Progressive Leasing

PROG Holdings, Inc. Fourth Quarter 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

John Baugh - *Vice President, Investor Relations*

Steve Michaels - *Chief Executive Officer*

Brian Garner - *Chief Financial Officer*

PRESENTATION

Operator
Good morning. My name is Andrea and I will be your conference coordinator. At this time, I would like to welcome everyone to the PROG Holdings, Inc. Fourth Quarter 2020 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session.

I would now like to turn the call over to Mr. John Baugh, Vice President of Investor Relations for PROG Holdings. You may begin your conference.

John Baugh
Thank you and good morning, everyone. Welcome to the PROG Holdings Fourth Quarter 2020 Earnings Call, our first as a standalone company. Joining me this morning are Steve Michaels, PROG's 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. For those of you that have not, it is available on the Investor Relations website at investor.progleasing.com.

During this call, certain statements we make will be forward-looking. I want to call your attention to our Safe Harbor provision for forward-looking statements that can be found at the end of our earnings release.

The Safe Harbor provision identifies risks that may cause actual results that differ materially from the content of our forward-looking statements. There are additional risks that can be found in our 10-K filing, which will be filed later today. Listeners are cautioned not to place undue emphasis on forward-looking statements and we undertake no obligation to update any such statements.

On today's call, we will be referring to certain non-GAAP financial measures, including EBITDA and adjusted EBITDA, non-GAAP net earnings, and non-GAAP EPS, which has been adjusted for certain items which may affect the comparability of our performance with other companies. These non-GAAP measures are detailed and 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 year periods and (INAUDIBLE) understanding, the company's ongoing operational performance.

With that, I will now turn the call over to Steve Michaels.

Steve Michaels
Thanks, John, and good morning, everyone. We're excited to report our results for the first time as a standalone fin-tech company. I want to start by thanking our employees for their hard work and dedication in support of our customers and point of sale retailers during this pandemic while simultaneously executing the spinoff of our Aaron's business unit. With the spin in the rearview mirror, and as we approach one year into this pandemic, we feel we are in a stronger position to execute on our plans and to return closer to our historical growth rates.

In the fourth quarter, we grew revenues by 6.5 percent, adjusted EBITDA by 35.9 percent, and non-GAAP ESP by 47.4 percent. Our fourth quarter performance was in line with the outlook we provided during the spin growth show presentation.

For the year 2020, we reported revenue growth of 14.9 percent to $2.485 billion and adjusted EBITDA of $320.9 million, an increase of 34.5 percent. This adjusted EBITDA is burdened by $22 million of spin related unallocated corporate overhead expenses. Our adjusted EBITDA would have been $343 million, adjusting for this (INAUDIBLE) expense as seen in the non-GAAP reconciliation of the earnings release.

Our original 2020 adjusted EBITDA outlook provided February of last year was $305 to $323 million. Even in the face of pandemic related pressures, we were able to exceed this outlook, driven primarily by strong portfolio performance throughout the year, as well as discipline around discretionary spend.

Our gross merchandise volume for the Progressive segment for GMV, which we will be using going forward to define what we used to call Invoice, was down slightly in Q4 year over year. There were a number of headwinds to GMV in the quarter.

First, we saw a lower demand for consumers' finance payment options, including lease to own, as more consumers used cash for purchases, leading to a disappointing holiday shopping season for us. Next, we saw an even greater shift away from in-store sales to online, where we are currently underpenetrated. Finally, we saw continuing supply chain challenges that impacted inventory availability and promotional activity at certain POS partners.

While GMV results were below our expectations, we are confident the numerous initiatives we have in place will result in stronger GMV as we move through this year. In fact, we are up mid-single digits year to date even though January and February of 2020 were our two best months of GMV growth last year.

We know that 2021 is an important year for our company and we are highly focused and energized now that we have the spin behind us. In our opinion, the total addressable market remains multiples of the current market and we plan to maintain our leadership position.

We have tremendous resources at our disposal that start with a great team and the largest network of retailers, many of whom are (INAUDIBLE) with us. We also have one of the largest customer databases in the industry and what we believe are the best technology product decisioning teams in the business. Combining these strengths with an unleveraged balance sheet, a profitable business, and a cash generating model positions our company for solid growth well into the future.

Strategically, our priorities remain largely unchanged. First, we aim to grow our business with our existing and new POS partners. Second, we will continue to simplify and improve the customer experience through technology enhancements that allow our customers to shop how, when, and where they want. Third, we will drive repeat business by leveraging our database of millions of customers. Fourth, we will expand our product solutions ecosystem via research and development efforts and strategic acquisitions. Finally, we will expand our direct consumer marketing efforts to attract new customers in drive or GMV to our POS partners.

First and foremost, we plan to continue to expand our existing POS retail business and add new POS partners using our digital platforms to drive performance. In 2021, we will grow material in ecommerce, primarily through the significant progress we have made and will continue to make to be fully transactional with our larger retail partners ecommerce platforms. We will also have plug-ins for those retailers that work with POS providers, like Shopify, Magento, or

Demandware. We will work diligently to onboard ecommerce players, as we believe that modifications to our product and processes will make the shopping experience simpler and faster for both our retail partners and consumers.

And, while I'm on the subject of ecommerce, in 2020, approximately half of our applications came from retailers' ecommerce sites or Progressive's digital platforms. Our Decisioning team has proven their ability to apply fraud detection filters and make profitable and approval amount decisions in a customer not present scenario.

We narrowly define ecommerce GMV as completion of a lease in the retailer's cart checkout. In 2020, a mid-single digit percentage of our GMV was generated from ecom cart checkout process. In 2021, we expect to more than double our ecommerce business and believe it will represent a low to mid-teens percentage of our total GMV.

We are in the early innings of leveraging our consumer database, which we believe can result in incremental GMV as well as the possibility of offering other products through our research and development efforts or strategic acquisitions.

Finally, while not a strategy, our decisioning team's goal is to maximize approval rates while maintaining stable and consistent portfolio performance measured in write-offs to a tight range of 6 to 8 percent of revenues annually. Coming in at 5.4 percent in 2020, while helpful to our margin performance, reported write-offs were lower than historical levels. The last nine months' write-offs were only 4.2 percent, well below our targeted range.

Given the additional stimulus money that was recently dispersed and the likelihood of even more government payments in the coming weeks, we think we can improve more people this year and still maintain our risk exposure within, if not perhaps even below, our historical ranges.

As we discussed during 2020, we took action to more to more conservatively decision when the pandemic first hit and the potential impact on our customer were largely unknown. During the second half of the year, as the performance data came in, we used that feedback to make a series of adjustments to our decision. As we sit here today, our approval rates are in line with where they were a year ago and that is even considering the impact of the continued shift in digital application channels, which inherently have lower approval rates. We closely monitor the performance of our leases and will adjust accordingly should conditions change.

Shifting to capital and capital allocation, our balance sheet remains in great shape. We ended the year with minimal net debt and have ample liquidity to fund any growth initiatives we may pursue. As you will have seen from our earnings release, our capital priorities remain unchanged. We will first and foremost invest in the business as we pursue multiple growth initiatives in addition to our normal funding of GMV and our modest capital expenditure needs.

Secondly, we will consider M&A opportunities that can broaden our product offerings or enhance our technical capabilities. And, finally, we expect to return excess cash to shareholders, which at this point, we plan to execute through share buybacks over dividends. Accordingly, our Board of Directors has authorized a new share repurchase program of $300 million and we do not expect to pay a dividend for the foreseeable future.

As you will see disclosed in the 10-K that we expect to file later today, Blake Wakefield, Progressive's President, has resigned and will be leaving Progressive effective March 31st, 2021. Blake has been with Progressive for over eight years and has been instrumental in building the Sales organization during his tenure. Blake is leaving to pursue other interests and on behalf of all of PROG Nation, we want to thank him for his contributions and wish him much success in his future adventures.

I'm thrilled to announce that Mike Giordano has recently joined Progressive as our Chief Commercial Officer. Mike comes to us with vast and deep experience building and leading teams and driving outstanding results in B2B sales organizations and was most recently with Samsung for the last 14 years. Mike will be leading our all-star sales team and will be reporting directly to me.

While the new round of stimulus payments and pandemic related strains in our economy create an uncertain forecasting backdrop, we are confident that our GMV will grow meaningfully in 2021. We have a market leading position and have the capital, the technology, and the team to continue Progressive's impressive history of growth and innovation.

With those comments, I will turn it over to Rian Garner, our Chief Financial Officer. Brian?

Brian Garner
Thanks, Steve, and let me add my welcome to all those on the call and a heartfelt thanks to our dedicated Progressive and Vibe (SP) employees for making 2020 a success in the face of unprecedented challenges. I am honored to be part of the team and I look forward to helping drive Progressive's story forward.

Starting with our Progressive Leasing segment, net revenues for the Progressive Leasing segment in the fourth quarter reached a new record for the period of $594 million, an increase of $34 million or 6.2 percent compared to the fourth quarter of 2019. This revenue increase reflects the net of a series of headwinds and tailwinds experienced during the period. I'll begin with the tailwinds.

Throughout the quarter and as a continuation of recent trends, our customers demonstrated strong financial resilience in the face of economic challenges, as evidenced by improved levels of payment performance and associated lower levels of delinquencies in both early and late stages year on year.

Next, revenues reflect the continued strong ramp of two large POS partners launched in 2019, as well as increases in ecommerce volume year on year. As we mentioned on previous calls, the optimization of new national retailers has historically been a multi-year process as messaging, training, and marketing are tailored for our point of sale partners. We are very encouraged by the trends we are seeing there, particularly given the disruption of COVID.

Finally, on revenue tailwinds, lease buy out activity continues to be elevating, including significant increases in 90 day buy out activity in a quarter compared to the same period last year. These buy out trends, along with lower delinquencies, continue to demonstrate changes in customer behavior and increased liquidity of our customers during this time.

Shifting to revenue headwinds, revenue in the period was pressured by recent softness in GMV driven by pandemic related challenges. This recent GMV pressure and high rates of buy out in recent periods has resulted in smaller overall portfolio size as of Q4. As seen in the earnings release, growth assets on lease as of December 31st, 2020 declined 5.6 percent from the year ago period, reflecting a smaller base from which revenue is being generated.

Given the short duration of the portfolio of six to seven months on average, we expect the size of Progressive Leasing's portfolio to rebound fairly quickly as GMV returns to a growth trajectory. Directionally, as we have stated previously, the current period of revenue is largely a function of the trailing two to three quarters at GMV and the corresponding impact on portfolio size.

Gross margins for the Progressive Leasing segment increased in the period to 32.5 percent compared to 32.3 percent in the fourth quarter of 2019, driven primarily by strong payment performance in the period, offset by higher rates of 90 day buy outs. We are seeing these higher 90 day buy outs across most verticals and partner sizes.

SG&A expenses for the Progressive Leasing segment were 11.8 percent of revenues in the quarter compared to 12.7 percent in the prior year period, an improvement of 90 basis points. As we indicated on prior calls, the company has limited discretionary spend during this uncertain time while continuing to invest in critical initiatives, particularly our technology platform. Based upon the growth initiatives that are in motion and will continue into 2021, we expect SG&A will increase to 2020 levels as a percentage of revenue close to the normalized levels we saw in 2019, which was 12.3 percent of revenue.

Write-offs has historically ranged between 6 to 8 percent on an annual basis. We're 4.5 percent in the quarter due to lower delinquencies and strong portfolio performance. Over time, we expect macroeconomic conditions to normalize and write-offs to return to historical ranges, although we enter 2021 with continuing strong portfolio performance.

The Progressive Leasing segment adjusted EBITDA for the quarter was a fourth quarter record of $96.7 million, a 25.4 percent increase year over year and a 16.3 percent margin. The margin performance was primarily driven by improved portfolio performance and SG&A leverage of 90 basis points.

I will now pivot to consolidated results. Consolidated adjusted EBITDA, including our buy segment and unallocated corporate expenses, was $90 million for the fourth quarter of 2020 compared to $66.2 million for the same period last year, an increase of $23.8 million or 35.9 percent. Adjusted EBITDA was 14.9 percent of revenue in the fourth quarter of 2020, 322 basis points higher from the 11.6 percent in the fourth quarter of the prior year. Diluted EPS on a non-GAAP basis for the quarter increased 47.4 percent to 95 cents versus 65 cents in the prior year quarter.

Now turning to our balance sheet and liquidity profile. During Q4, the company entered into a credit agreement with our bank group to provide at $350 million unsecured revolving credit facility. We believe this facility, along with the cash efficient nature of our business model, provides ample liquidity as we pursue our growth initiatives. On December 31st, 2020, we had $36.6 million in cash and a $50 million balance on the revolver.

Shifting gears to consolidated outlook, I know we stated in our earnings release, because of the significant uncertainty that continues to exist relating to the pandemic, stimulus, customer behavior, and overall economic climate, we are not providing a full year outlook for 2021 at this time. However, as we are here at the end of February, we do want to share our current view with respect to our outlook for Q1 of 2021.

As we have stated, the pandemic related GMV pressures experienced during 2020 resulted in a smaller year end portfolio size versus the previous year. The portfolio drove the majority of the revenue reported in the subsequent quarter. As such, for Q1, we are expecting revenue in the range of $650 to $670 million or slightly down to flat on a year over year basis. Consolidated adjusted EBITDA is expected to be in the range of $85 to $90 million for the first quarter.

Of note, beginning in Q1 of ’21, we will be adding back stock based compensation to adjusted EBITDA. Included in this Q1 outlook is $3 to $5 million of expected stock based compensation. For reference, stock based comp was $2.8 million and $14.4 million for the Q1 ’20 and full year 2020 periods, respectively excluding stock comp expense that was included in unallocated corporate expenses during the year. Non-GAAP diluted earnings per share are expected to be between 89 cents and 95 cents.

Before I open up the call for questions, I’d like to cover one last point regarding the additional disclosure that we see in our 10-K that will be filed later today. Late last month, we received a subpoena from the California Department of Financial Protection and Innovation requesting the production of documents regarding the company’s business practices in California. We believe the DFPI’s review is part of a larger examination of how our industry operates in the same. We are proud of the way we do business and the positive impact we have on the lives of our customers. There is really not more--much more we can comment on concerning the DFPI’s review as it’s so early in the process.

So, with that, Operator, we can now open the call for questions.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press Star, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press Star, then 2. At this time, we will pause momentarily to assemble our roster.

And, our first question comes from Ken Hill of Loop Capital. Please go ahead.

Ken Hill
Hey, good morning, everyone. Thanks for all the comments related to the ecommerce outlook there. Those are really helpful. I was curious, though, from a strategy perspective--I know you talked a little bit about M&A being a part of the strategy going forward. But, also, I was wondering if you’re considering things like partnerships on that front, particularly as you grow out the ecommerce space. I know some of your peers have partnered up with buy now pay later firms to really increase their retail exposure there. So, I’m curious from your perspective if partnerships might seem more interesting going forward.

Steve Michaels
Yeah, Ken, thank you. This is Steve. Good morning. Certainly. I mean, everything’s open and on the table for us. We’ve got a great network of retail partners already and we look to deliver more GMVs for those retail partners but also additional products. But, the BNPL space, as you stated, has been white hot and attracting a lot of attention, so there are opportunities for us from a partnership standpoint, as well as other waterfall type opportunities from a partnership standpoint. So, as we think about our R&D function that we recently stood up, as well as the--when I think about strategy and M&A, it certainly involves potential partnerships, not just outright acquisitions.

Ken Hill
Got it. And, if I could, a follow up. I think you mentioned kind of reengaging some customers you had in the past, I think on your platform, somewhere in the neighborhood of I want to say 12 million customers in the database there. I was wondering if you could talk a little more specifically on how you're reengaging those customers and--who maybe haven't used the products more recently and then maybe what some of those additional returns look like there.

Steve Michaels
Yeah, we do have a very strong database and in our active customer base, we also have a very engaged customer that engages with our digital platforms very frequently. So, we think that we've got an opportunity to speak to that customer through multiple platforms frequently. But, specific to your question about the large database of maybe inactive customers that we haven't seen in a while, we've got marketing campaigns that are not only prospecting for new customers, but also reaching out to our previous or inactive customers that have done business with us in the past and representing or offering up--we're surfacing offers to them to come back and that's one thing, the power of our retail partnership network and the power of the brands that we partner with are very compelling to our customers and they want to shop at those retailer environments.

So, we're seeing some success in getting--in shortening the time to repeat--for our customers to repeat. We have a high repeat business in our history and it's actually increasing each year. But, a lot of our marketing efforts are actually compressing the time from the time that they finish a lease until the time they start a second lease, and we believe it's helpful in a couple ways. It helps our customers get the--acquire the product that they want, but it also helps us prove to our retail partners that we're driving incremental business into their environment, which continues to underscore and prove our value as a provider for them.

Ken Hill
Got it. That's great detail. Thanks for taking the questions.

Steve Michaels
Thank you.

Operator
The next question comes from Kyle Joseph of Jefferies. Please go ahead.

Kyle Joseph
Hey, good morning, guys. Thanks for having me on.

Steve Michaels
Morning, Kyle.

Brian Garner
Good morning.

Kyle Joseph
Morning. On--sorry, not Invoice, but GMV--apologies.

Steve Michaels
--Thank you.--

Kyle Joseph
As we go through ’21, you talked about some of the headwinds there in terms of supply chain challenges and that’s again more brick and mortar exposure. But, with that, I guess you’d break it apart into two components with vaccines and what not. At what point do you expect the brick and mortar headwinds to kind of ease? And, then give us a sense for some supply chain issues and when you think those trends normalize.

Steve Michaels
Yeah, thanks, Kyle. I’ll start with supply chain. I mean, obviously the supply chain has already started to heal. It was the most acute last summer and especially in the furniture and appliance verticals. It still existed at various levels, depending on the size of the retailer through the holiday shopping season and we’ve heard from some of our partners and other sources that there’s record backlogs in furniture retail. And, we’ve actually experienced it in our approval--we would call approve not converted because a customer would be approved, would enter into a deal, but the--because the lead time was 8 or 12 weeks, the customer would end up cancelling the deals. And, so our queue of that has really risen to an all-time high. But, we don’t expect that to be a meaningful headwind as we move through the--through ’21 through the top half and back half of ’21. We think those things are going to start to heal a little bit more.

And, then as you talked about, as it relates to the pandemic, we don’t have a crystal ball. We’ve got a potential stimulus coming, but we all think that whether it be availability of vaccinations or what, some--throughout 2021, the economy and our movement around will reopen and the people will return back to stores in a bigger way, and we think that will be a tailwind for us. But, also, it’s our focus and it’s our--and our energy is around being there where the customer wants to shop. So, that’s why you’ll hear much focus on our ecommerce initiatives because we think they are important.

However, we think it’s important to have--it’s an overused term, but an Omni channel solution where customers can--because in many customers’ shopping journeys, they will cross over channels. They may start online and go in-store and then finish on their mobile phone and we want to have a seamless integration across those channels for our retail partners. So, we think that in-store traffic will rebound and that will be a help to us from a GMV standpoint in ’21, but we also think that our efforts to grow in our ecom capabilities and our ecom presence with our retail partnership networks will pay dividends as well. So, that remains to be seen as ’21 plays out, but that’s our current expectation.

Kyle Joseph
Got it, very helpful. And, then next, the fourth quarter was active in terms of headlines in the virtual lease to own space. Can you just give us a refresher on the competitive environment, any recent changes you’ve seen and walk us through how that is on nationwide retail partner basis versus smaller geographical?

Steve Michaels
Yeah, certainly there was a lot of activity in the fourth quarter, starting with our spin transaction and then December heated up even more. So, listen, from a competitive standpoint, it’s always been competitive and some of the actions that were taken by our competitors will create even more formal competitors, but we’re up to that challenge.

So, I would say that from a competitive standpoint, it hasn’t changed a ton. We still have a very competitive SMB (SP) space, with multiple players and some sizeable ones that are growing fast. In the enterprise world, it’s less competitive, but there are several players that can--that we expect we will see as we try to land and convert the pipeline that we have out there. So, the moves over the last couple months and the Rent-A-Center one in particular I would call out by name, is certainly something to watch. But, we feel confident in what we bring to a potential retailer that's evaluating this solution. We've got the scale and the referencability and the infrastructure and the know-how to provide an Omni channel solution for them and we expect that we will continue to win our fair share.

Kyle Joseph
Got it, very helpful. Thanks for answering all of my questions. Appreciate it, guys.

Steve Michaels
Thanks, Kyle.

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

Jason Haas
Great, thanks for taking my question and good morning.

Steve Michaels
Morning.

Jason Haas
I'm curious if you could speak a little bit more towards some of the (INAUDIBLE) trends you're seeing just because I imagine there's been some major volatility due to just stimulus. The weather's maybe had an impact and also with tax refunds being delayed. So, I'm just curious how each of those--if they've had an impact at all on your business. Thanks.

Steve Michaels
Yeah, thanks, Jason, you're right. I mean, you nailed them. We did see an impact in GMV from stimulus right at the beginning of the year, although it was probably a little bit more muted than what we saw in April-ish timeframe of last year. And, then and we had some good trends. As we said, we were year to date, we were up mid-single digits in GMV. As you think about that, we have the stimulus impact and then exactly what you said, the tax refunds are 85 percent delayed--or 85 percent down year over year so far. I think the anticipation is that they'll start hitting this week and probably into the next two weeks of March, so we'll be watching to see that impact, although there's also concerns around the fact that overall size of the average refund will be down, kind of low to double digits, so we're watching that.

And, then we were certainly on a higher year to date trajectory from a GMV until the last kind of 10 days of weather related challenges and certainly Texas is a big state for us and had some really big disruptions. So, we've got all those things kind of baked into the year to date numbers and then we'll be watching the release of the tax refunds throughout the balance of the quarter and then obviously as we get into the back half of March, we start to get into comparing against the onset of the pandemic last year. So, a lot of moving parts to bake into the cake for Q1 GMV.

Jason Haas
Thanks. And, then as a follow up question, could you provide some more color on how the rollout--I guess now they've been around for some time, but I'm curious if you could provide more color on the rollouts of some of your largest partners just in terms of how employees are

getting used to the system, how management is supporting the programs, and just any more color on the (INAUDIBLE) rollouts.

Steve Michaels
Yeah, and without mentioning anybody by name, I think everybody knows which ones you're referring to. We're very pleased with the results and the rollout throughout 2020 and 20--and year to date '21 in our major--in our recent major launches from 2019. You mentioned a little bit ago, which is true, but it feels like we're--it's just an instant ago. We are in the very early innings of growth with those partners and management, we have great dialogue between our teams. We have lots of sessions on how to continue to grow and what tools need to be provided in order to have further penetration. But, even as those tools mature, as Brian said in his prepared remarks, it is a multi-year process. We're very pleased with how--with the ramp and the growth in 2020, in both of those national partners, and expect big things in 2021.

Jason Haas
Great to hear. Thank you.

Steve Michaels
Thank you.

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

Brad Thomas
Hi, good morning, and congratulations on your first standalone call here as a company.

Steve Michaels
Thanks, Brad.

Brad Thomas
A couple--you're welcome, Steve. A couple questions if I may, first around the changes in the decisioning. I believe you said your approval rate is running about where it was this time last year. When we think about the back half of this year and lapping those quarters where your losses were at 2.1 percent and then 4.5 percent, what's the opportunity to add to revenues in those quarters if you underwrite at a higher level, if you decision at a higher level? How much would that potentially add revenues in the back half?

Steve Michaels
Yeah Brad, without kind of quantifying the revenue, and I'll let Brian chime in here as well, but from a GMV standpoint, I would say decisioning definitely had an impact on our GMV in 2020 and we think that the decisions we made in March of 2020 were appropriate at the time. They may have proved a little conservative now, but knowing what we knew then, we would probably make the same--we would make the same decision.

So, but having said that, we did make the moves that I outlined in my prepared remarks and we expect that that will help GMV in 2021. I think we said in previous calls that in the--let's call it Q3 of 2020, the back half of 2020, we had--our approval rates were about 5 to 700 basis points lower than the previous year. So, it wasn't an immaterial number. So, as you think about revenue, which was your question, that is a more difficult question to answer because that is mostly driven by GMV that'll be delivered in Q1 and Q2. But, as you're thinking about comping GMV in the back half, we think there's a lot of factors that would create some tailwinds and a good comp and decisioning is certainly probably in the top three, not number one but in the top three.

Brian Garner
Yeah, I think that's right and as Steve mentioned, there's going to be a bit of a lag from the timing. You make those decisioning changes, like Steve in revenue, the one to two quarters typically. But yeah, I think as we frame up Q1 and beyond, I think the expectation around write-offs in general is to see some movement there catch up a bit. We're looking for opportunities to the extent where there's profitable deals to decision on. I've left them in the funnel. So, we continue to watch that and look to be opportunistic. We've got a best in class decisioning team that is making it their priority. So, as this environment changes with stimulus and looking at the changes in customer behavior, we're consistently looking at that and looking for opportunity to figure out that (INAUDIBLE) except that it's added into the bottom line.

Brad Thomas
Thanks, very helpful. And, then Steve, if you could just remind me Aaron's and Progressive last year in the first quarter increased reserves as a result of the environment that we were going into and the risk of losses being higher. And, I believe as of the third quarter, you all had not released those reserves. Can you just give us an update on where some of the reserves stand today for current conditions and expectations relative to these strong write-off trends?

Steve Michaels
Yeah, sure I can take that. You're right, we recorded about $16 million of incremental COVID reserves back in Q1 as the pandemic and beyond and we had uncertainty around how (INAUDIBLE) was going to perform. As we closed out the year, we brought that reserve down slightly to $14 million. We feel there's still meaningful uncertainty out there with a new tax season and ultimately it still remains to be seen on how those customers are going to handle rent deferrals and things like that. So, effectively, we feel like we're adequately reserved. I wouldn't say we're reserved for a catastrophic case, but I think we're conservative of a base case and I think--yeah, I don't think there's going to be additions to that reserve based on what we can see right now as we move forward.

Brad Thomas
Got you. So, to make sure I have it right, the reserve is now $14 million down from $16 million?

Steve Michaels
Yeah, it's brought down a couple million dollars based on our most recent analysis.

Brad Thomas
Perfect and as a last housekeeping item, are you able to share with us the percentage of revenue that you have coming from California right now?

Steve Michaels
Yeah, we can share that. For 2020, it was approximately 9 percent.

Brad Thomas
Great, thank you all so much.

Steve Michaels
Thanks, Brad.

Operator
The next question comes from Alex Maroccia of Berenberg. Please go ahead.

Alex Maroccia
Good morning, guys. Thanks for taking my questions. The first one is on your ecom strategy and it piggybacks off your previous comments around SMBs versus enterprise focused virtual lease to own companies. So, will you in particular be focused on landing a handful of very large retailers similar to your legacy partners from an ecom standpoint or can we expect you to target a large volume of smaller DTC startups, similar to who your peers have been targeting?

Steve Michaels
I would say yes to both of those. Our strategy, we'll have teams focused on both of those different markets. We certainly--our biggest near term opportunity is to, as we've talked about before, convert and get fully transactional in the ecom checkout cart of our existing network of enterprise partners. But, at the same time, we know that simple and integration-less plugins with the popular platforms like Shopify and Demandware and Magento for--in the SMB space are a big opportunity as well. And, so we've got teams that are not only focused but incentivized on both of those very important areas.

Alex Maroccia
Okay, great, that's helpful. And, then on a related note, can you discuss some of the margin impacts of an expanding ecom business? Just because I guess most importantly, I would think ecom right off to be a bit different and then returns are more expensive since there's not a physical store involved. So, is this thinking correct?

Brian Garner
All things being equal is typically how we handle ecommerce. You'll see a little approval rate on ecommerce and so our decisioning team will effectively assess that risk, be a little tighter in terms of their decisioning profile, all in as we evaluate the margins of profitability of ecommerce deals we're able to achieve effectively very similar margins to what we see in say our brick and mortar transactions. So, you're right, the risk to the customer is generally elevated, but we're able to solve for that through our proprietary decisioning.

Alex Maroccia
Okay, thanks. Good luck with the quarter.

Steve Michaels
Thank you.

Operator
The next question comes from Bobby Griffin of Raymond James. Please go ahead.

Bobby Griffin
Good morning, everybody. Thank you for taking my questions. First, Steve, I just wanted to quickly go back to your--in your prepared remarks, you mentioned I think three headwinds to GMV, cash payments, the ecommerce aspect, and then the supply chain. Were those given in rank order in your view or if not, can you maybe size up or help us think about which one you thought was the biggest headwind during the quarter?

Steve Michaels

I think, yeah, those were in rank order. I mean, what we did see--and we've had anecdotal evidence from our partners--is that even though they may have had positive comps in the quarter, because ultimately the holiday shopping season was up year over year, they saw a shift of composition of cash sales or personal credit card usage versus people reaching for offered point of sale finance options within their environment. So, that was certainly a headwind for us.

We also saw--and I think I mentioned this on the last call. We also saw some supply chain issues manifest themselves through visibility into a truck of furniture coming into the store. But, by the time the truck got there, it was all pre-sold, so there was less--even though they had good comps in that category, there was less availability of inventory availability for people who were using financing because it was sold with people who put deposits down in cash. So, I would say back to your original question, it was in rank order of how we thought--what changed and what we thought the impact was since we basically gave our outlook on October 29th.

Bobby Griffin
Okay. And, then on the ecommerce aspect, in trying to drive better penetration there with your customers or your partners, obviously getting the service offered online is the first step. But, can you maybe talk about some of the marketing angles or the initiatives because I'm just thinking about it from a high level. If I walk in a store, there's a store associate that can tell me about rent to own, educate me about rent to own, but it could be a little bit more difficult for a customer to realize that XYZ retailer offers that online when they're shopping online. So, is there any new programs there that you're putting in place or how you're working with your partners on that aspect.

Steve Michaels
Yeah, that's a real challenge basically is getting that awareness and visibility online, especially because everything is mobile first and real estate on a mobile phone is the most valuable commodity as it relates to landing pages and checkout carts. But, we've got--we work very well with our partners. We've got great marketing collaboration and we can reach for particular promotions that can drive people to knowing that the offering exists online and then that raises awareness, but it is--we have a button basically that says pay with Progressive or something, but it's--until--that's after they've put something in the cart. So, we've got work to do and it's in collaboration with our retail partners on how we raise that awareness and it's in both of our best interest, as well as the customer's, to make sure they know it's available and those plans are happening and also being enhanced all the time.

Bobby Griffin
Okay, and then I guess lastly for me, on the tax refund season, clearly a lot of moving parts here, but historically, if I remember correctly, when your customers get refunds, it drives buy outs and they buy out of the contract early, so there's good cash flow into your business. If refunds are down dollar wise or just the amount or something, how do you foresee that playing out? I mean, you can see customers I guess hold onto the product a little longer, but then at the same time, you don't have your customer base with new cash or for new purchases or something, so just any high level thoughts about how you guys view this potentially playing out would be helpful for us to think about.

Brian Garner
Yeah, I think what do I say to that? I mean, in the ordinary course, what we see during tax season is typically a spike in 90 days with buy outs, collections tend to be higher, you have some improvement in your delinquency metrics and GMV tends to also benefit. So, in isolation, pushing tax season out and a more muted tax season does impact these metrics. However,

when you think about stimulus and what's on the horizon there, then obviously it throws a big wrench in trying to hold that in isolation. There's all these moving parts there.

So, I think there's--I think generally, the macro trends point towards a continued strong portfolio and maybe a slight away in GMV volume as we think about an early tax season. But, from a cash flow perspective, one of the strengths of this model is the ability to turn the portfolio quickly. So, even with that considered and having that tax season pushed out a little bit, the company is able to self-fund pretty easily during this point in time in terms of cash flow from operations being positive.

So, I don't think there's any concern there. I think there's probably a little bit of temporary dynamic of pushing back the metrics that I specified and then ultimately, I think we'll be in good shape. But, there's certainly a lot of liquidity out there right now and this stimulus is going to add to that.

Bobby Griffin
Okay, I appreciate that. And, I guess one quick modeling question. Can you give us the active doors in Q4 when we clean up our model?

Brian Garner
Yeah, I can give you that, the active doors. So, active doors were 20,700 just down from 2200 same period last year. Yeah, sorry, 22,000 last year. So, 20,700 down from 22,000 same period last year. So really, that's being driven by--we talked about some store closures during the pandemic. Some of our large national retail partners had some pertinent closures that are playing through that number and I'd be amiss if I didn't say that particularly as we shift more towards ecommerce and with these big box retailers ramping and become a higher concentration, that metric becomes less and less important. We see more productivity in these big box retailers, which kind of skews these numbers, say, from a regional mom and pop. So, I mean, just keep that in mind as you're assessing that, but those are the figures for the order.

Bobby Griffin
Yeah, we can see--I mean, as that moves up, we should see higher invoice--I mean, higher--excuse me--GMV. It's going to take me a while to get used to the new metric, (INAUDIBLE). Yeah, thank you. I appreciate the time. Thank you.

Operator
The next question comes from Vincent Caintic of Stephens. Please go ahead.

Vincent Caintic
Hey, good morning. Thank you for taking my questions. I had kind of a clarifying question about some of the online details you gave. So, the online GMV mid-single digits and you expect it to more than double to the lower mid-teens percentage for GMV. Is that the percentage of, or I should say closed applications online, so the application gets funded online? And, then if so, just kind of wondering when you think about the opportunity, what could that percentage be that you do online when you close online?

Steve Michaels
Yeah, thank you, Vincent. So, I guess--and I think I mentioned this, but we narrowly define ecommerce. So, we have multiples of that from a percentage standpoint that have an ecommerce component to them when it comes to GMV, like, if you think about half starts and things of that nature. But, we narrowly define ecom as that's a fish in the retailer's cart. That

means lease signing, first payment, the arranged liberty, that type of stuff. So, that's what we're referring to when we talk about mid-single digits and then--and with that definition, we're talking about being in the low to mid-teens in 2021 on overall GMV. Obviously, our GMV is quite large, so that's a really big business.

But, what it could be is I would say we're somewhat agnostic too, but it's ultimately driven by the customer. The customer will decide where they want to engage with our retail partners. We do think there's opportunities to--through our marketing efforts and from a repeat business, to keep them--to have more customers do business online and drive customers through into the ecom environments, but ultimately, we expect there will be channel shift. There'll be some people that go in store--that used to go in store and now they'll be online. But, we expect it will continue to grow and it will grow faster than the rest of the channel, but we're not targeting a number because it's really all about where the customer wants to participate with us.

Vincent Caintic
That's very helpful. Thank you. And, I want to ask a question, I wanted to follow up on the question about a competition and in virtual lease to own and over the fourth quarter, we've had a couple of these guys go public or announce that they're going public, but (INAUDIBLE) Rent-A-Center acquisition (INAUDIBLE) public. I think the investor questions I've been getting is now they're familiar with other competitors out there, and so I just wanted to kind of throw a broad question to you. Maybe why does the retailer pick Progressive over the other guys and essentially you as the sales pitch because--sales pitch on Progressive since--and how it differentiates versus some of the other players out there. Thank you.

Steve Michaels
Yeah, thank you. I mean, listen, and that's going to change based on what retailer you're speaking to. But, from an enterprise account standpoint, Progressive is still the largest, is the most referenceable. We're the only one currently servicing the largest national retailer that offer this solution in the country and that comes with the ability and the history of servicing their customers and their retail sales associates through customer support, merchant support very well. It also comes with the infrastructure and the tech chops and everything that allows them to feel confident that we're going to take care of their customers and all the way to their data. So, that history is very important. We believe that our referenceability and our track record mean that we'll be in the conversation for all these retailers that are looking for a solution and our roadmap and our technology roadmap will help to paint the picture as to why Progressive is who to choose.

In the SMB space, it's very competitive and we're not going to go out and just compete on price or rebate, but we have a great track record there of delivering value and taking care of their customers. Our customers love us. We've got great reviews. The voice of the customer speaks very loudly for us and we use that in, as you say, our sales pitch. So, we've got a net promotor score of 62, which is outstanding, and it's basically our customers speaking that we treat them well and they like us.

And, then the last thing--and it's very important and I alluded to it earlier--is we are not just the save the sale solution for a retailer. We are a value added partner that may have started a few years ago as a ride their marketing rails and save the sale. Now, we are an incremental driver of business of customers that were not historically doing transacting in these retail environments. And, so our network effect and our--the digital ecosystem that we can bring to bear and provide for these retailers and prove to them that either our marketing effects or relationship with the customers have driven them into that retailer is very powerful and it not only helps us maintain retailer relationships, but attract new ones.

Vincent Caintic
Okay, that's very, very helpful. Thank you very much.

Steve Michaels
Thank you, Vincent.

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

CONCLUSION

Steve Michaels
Well, thank you, everyone. Thank you for joining us today and thank you for your interest in our company. We are--it's certainly uncertain out there. It's certainly uncertain. But, even in this uncertain environment, our team is very excited about our launch as a standalone company and our opportunities to continue Progressive's history of growth and innovation. I want to thank all of our employees for their tireless work to help provide simple and affordable purchase options to the credit challenged consumer and we look forward to updating you again next quarter.

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