is they have a higher propensity to do a 90 day buyout. That's not surprising, given they're on average, a stronger credit profile.

And they tend to keep it in check their write offs. And so you're going to have some margin, gross margin consideration as you have higher propensity for 90 days from that trade down population. They also tend to skew new, these are customers that we largely have not seen before and that's a new customer versus existing customer will tend to be slightly lower from a margin standpoint.

But as you think about the long term prospect of this customer we're looking at is very favorable because here we've got an opportunity to have this customer be a repeat, the lifetime value prospect is very strong. And so you might see some initial, I would say slight gross margin pressures relating to the trade down population, it's early and they're not a majority of the story. And so it's -- I characterize it is relatively small, but it is something that, may play out over the course of the next few quarters and we'll keep folks updated on that but it is relatively small.

John Hecht *Jefferies LLC - Analyst*

Okay. That's very helpful. And then just another question on the GMV growth. Can you any -- I apologize if you mentioned this but, can you bifurcate it by existing merchants versus new merchants?

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

No, John, we didn't say that and we generally don't give that out. But we did say that overall was 11.6% and our regions were low double digits. So we saw nice growth across the platform.

John Hecht *Jefferies LLC - Analyst*

Okay. And then final question, is there any update on the progressive marketplace from a revenue growth and any pipeline potential for merchant ads in that initiative?

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah. We're excited and pleased with progressive marketplace with PROG Marketplace, it's up over 300% year-to-date and we put out a guide earlier this year for it to kind of double. So we're clearly ahead of that. Few of the drivers of the outperformance are, we're really getting sophisticated on our targeted marketing efforts and our tech and product teams are improving the customer experience in the checkout, because simplifying that checkout experience is super important to get conversion in that direct consumer motion.

We're proud to have really good retailers that we partnered with and they are participants in the marketplace. And we've also got some affiliate partnerships that are helping us give more choice to our customers. But that product tech and marketing kind of combination are working very nicely together and we continue to look forward to the growth in the marketplace. We'll probably give a little bit more color on sizing for 2025 but not this quarter.

John Hecht *Jefferies LLC - Analyst*

Great. Well, appreciate the update. Thanks very much.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Thanks John.

Operator

Anthony Chukumba, Loop Capital Markets.

Anthony Chukumba *Loop Capital Markets LLC - Analyst*

Good morning. Thanks for taking my question, congrats on a strong quarter, a lot of positive signs in the quarter. So kind of a related question, a couple of questions have come up before. You are seeing the credit trade down, which is great to see, we certainly waited a long time for that.

And, you said that that's leading to a higher 90 day buyouts, which makes sense because that's more well, well-heeled customer. And also -- but also as you're saying that customer is more likely or less likely to result in a lease merchandise write off.

So I guess I'm what I'm trying to figure out is if that trade down is happening and it's clearly happening and it is impacting your gross margin, shouldn't we be also seeing lower lease merchandise write offs? Just -- I just wanted to sort of understand that dynamic.

Brian Garner *PROG Holdings Inc - Chief Financial Officer*

Hey, Anthony, it's Brian. Two dynamics, so the trade down is happening and they do generally tend to be a strong credit profile, but at the same time, as we indicated our prepared remarks, we have seen a slight increase in delinquencies just from the portfolio overall. And that's a statement independent of the trade down population.

And that's not unlike a factor that the rest of the credit stack across the board has seen. So in our jobs to stay on top of that and monitor it and decision accordingly, I would just point out that 7.7% for Q3 is where we were at pre pandemic for the same period Q3.

So it is not a level that we're uncomfortable with or that we see is expanding into Q4. So we expect to step down, we're at relatively normalized levels here, but we're pointing out kind of the dynamics within the write off population, both the benefit from a trade down perspective and also at the bottom end of the funnel, some level of weakness.

But as we've demonstrated, in our, the course of the last few years through the ups and downs, hopefully, what's been observed is our strong ability to control that number on our P&L. And we fully intend to do so and if we have to make small iterative changes and decision and we'll do that, but it's not at the level that we're viewed as unusual.

Anthony Chukumba *Loop Capital Markets LLC - Analyst*

Got it. Fair enough. That's helpful. And then this is some of obligatory question and you guys never give us super specific answer, but I'm going to ask it anyway, any update in terms of the large retail partner pipeline?

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah, Anthony, good morning. I would be disappointed if you didn't ask that question. So, thank you. Yeah, I mean, not a specific update. We were pleased with some of the traction that we've gotten year-to-date. Certainly the ASI win was a nice momentum.

We're continuing, as we think that our partnership, our profile of the recent MAG conference with partners from Lowe's and Best Buy on the panel with our Chief Commercial Officer, really -- with some really nice retail representatives in the audience listening to how at least to own can help financial inclusion and how partnering with progressive is a big part of that those, those things land and they are helpful for setting up that next conversation. So we're encouraged by the progress but nothing of specifics to update you on.

Anthony Chukumba *Loop Capital Markets LLC - Analyst*

Fair enough. Thanks for taking my questions. Keep up the good work.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Thank you, Anthony.

Operator

Hoang Nguyen, TD Cowen.

Hoang Nguyen *T D Cowen - Analyst*

Hi guys and congrats on the quarter. Sorry for keep bidding on the credit side. But I mean, you talk about delinquency being a little bit pressure. We know that which growth has based inflation for a while, which theoretically should help the lower income consumers that you serve. I guess -- I mean, what would it take for, I guess, charge off to trend back to maybe the middle of the range? And I have a follow up.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

I'll start and Brian can add, but I would just say that when we give the range of 68% we're not trying to stick the landing at 7% right. We -- I mean, the middle of the range is in the range just like where we are now. So we're very comfortable, we feel like we've proven over time that we can manage this portfolio to the range that we provided.

And we're constantly adjusting things. So I don't want to give the impression that 7% is our North Star, is the range is fluid and has a lot of impacts whether it be mix shift or from a retailer standpoint, from a mark, from a vertical standpoint also consumer shift.

So I would just guard against expecting a 7%. So we're comfortable where we are as far as the consumer. I mean, there's been a lot of evidence across consumer exposed portfolios of stress and delinquencies. And so it's not -- we're certainly not alone in that battle, the link DQs or NCOs might be in line, but early stage DQs are seem to be rising which could cause some different results and kind of in the first quarter for some of the card providers.

And we're seeing some of that as well. And so we're doing some trimming, appropriate trimming, but we're, the message should be that we're confident in controlling -- continue to control the portfolio.

Hoang Nguyen *T D Cowen - Analyst*

Got it. And maybe a follow up, maybe for Brian. I think seasonally your EPS tends to be down in 4Q versus 3Q I guess, given the 3Q performance and new guidance it looks like you're implying a stronger than seasonal 4Q this year. And so, I mean, maybe can you talk about the drivers of that.

Brian Garner *PROG Holdings Inc - Chief Financial Officer*

Yeah, it's hard to go back and remember the last normal Q4 that we've had. But I mean, I think generally, as we're thinking about, the earnings profile going into Q4, we're encouraged by the GMV production that we have here. It is going to bleed into revenue as our portfolio sizes increase. So, Q4 from a top line perspective is looking strong, we expect the write offs as I indicated is a percentage of revenue to step down from the 7.7% level. So that should assist us there.

And then, we'll keep our spend in check. There's going to be an increase dollars of SG&A just from a seasonal aspect of some of those variable costs tied to GMV production take up. But overall, as you're indicating, we're looking forward to a strong Q4 and a good launching point into 2025.

So there's not any kind of one time anomaly incorporated into our outlook. This is just ordinary course with a with a larger portfolio spinning off. What we think will be good growth margins and cost control that's what's resulting in the EPS guide.

Hoang Nguyen *T D Cowen - Analyst*

Got it. And I guess, I mean, based on your early conversations with your partners, I mean, are you seeing anything different in terms of promotional outlook for the holiday season this year versus last year?

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

We've been planning for holiday for months with our retailers and partnering with them and in some cases there are other credit providers for promotional activity. We saw last year in holiday season that more customers that came in needed a payment plan and that in order to the benefit of the primary provider as well as well as a -- I don't think anything is going to change there.

From a holiday standpoint, I think it's probably going to be fairly promotional and it'll probably, it seems like it always starts early, but because of that calendar shift between Thanksgiving and Christmas, it'll probably start earlier, and be more pronounced earlier.

So, we feel like we're in good position. And -- but we're not calling for like some inflection and underlying demand in our retail categories. Our GMV growth is coming from the things that we've talked about, the initiatives and some of the trade down.

Hoang Nguyen *T D Cowen - Analyst*

Got it. Thank you guys.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Thank you.

Operator

Bobby Griffin, Raymond James.

Bobby Griffin *Raymond James - Analyst*

Good morning, buddy. Thanks for taking my questions and congrats on a good quarter here. So I guess the first question for me is kind of just when you think about the long term EBITDA guide, progressive kind of as a whole is trending quite in the middle, right now, at 12%.

What's the pathway if we continue this healthy GMV growth towards the upper end? Is that something that's in your control or is it more just a function of kind of customer mix or 90 day buyouts? So what consumers are using the product just trying to get a sense of what could drive it towards the upper end if we stay on this healthy GMV growth path.

Brian Garner *PROG Holdings Inc - Chief Financial Officer*

Yeah, I think -- hey, Bobby, it's Brian. I think what I'd say there is the disposition mix in terms of the outcomes that the customers choose on their leases is always going to be a big factor in overall EBITDA margins. And that's always been true with this business. And so we're starting to see some slight shift there with the higher propensity for 90 days.

But, generally speaking as you grow revenue, you're going to have opportunities for operating leverage over the long term. I think the question we have to ask ourselves internally, is there -- are there initiatives and an opportunity -- growth initiatives and opportunities for us to reinvest in the business and rather than kind of seeking a margin harvesting mode to push us towards the high end.

So I think the opportunity would be there in a growth scenario for higher margins, all else being equal. But I think as long as we feel like we've got the ability to lean into GMV growth, profitable GMV over the course of time. That's what we're going to look first. And that's really been our philosophy since our inception.

Bobby Griffin *Raymond James - Analyst*

Okay. And yeah, that's not to say the 12% is not healthy, it's great and generates a lot of cash. Just trying to get a sense of what would -- what's in your control versus just the dynamics of the customer? So I appreciate that.

And then Steve, I was just curious, we're seeing the trade down, we're seeing a lot of the macro things help you guys out and in the space itself. What is your view of the category, just like pure category side of things? Are they starting to actually stabilize and improve? Have you seen any of the categories that maybe took the first dive down post the COVID over earning start to improve from a category standpoint or is this GMV growth is really a function of all kind of progressive initiatives as well as just the macro side of things with the trade down and tightening at the credit stacks above.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah, Bobby, thanks. I think as we sit here currently, it's pretty much the latter. It's the improvement in our execution in our partnerships with the retailers adding new doors. But also the credit supply dynamic and the trade down is manufacturing the GMV growth which is nice to see.

Clearly there's a couple of categories that are getting, I'd say less bad and less bad it may be the new up right now. So smartphones have been fairly strong for a while and never really saw a major dip compute and some home technology might starting to be inflecting a little bit. There's some retailers out there, that are kind of guiding to and hoping for a flat comp here in the holiday quarter.

And that makes sense from a replacement cycle standpoint. The further we get away from the pandemic demand pull forward, the more you're going to have the replacement cycle. But on the furniture and mattress side, which is so important for us and for the industry, quite frankly. It's still pretty tough out there and, it less bad is probably the label I would put on that as well, but it's still pretty bad. So and as we think about 2025 we're not expecting any kind of inflection in those categories.

Bobby Griffin *Raymond James - Analyst*

All right. That's helpful. And then, and I guess this is going to be a tough one to answer, but I'm curious, kind of your crystal ball view. But I mean, like in your history of thinking, when the category start to improve that the macro tail ones then go not against you, but they're just not as favorable. Or is there actually scenarios that you've seen over historical time where the categories actually start to improve in the macro tail ones stay there. So you could even see a further acceleration of what we're seeing today in trends.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah, there's not a lot of cycles that have repeated over the last kind of 25 years where that progressive has existed. I think there could be an overlap of acceleration and demand for the categories while supply is tight. But I don't -- to your point, I don't what your -- I don't think that it persists for very long.

But I think I've said previously, I would take strong consumer demand as a macro tailwind over tighter credit supply if I had to choose one of them, because the stronger consumer demand is a bigger force multiplier in our view for our business than the tighter credit supply. While we don't have it, the strong consumer demand, I'm pleased that we have the credit trade down that we've been anticipating for quite a while.

But if all things being equal, I'd love them for -- to both of them to exist simultaneously. But I don't think that lasts for very long. But if we have an orderly transition from tighter credit supply to a stronger demand, then I think we'll be good in that scenario.

Bobby Griffin *Raymond James - Analyst*

Perfect. I appreciate the details there and best of luck to you guys on the holiday selling season.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Thanks Bobby.

Operator

Vincent Caintic, BTIG.

Vincent Caintic *BTIG LLC - Analyst*

Hi, good morning. Thanks for taking my questions. One question but kind of a broad theme about focusing on the GMV. So basically wondering what you think of -- when you think about the medium or longer term GMV growth potential there is in the business. I appreciate the fourth quarter guidance of high single to low double digits and understanding there's probably some near term impact that you mentioned the Big Lots impact as well as I think there's five less holiday sales days, this particular fourth quarter.

But when you think about kind of the medium and long term and your execution of winning more merchants and executing within the merchants that you already have and penetrating further. If you could help us understand that GMV growth potential, that would be helpful. Thank you.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Yeah, Vincent. We haven't really given a long term algorithm on GMV growth, but clearly the market is under penetrated and not being served fully. We are fortunate that within our existing retailers, we have built in or pent up, however, you want to think about it growth because of various tools and initiatives. And as I've referred to as road maps that we haven't fully deployed and are partnering with our retailers to get those deployed. We've had a lot of success over the last two years to do that and some of the growth has -- and the progress has come from that. So we've got some built in growth from just the installed base.

But over -- if you're talking about intermediate and longer term, clearly, we need to add new retailers to the platform to keep that type of growth going. But we're pleased with the acceleration that we've seen here. And as we said, some of it is macro but I want to reinforce that just having trade down dump apps into the top of our funnel. It does not necessarily mean that we're guaranteed new funded leases or new GMV.

We have to have a good process, we have to have a good customer experience. We have to treat the customer well and improve our product continually in order for those apps, especially new customers that are not familiar with LTO and maybe getting offered an LTO product when they're used to getting approved above us in the stack. That's a new customer challenge for us to get that conversion. So the macro is helping open up the top of the funnel. But our funnel optimization projects are really helping convert that into funded GMV.

And so we expect that will continue over time into '25 and potentially through '25. So that's going to be a help for a while. But as far as long term growth we can grow with our existing retailers, but we will need to and intend to add to the base.

Vincent Caintic *BTIG LLC - Analyst*

Okay, great. That's very helpful. Thanks very much.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

Thanks, Vincent.

Operator

Thank you. And I will now turn the call back over to Mr. Steve Michaels for any closing remarks.

Steven Michaels *PROG Holdings Inc - President, Chief Executive Officer, Director*

I'd like to, again thank you guys for joining us this morning and for your continued interest in Prog. Our teams are executing well, excited about our growth and ready to finish the year strong. We look forward to updating you again once this year has wrapped up. Have a great day.

Operator

Ladies and gentleman that concludes our conference for today. Thank you for your participation and you may now disconnect.

DISCLAIMER