REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2023 PROG Holdings Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 21, 2024 / 1:30PM GMT

CORPORATE PARTICIPANTS

John Baugh *PROG Holdings Inc - Vice President - Investor Relations*
Steve Michaels *PROG Holdings Inc - President & CEO*
Brian Garner *PROG Holdings Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Kyle Joseph *Jefferies LLC - Analyst*
Jason Haas *BofA Global Research - Analyst*
Bradley Thomas *KeyBanc Capital Markets Inc. - Analyst*
Anthony Chukumba *Loop Capital - Analyst*
Alessandra Jimenez *Raymond James - Analyst*

PRESENTATION

Operator

Good day and welcome to the PROG holdings fourth-quarter 2023 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, John Baugh, Vice President, Investor Relations. Please go ahead.

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

Thank you, and good morning, everyone. Welcome to the PROG Holdings Fourth Quarter 2023 earnings call. Joining me this morning are Steve Michaels, PROG Holdings' President and Chief Executive Officer; and Brian Garner, our Chief Financial Officer.

Many of you have already seen a copy of our earnings release issued this morning, which is available on our Investor Relations website, investor.progholdings.com. During this call, certain statements we make will be forward looking, including comments regarding our 2024 full-year outlook and our outlook for the first quarter of 2024, the health of our portfolio, our capital allocation priorities, including our ability to continue paying a quarterly cash dividend and repurchase shares in future periods, our expectations regarding GMV, and the levels of charge-offs and 90 day purchase options in 2024, our expectations regarding the future performance of our other operations, and our expectations regarding consumer demand for leasable items in 2024.

Listeners are cautioned not to place undue emphasis on forward-looking statements we make today, and we undertake no obligation to update any such statements. On today's call, we will be referring to certain non-GAAP financial measures, including adjusted EBITDA and non-GAAP EPS, which have been adjusted for certain items, which may affect the comparability of our performance with other companies. These non-GAAP measures are detailed in the reconciliation tables included with our earnings release.

The company believes that these non-GAAP financial measures provide meaningful insight into the company's operational performance and cash flows and 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 would like to turn the call over to Steve Michaels, PROG Holdings' President and Chief Executive Officer. Steve?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Thank you, John, and good morning, everyone. I appreciate you joining us as we report fourth-quarter and full-year 2023 results that matched or exceeded the outlook we provided in late October. Today, we will cover how Q4 unfolded, how 2023 concluded, our outlook for 2024, some of the strategic initiatives we are implementing to drive our business forward, and our decision to initiate a dividend as a complement to our capital return activities.

Last year was another challenging year for both our customers and retail partners. The combination of weaker than expected retail traffic and a shift in consumer spending from leasable categories to consumables and experiences impacted our business. We navigated these headwinds through strong operational execution and gaining balance of share in our top retail partners while balancing GMV pressures with portfolio management and continued spend discipline.

Despite a decline in revenues for the full year 2023, our gross margin expanded primarily due to strong customer payment behavior. As a reminder, our portfolio benefited from our decisioning changes made in mid 2022, along with our team's careful monitoring and management of the portfolio throughout 2023, which drove strong customer payments and lower than expected charge-offs throughout the year.

The portfolio also benefited from fewer customers choosing to exercise their 90-day purchase option in the first half of 2023. I want to thank our teams for executing at a high level through a volatile macroeconomics and consumer backdrop. Gross margin expansion of 210 basis points improved write offs of 6.7% compared to 7.7% in 2022 and a disciplined approach to spending drove year over year adjusted EBITDA growth of $41.3 million or 16.1%, resulting in a 12.4% margin for 2023. Our non-GAAP diluted EPS of $3.67 grew 41.2% year over year as we also benefited from a lower share count due to our share repurchase program.

Turning to Q4 and our GMV performance, we delivered a 1.2% increase in Progressive Leasing GMV, materially above our expectations set in late October when we anticipated a mid-single digit decline similar to Q3. The GMV pressures of Q3 2023 continued into October with the month ending down 6.3% year over year.

The holiday season, however, performed better than expected, resulting in a positive GMV comp for the quarter. We believe this outperformance was driven by a mix of factors, including increased and more effective marketing spend, implementation of various initiatives with our retail partners, slightly higher approval and conversion rates, increased consumer demand for point-of-sale payment solutions, and some signs of trade-down effects due to credit tightening above us in the stack.

Notably, we observed strong sales in consumer electronics and smartphones during the holiday season.

In Q4, e-commerce as a percentage of Progressive Leasing GMV was at a seasonal high, representing approximately 20% of total leasing GMV. And we continued to add new e-com retail partners during the quarter through our customizable integrations and plug-ins.

We also deepened our integrations with several existing partners, including launching an e-com cart solution with a longtime top five retail partner. In 2023, we added nearly twice as many new e-com partners as we added in 2022, which allows us to further our strategy of being able to engage with our customers wherever and whenever it's most convenient for them.

Entering 2024, we feel good about the health of our portfolio and our cost structure. We continue to make progress against our multiyear strategy to Grow, Enhance, and Expand. To support our Grow pillar, which emphasizes our dedication to business development efforts across new and existing retail partnerships, I'd like to highlight a few focus areas across sales and marketing.

Within the retail-challenged environment of 2023, we grew balance of share with our top partners and continued our track record of renewing key retailers with multiyear exclusive contracts. Our sales team creates value for prospective and existing partners through initiatives that drive incremental traffic and improve top of funnel applications and customer conversion.

The team is in a business development mindset across all categories, existing and new, all the time. Our pursuit of new retail opportunities across regional and national brands is an important component of our growth strategy to capture more of our industries $30 billion to $40 billion addressable market. Additionally, under the grow pillar, we continued to enhance our direct-to-consumer marketing strategies through a focus on the customer lifecycle.

We invest in top-of-the-funnel marketing channels and brand awareness as a catalyst to scale growth. We also work closely with retail partners to support strategic marketing campaigns to increase new customer acquisition and attract repeat business.

Our high repeat customer base, which we nurture with engaging content that builds and maintains relationships helps us keep a healthy customer lifetime value to cost of acquisition ratio. Our direct-to-consumer efforts, which we refer to as PROG Marketplace, allow new and repeat customers to shop when and where they want through our mobile app, which has been downloaded more than 4 million times since its launch.

We grew the PROG Marketplace materially in 2023, and through continued enhancements this year, we plan to roughly double the GMV for PROG Marketplace in 2024. We view this marketplace as a complement to our retail partner channel since we already partner with some of the best retailers in the country. But we also have affiliate relationships with other leading retailers through our marketplace, which gives our customers more choice.

Under our Enhance pillar, we are leveraging technology to make the journey quicker and more seamless for our retail partners and customers. Our recent technology investments provide more self-service tools to enable a superior retailer experience while helping the customer make the best and most informed choices and offer greater personalization for a streamlined shopping and decisioning experience.

Also, a portion of our 2024 technology roadmap is dedicated to continuing our investment in our customer-centric flexible lease platform to support new features for our customers and retail partners. Additionally, under our Enhance pillar, we launched the PROG Labs R&D group last year to achieve productivity gains within the company and to improve our retailer and customer experience through generative AI. These efforts represent a strategic investment in improving our responsiveness to consumer and merchant needs while reducing costs.

In the relatively short period since the launch of PROG Labs, the group has piloted several value-creating solutions within customer support, fraud prevention, marketing, and code cleanup.

Under the Expand pillar, our multiproduct ecosystem continues to empower more of our customers through their financial journey.

In 2023, we successfully launched our Build product, which combines the benefits of an installment loan and a secured savings account to help customers build both positive credit history and personal savings. We expect 2024 to be a pivotal year as we leverage necessary infrastructure to further integrate Vive, our secondary credit offering, Four, our buy now, pay later solution, and Build, our credit building product, into our Progressive Leasing ecosystem.

We will also lean into marketing, and through our cross-selling motion, believe we will drive incremental leasing GMV. In 2024 through customer acquisition and these cross-marketing efforts, we anticipate that our Other operations, which include Four and Build, will represent the size of a top 10 retailer in terms of the GMV they will drive for our leasing business.

Lastly, we've made good progress in the profitability of our Other operations. We expect to reduce the drag on our 2024 earnings from these operations by approximately one-third compared to 2023, and we believe Other will reach profitability as we exit the year.

While Brian will get into more detail on our 2024 outlook, I'd like to summarize how we're thinking about the macro backdrop going into the year. Similar to 2023, due to continued economic pressures our customers are facing, we believe the headwinds in demand for our leasable categories will continue in 2024. However, we are optimistic that as the year progresses, the initiatives outlined in our Grow, Enhance, Expand strategy will further offset these pressures.

Despite a strong 2023 holiday season, 2024 started off with GMV pressures across many of our retail partners. With trends softening since the holidays in major leasable categories, an uptick in promotional activity by retailers in an attempt to drive traffic could result in a decline in average ticket size.

Q1 is heavily influenced by the tax refund season, which has yet to really kick in. Tax season impacts our business in several different ways and can have a margin impact due to refunds affecting the level of 90-day purchase activity, but can also have a GMV impact based on the amount of liquidity our customers have. As we understand it, the first large release of refunds will happen this week, but we will not know the full impact of how the tax season will unfold until late March, when most of the tax refund activity should be complete.

Our Progressive Leasing GMV for the month of January was down low single digits. And, given the macro headwinds and uncertainty I have been discussing, we expect the quarter to end within a similar range. Even with these headwinds and unknowns as we enter the year, we are optimistic about our strategic direction, growth initiatives, and the health of our portfolio.

In terms of gross margin, we have a difficult comparison between this year and last predominantly in the first half of the year. 2023 benefited from a Goldilocks scenario of lower charge offs and fewer customers choosing to exercise their 90-day purchase option in the first half, which, based on behavior as we exited 2023, we are not expecting the historically low 90 day purchases from the first half of 2023 to repeat in 2024. Our strategy remains solid across Grow, Enhance, and Expand with resources in 2024 focused on numerous initiatives across these three pillars.

Turning to capital allocation, PROG Holdings' Board of Directors declared a quarterly cash dividend of $0.12 per share for the first quarter of 2024 and increase the availability under the company's share repurchase program to a total of $500 million, reflecting our business model's strong free cash flow generation, and our ongoing commitment to returning excess capital to shareholders.

We intend to pay a cash dividend on a quarterly basis going forward, subject to a number of factors, including market conditions and approval by our Board of Directors. This dividend initiation is designed to complement our share repurchase program and our capital allocation priorities remain unchanged, prioritizing reinvesting in the business, followed by M&A and returning excess capital to shareholders.

In summary, our performance in 2023 and our ongoing strategic initiatives lay a solid foundation for 2024 and beyond. We are excited about the opportunities ahead and remain dedicated to delivering value to our customers, retail partners, and shareholders.

Before I turn the call over to Brian, I want to announce that Curt Doman, Co-founder of Progressive Leasing & Chief Innovation Officer and Board member of PROG Holdings will be retiring as a member of the executive team in this his 25th year of service. While he is retiring from his executive position, Curt will transition to a senior adviser role and will continue as a member of our Board of Directors.

It will be impossible to overemphasize the impact that Curt has had on both the virtual lease-to-own industry and on our company. Twenty-five years ago, Curt and his partner, Brent Wilson created the industry we now call virtual lease to own with the founding of Progressive Leasing. For the last two-and-a-half decades, Curt has been the driving force behind the grit and innovation that has helped PROG remain a market leader while creating a better today and unlocking the possibilities of tomorrow for millions of customers through financial empowerment.

I want to congratulate Curt for all he has built and thank him personally on behalf of the entire PROG family for what he has accomplished in his exemplary career. We are fortunate that Curt will continue to advise and counsel us. He will remain involved in strategy, but his primary focus will be driving PROG's philanthropic efforts, specifically the PROG Foundation and its recently launched Youth Development Center, which was also Curt's brainchild. Thanks, Curt.

I'll now turn the call over to our CFO, Brian Garner, who will discuss our 2023 financial results and 2024 outlook in greater detail. Brian?

Brian Garner ***PROG Holdings Inc - Chief Financial Officer***

Thanks, Steve. I'll start with a summary of the Q4 financial highlights. Our fourth-quarter results matched or exceeded our outlook, showing strong demand for our virtual lease-to-own product as sales and marketing initiatives improved GMV results, and we continued to demonstrate our ability to manage financial drivers within our control.

Beginning with the Progressive Leasing segment, as Steve mentioned, GMV for Progressive Leasing improved 1.2% compared to Q4 of last year, materially above our expectations communicated on our Q3 call of a mid-single digit decline. In addition to the benefit of strong consumer demand during the holiday season, our team increased the rate of marketing spend and pursued direct consumer opportunities, which contributed to overall results. As a portfolio of business, this GMV tailwind late in the year will contribute more meaningfully to 2024 revenue as compared to Q4 2023 revenue.

Revenue for our Progressive Leasing segment declined 6% from $592.9 million to $557.5 million. We entered the fourth quarter with a gross leased asset balance down 9.6% as compared to the same time last year and exited 2023 down 5.2% as the improvement in Q4 GMV benefited our portfolio size.

Revenue for the fourth quarter exceeded the top end of our outlook, largely due to the better-than-expected customer payment behavior along with a slight benefit from the favorable GMV. Year over year, we saw a higher portfolio yield driven by favorable charge-off trends, while revenue from 90 day purchases remained at normalized levels in the quarter as gross margin improved 20 basis points year over year to 32.9%.

Our management of the lease portfolio led to strong customer payment behavior and resulted in a provision for lease merchandise write-offs of 7%, the midpoint of our annual targeted range of 6% to 8%. Progressive Leasing's SG&A expense as a percentage of revenue increased year over year to 15% in Q4 of 2023 from 13.2% in Q4 of 2022. For the fourth quarter, SG&A expense increased approximately $5 million year over year, primarily due to incremental marketing spend and one-time costs associated with the cyber incident that occurred in Q3.

As I will discuss further in our outlook, we expect the restructuring actions we took in January have put us on a trajectory for flat SG&A as a percentage of revenue in 2024. Adjusted EBITDA for Progressive Leasing declined from $80.4 million to $65.8 million as headwinds to revenue and SG&A spend in Q4 compared to the same period last year were partially offset by portfolio performance, resulting in adjusted EBITDA margin of 11.8% within our targeted annual range of 11% to 13%.

Pivoting to consolidated results, our Q4 non-GAAP EPS came in at $0.72, exceeding the top end of our outlook due in part to lower share count that resulted from our share repurchase program. Consolidated revenues declined 5.7% from $612.1 million to $577.4 million, driven by the decline at the Progressive Leasing segment.

Consolidated adjusted EBITDA declined 18% to $61 million from $74.4 million in the year ago period, driven by the contraction in revenue at the Progressive Leasing segment, but partially offset by the favorability in gross margin. Our adjusted EBITDA performance was at the midpoint of our outlook. As announced in this morning's earnings press release, the company's Board has approved a quarterly cash dividend of $0.12 per share and increased the remaining authorization under the company's existing share repurchase program to a total of $500 million.

To echo Steve, these decisions speak to the strong profitability and cash flow generation of our business, which allow us to return value to shareholders through a combination of dividends and share repurchases. We repurchased 4.7 million shares of our common stock in 2023 at a weighted average price of $29.75. The company has generated $204 million of cash from operations, which is net of the working capital needed to fund GMV.

Moving to the balance sheet, we ended the quarter with net debt of $444.6 million, comprised of $155.4 million in cash and $600 million of gross debt which is 1.49 times our trailing 12 months adjusted EBITDA. We remain undrawn on our $350 million revolver at quarter-end.

I'll now touch on some key aspects of our 2024 outlook, which was provided in this morning's earnings press release. We expect GMV headwinds to continue through at least the first half of 2024 with the year-over-year percentage decline of our first quarter GMV down low single digits.

We expect these first half GMV pressures combined with the gross leased asset balance down 5.2% as we enter 2024 will result in consolidated revenue being down year over year. Our portfolio performance is expected to remain strong, and we will continue to actively manage yields throughout 2024. However, we expect gross margin to be a difficult compared to 2023 for the Progressive Leasing segment as we saw a record low percentage of customers exercising their 90-day purchase option in the first half of last year, coupled with lower charge-off rates throughout the year.

We anticipate a slight increase in Progressive Leasing's provision for lease merchandise write-offs, but we still expect to deliver yet another year of consistent performance within our targeted annual range of 6 to 8 percent. The cost actions that we announced last month, including reduction in workforce, the termination of certain independent sales agent agreements, and office space consolidation are intended to drive efficiencies within the cost structure and should allow for the Progressive Leasing segment's SG&A as a percentage of revenue to remain roughly flat year over year.

In 2024, these cost actions will drive roughly $10 million of year-over-year savings for Progressive Leasing, partially offset by investments and growth initiatives across the leasing business and other operations.

Turning to the consolidated outlook for 2024, we expect revenues to be in the range of $2.24 billion to $ 2.34 billion, adjusted EBITDA in the range of $230 million to $250 million, and non-GAAP EPS in the range of $2.70 to $3.00. This outlook assumes a difficult operating environment with continued soft demand for consumer durable goods, no material changes in the company's decision posture, an effective tax rate for non-GAAP EPS of approximately 29%, no material increases in the unemployment rate for our consumer, and no impact from additional share repurchases.

In closing, I want to emphasize the company's ability to operate at a high level through a challenging macro environment and thank the team for several wins during 2023, including an increase in balance of share with top retail partners, the renewal of multiyear exclusive agreements with several key partners, strong portfolio performance and disciplined SG&A spending. In 2024, we will continue to focus on the growth initiatives, balanced with portfolio performance and controlled spending to maximize shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kyle Joseph, Jefferies.

Kyle Joseph ***Jefferies LLC - Analyst***

Good morning, Steve and Brian. Congrats on navigating a challenging year and thanks for taking my questions. Love to start -- just getting your perspective on the health of the underlying consumer, in your guidance, kind of run through, you talked about the normalization of EVL activity, but also a little bit higher provision. Is that a function -- what's driving that? Is that really just a function of the Goldilocks scenario reversing, obviously weighing inflation, but a relatively healthy employment environment? But just kind of want to get a sense of what's going on with your consumer?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yes, you got it, Kyle. Thank you. And you hit on some of it, right. So without going too far in the past, obviously, '22 was a super stressful time for our consumer with inflation. And then 2023 was certainly a stable, and maybe you could even say, improving.

And you mentioned Goldilocks, right? So we've talked a lot about the lower 90-day buyouts that happened there during tax season. And probably as if not more importantly, those 90-day buyout that did not happen, those customers continuing to pay and not like rolling through to the charge-off. So it might have had some stress that cause them not to be able to do the 90 day or to choose not to do the 90 day, but they were able to continue making their payments. And that resulted in the Goldilocks.

Now as you flip to the back half of 2023, the 90 day activity normalized and certainly that's where we were exiting 2023, and it's difficult for us to come to assume that Goldilocks or historically low levels of 90 days are going to repeat. We don't really have a ton of visibility into that right now because tax season really hasn't really kicked in yet, but that's what's baked into our view.

The consumer's in good shape. Employment, as you said, is strong. There's certainly been some cost inflation that has an outsized impact on our consumer, but jobs are good. So we're not waiting for the shoe to drop. We're just not assuming that the Goldilocks that happened in for the most of '23, but certainly more pronounced in the first half of '23 are -- it will repeat.

We'll have more visibility into that over the next six or eight weeks as tax season plays out, but we're in good shape from a consumer health standpoint. We're just not expecting a complete repeat of 2023.

Kyle Joseph ***Jefferies LLC - Analyst***

Yeah, that makes sense. And then just one follow-up from me. I think you mentioned that you saw a little bit of a tailwind in fourth quarter GMV as a result of the trade down effect, but just wanted to pick your brain on your perspective. Obviously, it seems like the macro environment changes. A few weeks ago, we were talking about soft landing and now we're talking about potentially higher rates and then obviously some big news in the prime consumer finance space this week. But give us a sense, like are you seeing kind of incremental trade down into the fourth quarter and expectations just from your conversations with retailers?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah. Thanks, Kyle. Yeah, I mean, we believe that the fourth quarter benefited and holiday season benefited from certainly a number of factors, one of which was more evidence of a trade-down impact, which, as we've talked about for many quarters, we've been anticipating it has been delayed. But we did, talking to our retail partners, we did hear that finance generally was a bright spot during the holidays, and that wasn't just LTO, that was from the primary all the way to LTO, which demonstrates the consumers' need for a payment option on big ticket items.

And we've also heard directly from retailers that their primaries have told them that they have tightened and are planning to tighten again in the future. The way we think about it, though, is it's really more about the traffic, right? The traffic that is generated. Of that traffic, more consumers, we believe will need a purchase option – over-time purchase option and less of them will be approved by the primary providers.

So that's one of the drivers of our belief that we can continue to gain balance of share within our retail partners and offset the otherwise challenging demand environment. The magnitude of the trade-down impact, the tailwind, if you will, is difficult to predict because even if you see top of funnel dynamics, it's not a direct or linear relationship to funded GMV, but it's certainly a removal of the headwind. And we hope it will be a tailwind into 2024 and beyond.

Kyle Joseph ***Jefferies LLC - Analyst***

Got it. Very helpful. Thanks for taking my questions.

Operator

Jason Haas, Bank of America.

Jason Haas ***BofA Global Research - Analyst***

Hey, good morning and thanks for taking my questions. I'm curious if you could find a little bit more color on what you saw in regards to write-offs in 4Q. I think historically, we've seen write-offs will tick down from 3Q to 4Q, but this quarter, we saw a step up. And then following on that, I'm just curious about how you're thinking about the cadence of write-offs on Q3 '24?

Brian Garner ***PROG Holdings Inc - Chief Financial Officer***

Yeah, Kyle, there are some seasonal dynamics there, but right in the middle of our historical range of 7%. And there was there was no inclination that the portfolio was degraded in any way beyond where we're comfortable. All indications are we're in a very healthy place as we enter into 2024.

As we look at 2024, if we size up the current macro and what Steve alluded to kind of the reversion from a Goldilocks scenario to a more normalized scenario, we do expect maybe just a slight uptick on an annualized basis from what we posted here in 2023, which was below the midpoint of that 6% to 8%.

So portfolio remains at the forefront of what we're focused on from a P&L management standpoint and optimizing gross margins. But I think we feel very confident in our ability to deliver within that range for 2024.

Jason Haas ***BofA Global Research - Analyst***

It's Jason. And just to clarify, was there any decisioning changes? Did you loosen credit at all in the quarter or no?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Jason, this is Steve. We're always tweaking and adjusting and testing on the decisioning, but no wholesale changes were done in the quarter. Approval rates in the quarter were slightly higher than the previous year, more so in the online channel than in the in-store channel, but on a weighted average of slightly higher. And obviously, as you know, those different channels have different conversion dynamics. There's more purchase intent if you're in the store versus online, so an increase or a change to improve rates in-store would have a bigger impact on GMV. But nothing that we believe really flows through into a noticeable change in our portfolio performance or certainly write offs.

Jason Haas ***BofA Global Research - Analyst***

Got it. That's helpful. And then as a follow-up, I was curious if you can provide some more color on the weakness that you've seen in January. I'm curious how that compared on e-commerce versus in-store. I know there's some bad winter weather in January in certain regions. And then also by category, if there are any categories that were noticeably stronger or weaker in January?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, I mean, January has been -- I know you follow very closely -- pretty well documented how fairly soft, and I told the team we weren't allowed to say the word weather on the call that you broke the seal for us. So certainly some weather events, some weather events out there and across the country that had more impact on in-store than online.

But coming out of the holiday season, we did see a lull in January as we said in the prepared remarks, down kind of low single digits. There wasn't a marked difference between the two different channels. As far as categories go down, similar to the holiday season, we continued to see -- consumer electronics was actually performing better and some of the promotionally driven furniture stores had some decent days or decent weekends, but overall, it was softer than we were planning for.

Jason Haas ***BofA Global Research - Analyst***

Was there any pickup during the Presidents' Day weekend or too early to say?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, too early to say. We partnered well with our retailers for their -- the sales that they were or the campaigns they were putting on. The data will still come in with some delay in funded leases and deliveries and things of that nature. And as you have written tax season, and whether it's delayed or not, has an impact on purchase activity during the Presidents' Day. So, it's difficult to really put a pin in February until we start to see how tax season comes through and really not ‘til the end of March what's going to happen.

Jason Haas ***BofA Global Research - Analyst***

Got it. Really helpful. Thank you.

Operator

Bradley Thomas, KeyBanc Capital Markets.

Bradley Thomas ***KeyBanc Capital Markets Inc. - Analyst***

Hi. Good morning. I apologize if I missed this in the prepared remarks, but I don't think it was in the press release. Steve, I was hoping you could talk a little bit about customer count and how that's been trending. I believe you're starting to lap from a point where there was a bit of a step down in the number of customers about a year ago. So just curious about how that's trending and how you all are thinking about that going forward?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, Brad, I don't have those numbers right in front of me. We can get those to you after call. And we'll file the K here shortly as well. But obviously, we have a lot of repeat business. We are always looking to add new customers to the ecosystem, and that's some of the discussion that we had about our multiproduct ecosystem and the other products that we have helping to introduce new customers to all of our products including leasing from the existing retailers that we have, we -- the more mature those relationships become, we will have a higher repeat business. So obviously, we're working very hard to try and add new retailers and then we'll get a new influx of customers in that regard. But as far as the year over year customer numbers, I don't have those right in front of me.

Brian Garner ***PROG Holdings Inc - Chief Financial Officer***

I'm happy to --

Bradley Thomas ***KeyBanc Capital Markets Inc. - Analyst***

Can you guys still hear me?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, we got you.

Brian Garner ***PROG Holdings Inc - Chief Financial Officer***

Yeah, I was going to say. I've got a -- you'll see in the K, there's -- it's down just slightly, but consistent with the decline in GMV or GLA, so right around 5%. So, there's not a disconnect from customer count, and GLA was pretty consistent.

Bradley Thomas ***KeyBanc Capital Markets Inc. - Analyst***

I appreciate it. Really, I was going to kind of tie it to my follow-up question just around dynamics like average lease balance and some of the dynamics with deflation that we're seeing out from your retail partners. Broadly, a lot of the hard goods, furniture, et cetera, have been seeing deflation, particularly as some lower container rates have flowed through.

So I was curious how you're seeing that affect your business, if it's been reducing average lease balance or if the customers are taking up usable capacity they have with you to which they're approved for it? And then how you're thinking about that dynamic going forward?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, we actually -- I don't remember if we talked about that on last February's call, but it was -- we expected that to happen a little bit anyways, reduction in average basket size or ticket size in 2023. And we didn't really see it. It was fairly flat in '23.

But we are seeing in -- whether it be deflation or promotional activity to clear inventory out, there could be some pressure on average ticket and that is -- there's a small amount of that baked into our forecast for 2024.

Bradley Thomas ***KeyBanc Capital Markets Inc. - Analyst***

Got you. Understood. Well, if I could squeeze in one last one. Obviously, the new share repurchase program, quite sizable. Just curious, if you could give us any context around leverage ratios or potential capacity to get after that program over the course of this year?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, I mean, we, I'll call it, topped up the repurchase authorization -- the Board did -- up to $500 million. As you know, we've been pretty aggressive acquirers of our stock over the last several years. And we'll continue to look at that for our preferred method of returning capital to shareholders. However, we did initiate a dividend as well. The Board approve that and so that we look at that as a nice complement to those activities.

As it relates to leverage ratios, it's similar to what we have said. We're kind of comfortable in that 1.5 to 2 turns of net leverage range. And we look at that on an annual basis, not necessarily on a quarter-to-quarter basis because that's going to fluctuate. But the current leverage ratio is comfortable for us, and we will generate cash in pretty much all scenarios that we can accomplish from a growth standpoint and certainly our forecast for 2024 as us generating additional cash flow. And as we define excess cash flow, we'll look to return that to -- continue to return that to shareholders with our primary vehicle being repurchases. But now we have a dividend as well.

Bradley Thomas ***KeyBanc Capital Markets Inc. - Analyst***

Great. Thank you so much, Steve.

Operator

Anthony Chukumba, Loop Capital Markets.

Anthony Chukumba ***Loop Capital - Analyst***

Good morning. Thanks for taking my question. I guess my first question is in terms of what you're seeing on the retail -- in the retail partner pipeline, both from an SMB perspective, but also from an enterprise perspective.

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, Anthony, I mean, obviously, pipeline is a big focus of ours, continues to be on the SMB side. Depending on which vertical or category you are in, there's various levels of maturation. And as we've talked about a number of times, that's a more, I'll call it, competitive area with more players out there.

But we do a great job in the regional SMB space, and we'll continue to look to grow that business through growing existing partnerships as well as converting pipeline. The national side or the enterprise side is always a frustratingly long sales cycle and not really any new updates and certainly not any names for you here this morning, but clearly remains a top priority of ours. And we believe this continued challenging environment is a supportive backdrop for those conversations to lead to conversions.

Anthony Chukumba ***Loop Capital - Analyst***

Got it. That's helpful. And then as you think about GMV. So you mentioned that you think the GMV is going to be down low single digits for the first quarter. What do you think has to happen for GMV to possibly inflect this year? I mean, you did have nice GMV, certainly much burden you expect in first positive GMV growth in quite some time in the fourth quarter. So what do you think has to happen for us to see positive GMV growth, let's say, in the last three quarters? Or are any of the last three quarters of 2024? Thanks.

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, Anthony, I mean, we have a lot of things going on internally with our existing retail partners. I think we highlighted a e-com card integration with a long-time top-five partner. Those types of things can help us overcome an otherwise soft demand environment. And we have a number of those things on the road map and many of those -- one of the things that the current difficult retail environment has done while we -- it hasn't resulted in a large enterprise pipeline conversion, it has resulted in our increased prioritization of projects from existing retailers.

And so our internal objectives, including PROG Marketplace, our direct to consumer motion that I mentioned in the prepared remarks, as well as our cross-sell marketing motions from our other products can kind of manufacture GMV in the face of a tough environment. And while we're working day and night on large pipeline conversions, we can play small ball and hit singles and doubles and really inflect that or overcome hopefully that soft environment.

So those are the things we're working on. And we mentioned that we expect progress on those things, certainly as the year progresses, and look forward to continuing to report out to you guys on that.

Anthony Chukumba ***Loop Capital - Analyst***

That's helpful. Thank you.

Operator

Bobby Griffin, Raymond James.

Alessandra Jimenez ***Raymond James - Analyst***

Good morning. This is Alessandra Jimenez on for Bobby Griffin. Thank you for taking our question. Maybe first on just a follow-up on GMV. My apologies if I missed it in the prepared remarks, but what is the full year 2024 sales guidance imply for the full year GMV outlook?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, we don't actually guide the GMV for the year. So obviously, everybody has their models, and you can kind of back into revenue, although, disposition types and revenue composition will have a big factor in that. So, what we what we did last year and what we intend to do this year is give a little bit of view on what we think GMV will be for the quarter as we're reporting on it or the next quarter in front of us as we're reporting on the last one, but we have not given a full guide for GMV for 2024.

Alessandra Jimenez ***Raymond James - Analyst***

Okay, understood. And then maybe just on 2024 profitability guidance, what are the building blocks to kind of get us to the low end versus the high end of that range as you just -- revenue dependent? Or are there some other puts and takes there?

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yeah, I think what I'd point you to in terms of some of the variability that exists within the model, obviously, there's the revenue dynamics, which you pointed to in a challenging environment. I would also just highlight the gross profit and gross margin dynamic. I think as we've explored different scenarios, there's the potential for variability there. I think we're confident in our ability to manage the portfolio, like we said.

But if the Goldilocks scenario that we saw in 2023 persists for any duration here in 2024, that's obviously upside to the model. And we'll continue to protect against the downside. So I think the gross margin and gross profit is outside of revenue is the other single biggest factor. From an SG&A perspective, I think those cost dynamics remain well within our control, and we'll make sure we manage and align those with what we're seeing on top line, yeah, probably, revenue and the gross margin dynamic.

Alessandra Jimenez ***Raymond James - Analyst***

Okay. That's very helpful. And then lastly for me, referring to stable dividend that you guys upping the share repurchase, just given the strong cash flow generation of the business. What is the implied free cash flow off of the guide? Should we expect a similar adjusted EBITDA to cash flow conversion in 2023 and 2024?

Brian Garner ***PROG Holdings Inc - Chief Financial Officer***

Yeah. I mean, I think that's fair. There's a cash tax dynamic where you might have a little more in cash taxes. But I think the relationship between EBITDA and free cash flow is relatively consistent. The big -- the big variable in that is GMV and as you're putting working capital out on the street. So, what I pay attention to there is obviously if we start to exceed our GMV plan or GMV starts to come later in the year, that can be a pretty significant usage of free cash flow.

So that's the variability I'd point you towards. But otherwise, you're thinking about it right, the consistency between EBITDA and free cash flow, absent those dynamics.

Alessandra Jimenez ***Raymond James - Analyst***

Thank you. And best of luck in 2024.

Operator

That concludes the question and answer session. At this time, I would like to turn the call back to Steve Michaels President and Chief Executive Officer closing remarks.

Steve Michaels ***PROG Holdings Inc - President & CEO***

Yes, I'd like to again thank you guys for joining us this morning and for your continued interest in PROG Holdings. Our teams did a great job and delivered a strong 2023. We feel good about the positioning of our portfolio, and we're making the right investments in people and technology to further our three-pillar strategy of Grow, Enhance, Expand.

We look forward to updating you on our progress on 2024's initiatives during our Q1 call in late April. I hope you have a great day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.