PROG Holdings, Inc.

Q2 2022 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Steven Michaels - *Chief Executive Officer*

Brian Garner - *Chief Financial Officer*

John Baugh - *VP, Investor Relations*

PRESENTATION

Operator
Good morning and welcome to the PROG Holdings, Inc. second-quarter 2022 earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press * then 1 on your telephone keypad. To withdraw your question, please press * then 2. Please note this event is being recorded.

I would now like to turn the conference over to Mr. John Baugh, Vice President of Investor Relations for PROG Holdings. Please go ahead.

John Baugh
Thank you and good morning, everyone. Welcome to the PROG Holdings second-quarter 2022 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 expectations related to the impact of our lease decisioning adjustments on write-off levels, Progressive Leasing's write-off levels for full-year 2022, and the benefits we expect from the adjustments we have made to our SG&A spend.

I want to call your attention to our safe harbor provision for forward-looking statements that can be found at the end of the earnings press release that we issued earlier this morning. That safe harbor provision identifies risks that may cause actual results to differ materially from the expectations discussed in our forward-looking statements. There are additional risks that can be found in our annual report on Form 10-K for the year ended December 31, 2021, which we encourage you to read. 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 earnings per share, which has 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 provide 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?

Steven Michaels
Thank you, John, and good morning, everyone. I appreciate you being with us today as we discuss our second-quarter results and update you on our business as we navigate this dynamic macro backdrop, while continuing to support key growth initiatives. I'm proud of the team's ability to quickly adapt to conditions that have been especially challenging for our customers and POS

partners. We expect these actions will provide future benefits as we aim to increase our share of the largely unserved addressable market.

As you may have seen in our press release this morning, we launched a new exclusive partnership with Samsung.com. We are excited to have emerged from this competitive process as the exclusive provider of Samsung.com's lease-to-own payment options, and are pleased to have onboarded yet another national e-commerce partner. While the full benefits of this relationship will not be realized in 2022, we believe we will see meaningful benefits in 2023 and beyond as the partnership continues to ramp.

During our Q4 earnings call in February and most recent mid-June update, we said we expected headwinds to our 2022 results as we lapped stimulus and other government support. Still, we believe our ability to manage the Company's portfolio performance and expense structure while growing our customer account and generating significant free cash flow will help us remain in a strong position, even with the slowdown.

We further tightened lease decisioning during Q2 to address the increase in delinquencies and write-offs we are seeing due to the inflationary pressures our customer is feeling. As we move forward through this difficult environment, we will continue to make the necessary adjustments that we believe will move us back towards our targeted annual write-off levels of 6% to 8%.

Also in June, we announced adjustments to our SG&A spend levels in response to the headwinds we are experiencing, and to align with our revenue outlook. While cost-cutting measures are never easy, these actions demonstrate our ability to quickly adapt our cost structure to changing economic conditions while maintaining investments in revenue-generating initiatives that we anticipate will support our future growth prospects.

For our Progressive Leasing segment, second-quarter GMV and revenues were in line with our revised expectations. Q2 GMV was down 2.4% year-over-year, while e-commerce GMV increased almost 18%, representing 15.6% of Progressive Leasing's total GMV for the quarter. We have now added 32 e-commerce partners to our platform in 2022, with more consumer brands in the pipeline for the remainder of this year.

Widespread weakness in retail traffic, along with our tighter decisioning, drove the decline in GMV. However, that weakness was largely offset by share growth, within many of our POS partners. Retailers and consumers need us more than ever, as inflation remains at unusually high levels. As I mentioned before, for retailers we drive fast integration with prospective partners and incremental sales with existing partners. And for consumers, we offer purchasing power through flexible payment options.

While we have not yet seen an impact from credit providers tightening above us, there is increasing evidence that those pressures are beginning to build. Consumer cash reserves, which were inflated by government stimulus programs and reduce spending during COVID, are depleting rapidly as income struggled to keep pace with inflation, leading to increased credit utilization. We cannot predict the timing of when we may see a tailwind from tightened credit above us, but we expect ultimately that the current economic trends are more conducive to POS partners and consumers benefiting from our offerings.

In short, we'll continue to control what we can control, partner with new retailers, complete e-commerce integrations, improve the customer experience, and manage our decisioning in a way that we believe will return us to our targeted financial performance.

Our Q2 adjusted EBITDA of $52.2 million was slightly better than our revised outlook, as a result of lower-than-expected SG&A expense. The provision for lease merchandise write-offs for the quarter was 9.8%. As the quarter progressed, we made additional decisioning changes that have resulted in improvement in our early-stage metrics, and we believe that the adjustments we have made year-to-date are working to drive our write-offs lower from Q2 levels. The average 6- to-7-month duration of our lease portfolio means that our portfolio quickly shifts to the new lease pools originated with tighter decisioning.

As I mentioned earlier, the team executed well in the evolving environment. Portfolio performance remains a key focus, and we will continue to manage it through the remainder of the year in a manner that we believe will drive sustainable and profitable GMV with healthy unit economics.

Our capital priorities remain unchanged. During the second quarter, we repurchased 3.9 million shares and have reduced our outstanding share count by 26% since the beginning of 2021. We ended the quarter with a leverage ratio of 1.67 times, which is still in our opinion within a comfortable range.

We ended June with a cash position of $127.3 million, even after $98.4 million in share repurchases during the quarter. The capital we generate for the full year will continue to allow us to reinvest in the business and maintain a strong balance sheet, even with the dynamic economic backdrop.

I will close with emphasizing the strength of our business model. Even in a challenging environment with negative GMV growth, we have demonstrated our ability to control unit economics, quickly reduce costs to align with revenue, and generate significant cash flow. Finally, I want to reiterate my appreciation for the resilience and teamwork of all PROG employees as we continue to execute on our strategy.

I will now turn the call over to Brian for a more detailed look at the quarter's financials. Brian?

Brian Garner
Thanks, Steve, and good morning. The second-quarter financial results were in line with our June 16th update, and reflect continued challenging operating conditions as our customers manage the impact of the current inflationary environment. Our approach to navigating these headwinds is centered on addressing the financial drivers within our control. This includes making changes to our decisioning parameters to drive improved portfolio performance and managing our SG&A costs to appropriate levels for the current revenue outlook.

With respect to the changes made in decisioning, over the course of the last few quarters the Company has made a number of iterative changes to Progressive Leasing's decisioning algorithms in response to the deterioration in customer lease payment patterns. We made the most significant of these changes in Q2 of 2022, based upon early indicators of increased delinquencies that the (INAUDIBLE) originated.

As we have stated previously, the 6- to 7-month average duration of our lease portfolio allowed the Company to influence the delinquency profile of our book (PH) relatively quickly through adjustments to our decisioning. While the write-off performance in Q2 was elevated relative to historical levels, I am encouraged by the early data we've gathered on the performance of our recent lease pools which have benefited from our tightening efforts.

We believe we remain on track to close the year near the high end of our 6^ to 8% targeted annual write-off range. The annual outlook provided in our June update anticipates improvement from the write-off levels we saw in Q2.

As mentioned in our June release, the Company took material steps to reduce its cost structure to align with our revised expectations for the remainder of the year. While SG&A was elevated in Q2 of 2022, we expect these cost-reduction measures will meaningfully reduce SG&A as a percentage of revenue from current levels. These measures include an approximately 10% reduction in our workforce remove roughly $50 million of annualized costs compared to the plan that was the basis for our full-year outlook provided in February of this year.

Turning to the financial results for the quarter, starting with the Progressive Leasing segment. Progressive Leasing's revenue was $631.3 million for the quarter versus $646 million in the year-ago period, a 2.3% decline. Our larger gross leased asset balance in the period which ended the quarter up 12% year-over-year was a tailwind to revenue. However, our accounts receivable provision which is a direct reduction to revenue was $97 million in Q2 of 2022, compared to $39.8 million in the same period of 2021, more than offsetting the benefit of the larger portfolio. Progressive Leasing's gross margin was 30.4% versus 31.9% in the year-ago period. The decline in gross margin was primarily the result of the higher accounts receivable provision.

SG&A for the Progressive Leasing segment excluding restructuring charges was $81.9 million or 13% of revenues for Q2. Progressive Leasing provisions for leased merchandise write-offs in Q2 was 9.8% or $61.8 million, compared to 4.8% and $31.3 million in the same quarter last year. As discussed, we believe this period's write-off results will represent the high point for the year as the lease pools originated under the most recent tightening efforts become a larger percentage of our portfolio.

Shifting to consolidated results, Q2 revenues for PROG Holdings were $649.4 million versus $660 million in the year-ago period, a decline of 1.6%. Adjusted EBITDA was $52.2 million or 8% of revenues in Q2, versus $104.9 million or 15.9% for the prior-year period. Reduction in revenue and EBITDA was primarily attributable to decreased portfolio performance in the period relative to the stimulus aided prior-year period.

We generated $57.4 million of cash from operations in Q2 and $155.7 million year-to-date. Our Q2 GAAP diluted EPS was $0.37 and our non-GAAP EPS was $0.52. We have $600 million of gross debt and $127.3 million of cash at the end of Q2, for a net leverage ratio of 1.67 times or trailing 12 months adjusted EBITDA. We also entered the third quarter with $350 million of availability under our undrawn revolving credit facility.

During Q2, we repurchased 3.9 million shares of stock for a total of $98.4 million, at an average price of $25.23 per share. At the quarter end, we have $384.4 million remaining under our $1 billion repurchase program.

In summary, our Q2 results were largely driven by the pressures on portfolio performance that negatively impacted near-term results. During the quarter, we adjusted our decisioning and aggressively addressed our SG&A spend levels in response to results caused by the pressures that have impacted our customers. We continue to monitor operational and financial metrics as we manage the business in a disciplined manner.

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

QUESTION AND ANSWER

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

And our first question will come from Kyle Joseph of Jefferies. Please go ahead.

Kyle Joseph
Hey, good morning, guys. Thanks for having me on and taking my questions. So, obviously, difficult operating environment. Stemming back, I mean, you guys are one of the biggest if not the biggest in the space. Can you talk about how the operating environment is impacting the competitive environment and what's happening to some of the smaller players?

Steven Michaels
Yeah. Hey, Kyle, good morning. Yeah, I mean it's a tough environment. As far as competition goes, I mean it's pretty much more of the same. I mean, we've got a decent amount of competition in the regions. There's a number of players out there trying to win business and it's -- there's some turnover and choppiness in the regions, but that's not different than it has been for the last several years. I have not heard anything specific of any smaller players folding up shop or disappearing, but the aggressiveness of offers kind of ebbs and flows.

So, as you know, there's been -- the bigger impact or the bigger trend from a competitive environment has been the, I guess, the larger players becoming part of public companies with -- you know, certainly with the SEMA (PH) and with AFF (PH). So there's more movement in that arena.

You know, we're having -- on the enterprise side, we haven't really seen a big change there either, but we're always on the lookout for it. So no -- we have not seen the challenging conditions cause a decrease in competition, let's put it that way.

Kyle Joseph
I got it. And then, you know, shifting to credit, I've been getting this question a lot. Folks are interested in auto finance when you talk about frequency and severity of losses. But can you give us a sense for the write-offs in the quarter, how much of that was frequency versus severity versus increase in reserve levels?

Brian Garner
Yeah, Kyle, I'll take a stab at that with respect to write-offs. I mean, the 9.8% in the quarter is obviously elevated above where we've been historically, and working diligently to bring that metric down in a challenging macroenvironment. We started to see the -- we started to see deterioration, as we mentioned on our prior calls, kind of late in the year last year and into the front half of this quarter. We've made a series of changes along the way, most meaningful here in Q2.

While it's still early, we will continue to examine the delinquency trends of these newer originated cohorts. And what we are seeing is encouraging, in terms of their trend is moving back towards historical levels from the currently elevated levels. Your question around frequency versus magnitude versus reserve, really what we're seeing that's pushing us well outside the historical annual 6% to 8% with the 9.8%, it's been a reserve build over the course of the last few months.

And that is being driven by the portfolio that was originated prior to these most recent tightening efforts. And so that's where the bulk of the movement you're seeing. You see that in our Q with respect to the change in the reserve that's disclosed, but that's the most meaningful portion. And again, it's early. There's plenty of runway left for us as we close out the year, but our tightened efforts we've made to date are going to provide some relief as the pools originate after these tightened efforts become a higher concentration of the portfolio overall and start to bring some relief to the current levels.

Kyle Joseph
Yeah, very helpful. One last one for me. Congratulations on the new retail partner, very excited. It feels like it's been a while since we've seen one announced in the space. You know, just regarding your pipeline, can you give us a sense for the conversations you are having with new partners, and are they more receptive, given how much the environment has really changed in the last six months?

Steven Michaels
Yeah. Thanks, Kyle, and we are excited about partnering with Samsung, and we're pleased to have come out of that competitive process as the exclusive provider of one of the top global brands. You know, we continue to believe and have said that these conditions that we are in, while challenging, are where this business model should shine, both for consumers and for retail partners.

I think from a GMV standpoint -- not exactly that that was your question -- but our -2.4% GMV, while below where we wanted it to be, is a testament to the fact that we are actually outperforming the underlying performance of a mixed basket of our retailers as it relates to -- as it relates to headline costs. So that's another kind of feather in the cap of the business model that we can gain share in these difficult times.

All of that to be said that it should be a more attractive solution for retailers that don't have a fully developed finance stack. And we've been consistent in that and we continue to believe that these are, as you've observed over the years, long sales cycles, and we're doing everything we can to compress that time. We are fast approaching code-free season for most retailers as we prepare for the holiday season. But yeah, I mean the conversations that we're having from a pipeline standpoint are positive, and we look to -- you know, to have conversion over the next couple years.

Kyle Joseph
Great, thanks so much for answering my questions.

Steven Michaels
Thanks, Kyle.

Operator
The next question comes from Anthony Chukumba of Loop Capital. Please go ahead.

Anthony Chukumba
Good morning. Thank you so much for taking my questions. So, you know, allow me to ask a question that's a bit psychoanalytic. So you put out a press release about signing up Samsung. If I recall correctly, typically you don't put out press releases when you sign up new retail partners. Like I don't recall a Best Buy one or a Lowe's one. So I guess I'm just trying to figure out like why a press release about this particular one? Is it just a difference in sort of philosophy? Is it that

you're super excited about this? Should we expect press releases on other partners, like how should we sort of think about that? I'm probably overanalyzing but, you know, that's what we do on the sell side.

Steven Michaels
No, I appreciate that, Anthony, and it's a good question. Because it has not been this company's DNA to put out the information like that. I would say that partially, you know, that was when Progressive was under the Aaron's umbrella, and now that we're a standalone public, maybe we -- we do have a different philosophy. I would also say that in the instance of Lowe's and Best Buy, you know, folks like yourself and specifically you, when we break the news about an exciting partner that we have, and then we would be forced to respond to it. So I think we decided to kind of own our own news cycle and put it out there.

And we are excited about Samsung. We think a top five global brand endorsing the program and endorsing our leading position and capabilities is a thing to -- a thing to talk about. And so we decided to partner with them and put the release out.

Anthony Chukumba
Got it, fair enough, fair enough. Okay, so just one follow-up question. It's more on the credit tightening. So how should we think about credit tightening from the perspective of like, I guess, credit acceptance rates, right? Like, in other words, like when you tighten, did the acceptance rates go down from 70% to 60%, 60% to 55%? Like how should we think about order of magnitude?

Steven Michaels
Yeah, certainly. So approval rates are kind of how we measure that, but it's the same thing as acceptance rates, in your words. So we took a series of tightenings, and as you know during the pandemic after the first kind of shock wore off, we looked for opportunities to actually increase approval rates because of the payment conditions and the liquidity that was in the market. So you've got to look at it a couple different ways. If you were to look at Q2 approval rates versus Q2 of '21, we're probably down about 400 basis points. If you were to look at Q2 of '22 versus Q2 of '19, kind of undisturbed pre-pandemic, it's more like 100 basis points.

Now, as Brian says, we tightened during the quarter. So April approval rates were higher than June approval rates. So to give you another more useful data point, if you look at kind of as we sit here today, last week if you will, it's a little bit more pronounced, the change. So we're more like, you know, 600 or 700 basis points lower than last year, and about 200-ish basis points lower than Q2 of 2019 -- I'm sorry, July of 2019.

Anthony Chukumba
I am so lost right now. Sorry, what was the change in the year-over-year and then what was the change over 2019? I sort of -- I'm confused.

Steven Michaels
Okay, sorry. The average approval rate in Q2 of '22, right, so the quarter we're reporting on now, was about 400 basis points lower than last year in '21.

Anthony Chukumba
Okay.

Steven Michaels

And it was about 100 basis points lower than the second quarter of 2019, before -- before the pandemic.

Anthony Chukumba
Got it, got it. Okay, that's helpful. Thank you.

Steven Michaels
Those numbers are a little bit wider if you look at mid-July versus the average of the quarter. So that's what I was trying to communicate.

Anthony Chukumba
Okay, got it, got it. Thanks for clarifying.

Steven Michaels
You got it.

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

Jason Haas
Hey, good morning, and thanks for taking my questions. The first is just on the write-off expectations for the rest of the year, I think I heard high-end of 6% to 8%. Was that -- is that the annual number or is that what's expected for the second half? And then what sort of GMV growth are you expecting after the second half to get there?

Brian Garner
Yeah, so I think our (INAUDIBLE) was near the high end of the 6% to 8%, and that's on an annual basis. So as we get to the end of the year and look back over the trailing 12, Jason, we expect to be near that 8%. And we haven't given --

Steven Michaels
You know, on the GMV, you know, we haven't specifically guided to GMV. But I will tell you that based on what we're seeing now and what we -- what informed our pre-announcement in mid-June, we're anticipating having the back-half GMV be weaker than the front half. So -- and that's built into the outlook, the revenue outlook. I know it may be difficult to kind of triangulate that because of moving and various disposition types, but we are expecting weaker GMV, negative for the year, and the back half being weaker than the front half.

Jason Haas
Got it, that's helpful. And then I wanted to ask about how the Vive segment's performing. It looks like it's been pretty strong. I'm curious if you're tightening credit there or maybe if you are seeing a different dynamic for that customer, because I know it's a little more higher income than the Progressive Leasing business.

Steven Michaels
Yeah. So Vive has been strong over the last couple years. It is also seeing some headwinds from a GMV production standpoint. And obviously, it has a much different revenue recognition model. And so GMV trends don't impact revenue quite as quickly as it does on the leasing model. But it has been strong and resilient through this cycle. It's a longer average duration of the portfolio, so we've managed it differently during the pandemic. We have tightened a little bit, although we did not loosen during the pandemic when the liquidity conditions were so favorable.

So I don't have the same kind of approval metrics that I just gave Anthony on the leasing side, but we are tighter than we were pre-pandemic. And we continue to look for evidence of primaries or competitive secondaries tightening in different retail environments. Because as you all know, our standing assumption is it's going to happen, although we haven't seen much evidence of it and it's too early to tell. But Vive is managing its portfolio very well and looking for opportunities to tighten and to react to what the credit supply around it and above it is doing, so that we can manage the reserve rates within a tight tolerance, but also try and achieve growth and partner well with our POS partners

Jason Haas
Got it, that's helpful color. Thank you.

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

Alessandra Jimenez
Good morning, this is Alessandra Jimenez on for Bobby Griffin. Thank you for taking our questions. First, I kind of just wanted to dive a little bit more into the more recent demand and payment activity trends. So have you seen kind of a somewhat stabilization versus the mid-June business update, or are trends still kind of continuing to deteriorate and remain volatile?

Steven Michaels
Well, certainly it continues to be a dynamic market. I can't say that things have changed materially in the last month, you know, since June. We do -- you know, we're kind of looking at -- well, we always do this whether -- no matter what the environment is. But we are looking at an origination pool, kind of static pool analysis. And so we've got the portfolio -- the composition of the portfolio that was originated before the Q2 decisioning changes and then the ones that were originated after.

And we're seeing, you know, impact to payment behavior and pool performance based on those decisioning changes. But as far as kind of some macro shock or shift function up in improvement or deterioration and overall payment performance, we haven't seen a change, a material change since the mid-June update.

Alessandra Jimenez
Okay, that is helpful. And then can we maybe talk a little bit more about the steps you've taken to align the cost structure? What part of the workforce was that 10% decline in? And then are you continuing to cut costs, or do you feel good about where you are today based on the current portfolio performance?

Brian Garner
Yeah, I'll take that, just with respect to the cost measures. First and foremost, as Steve said, these actions are difficult, especially when they involve our employees. So we absolutely took these steps knowing that they were going to be difficult, but understanding the top-line projections that we were putting out there. So we aligned quickly as we saw the deterioration of the portfolio and the consumer trends shifting, as a result of the current environment.

Like I said, these were meaningful. You mentioned roughly 10% of our headcount. They were focused primarily on driving increased efficiency throughout the organization, with focus on rightsizing the variable costs for the revenue picture that we were staring at -- or we are staring at. But a meaningful portion of those cost measures came from just getting more out of the business and driving efficiencies. And then we saw that in our sales functions; we saw that in our operational functions.

And we really wanted to emphasize the importance of maintaining our investment layer of future growth. We are not at a point where we went to wind those back meaningfully. We believe there's very meaningful traction to be had, and we've maintained that in technology and elsewhere. And so we continue to include those as part of our cost structure.

So like you mentioned, we expect these to become more evident in the P&L as we exit the year and start to trend more towards pre-pandemic posture as a percentage of revenue. And that sets us up well, I think, going into 2023 from a run rate perspective. And that's -- I mean, it was probably worth mentioning -- that's an outcome even after absorbing some of the inflationary pressures that we've seen on wages, et cetera, throughout the course of the year.

Alessandra Jimenez
Thank you so much, and best of luck on the back half of the year.

Steven Michaels
Thank you.

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

Brad Thomas
Hi, good morning. Thanks for taking my questions. I apologize if I missed this, but did you talk about what the customer growth was in the quarter? I know that had been trending pretty favorably the last few quarters. How is the customer count trending for you?

Brian Garner
It is trending higher. It's in our Q. I don't have that number right in front of me, but we do have that disclosed in our Q.

Brad Thomas
Okay, no problem. You know, maybe another question for you. You know, Steve, as you and the team are talking to retailers where we know that sales are challenged and getting a bit softer of late, what are you hearing from them in terms of trying to use more tools from the Progressive toolkit, and the likelihood that they may take on more and lean more into Progressive in the quarters ahead here?

Steven Michaels
Yeah. Thanks, Brad. I mean, yeah, we are having great conversations there. and I think that's one of the reasons why we've been able to gain share within a number of our retail partners, is because we've been able to become, you know, more important to the retailers that we currently have and save more sales. So things like marketing that we've talked about before, both direct-to-consumer marketing from Progressive, cobranded marketing with retailers and Progressive, and then even cross-marketing with multiple retailers within our preferred partner network, sending out kind of joint offers, those things are becoming -- we're having great conversation and our marketing teams are partnering well with their counterparts at our retail partners.

As I think I mentioned in the previous quarter, we have had some conversations about potentially accelerating certain initiatives that were already on the roadmap, but maybe not slotted until 2023. Those things are difficult, right? Everybody has a good idea and says, let's do this and let's get it done before holiday '23 -- or '22. But then the real world comes in and there's competing priorities. So we're constantly fighting through that slog and trying to prove or demonstrate with data why our initiative has a bigger size of the prize than something else they may be working on. And we're having some success there.

So there's tons of examples of ways that we can become more productive, ways that we can continue to integrate into our retail partners and become a bigger part of their business. These are the types of conditions where those -- where those conversations are fruitful, and we look forward to continuing to prove the value of our partnership.

Brian Garner
Hey, Brad, just to follow up. Just brought it up in front of me here. So the total active customers, just under 1.1 billion for the -- as of June 30, versus just about 990,000 for the same period 2021, and that's a total customer count across the organization. So that's a 9.2% increase. Progressive Leasing was 965,000 versus 905,000 same period last year, and that's a 6.6% increase.

Brad Thomas
That's really helpful. Thank you, and I think that certainly suggests (PH) some optimism about the continued growth prospects for the business. Just as it relates to, you know, revenues, I know you're lapping some of the tightening, and (INAUDIBLE) trends are normalizing here, I think, a bit. How are your thinking about revenues in 3Q and, you know, if -- I mean, I think it's implied that maybe they get a little bit better even than what you just had in 2Q. Any more color about how you're thinking about overall revenues in the back half would be helpful.

Brian Garner
Yeah, I think your intuition is right, and you can kind of do the math on where we're at to date and where our guide is. And I think you're right, it starts to imply some improvement as we enter the back half. I mean, really the challenge that we've been facing so far this year, you know, you've heard me say before as the portfolio grows, that's a tailwind for revenue. You know, you highlight customer count, and you can also look at gross leased assets, and those are moving in the right direction. And what's been more than offsetting the momentum that we've had there as we start to see kind of consumer dispositions come back, you know, 90 days starting to trend back down to earth, et cetera, it's being offset by the AR provision and the build-up there, including the reserves, as the portfolio has felt pressure.

So I think the path to a better place and a path to revenue growth. I mean, it starts with GMV. We've got to get that on the, you know, the upward trajectory. But I would say the GLA and seeing the -- seeing this AR provision because of the decisioning changes that we've made start to come back down to a reasonable level, that's the recipe for revenue growth moving forward. And I think we've taken meaningful steps like we talked about, about getting the portfolio in the right place. And I think that's a big step in the right direction.

Brad Thomas
Great, thanks so much and good luck.

Steven Michaels
Thanks, Brad.

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

Vincent Caintic
Thanks, good morning. And congratulations on winning Samsung, and looking forward to hearing more of those merchant wins. I wanted to follow up with the discussions you're having with your potential merchant partners, and a bit of a two-part question. So first, how is their focus and prioritization when you think about adding (INAUDIBLE)? And I remember, I think, during the pandemic there wasn't as much focus, but sort of wondering what their thinking is now.

And second part, I know some of these merchants like Samsung have other finance providers in categories like buy now, pay later, as an example. And I know you're still looking for evidence that primary lenders are tightening. But from your discussions with your potential merchant partners, are you hearing them maybe getting frustrated with their current lenders or seeing tightening, and trying to increase sales conversion by adding Progressive and looking outside their existing partnerships? Thank you.

Steven Michaels
Yeah, thank you, Vincent. Yeah, I mean those two questions go together, and I think the short answer would be yes. You know, a more robust answer would be clearly during the pandemic, it was tough to get an audience because things were going so great. You know, we've talked about that. Now, comps are challenged, and depending on what your view is on what the macro looks like from a recession standpoint, is that going to happen, is it not going to happen, is it going to happen in '23?

Retailers are looking for solutions to have a more full suite of options and lease to own for those that don't have it, seems like a no-brainer to us. And so that's our job to communicate that with retailers. And we are having productive conversations about that and having conversations about how do we get -- how do we get a pilot, how do we approve this, how do we get put into the priority stack for development resources?

As it relates to other credit supply, I mean, we haven't seen evidence of primaries tightened, but there's undeniable evidence about BNPL players tightening. I mean, they've ratcheted down out of necessity massively. And when I'm talking about BNPL, in that instance I'm being more specific to the pay-in-four providers. As we've said many times, those aren't really a competitor for a lease-to-own kind of $1000-plus average ticket. But it does go into the psyche and the overall kind of posture of the retailer, both the merchant -- merchandising department as well as the finance department.

So those things, while the shiny new object of pay-in-four during the pandemic probably took away some mine share from us, now those things are not maybe living up to the expectations. And so there can be a follow-up conversation with us that we think can be very fruitful and have massive positive ROI for the retailer. I think the Samsung thing is a nice data point for that, and we look forward to -- we have a roadmap with partnering with Samsung that will kind of crawl, walk, run, just like we have previously. And those are the types of things that can really provide good evidence and give good data for our biz-dev team to go out and talk to future retailers.

So we're optimistic, but we are also realistic about the sales cycle and the time it takes to get the large kind of enterprise clients that we're trying to convert across the goal line.

Vincent Caintic

Okay, perfect. That's very helpful, thank you. And I guess speaking about a recession and kind of going back to underwriting, I guess if you could give us a sense -- it sounds like you feel comfortable with -- that underwriting perhaps has stabilized here. From the write-offs, it seems like the reserving is from losses that maybe haven't happened yet, so maybe reserves for future losses. Sort of wondering what are your assumptions and expectations that haven't baked in when you think about the macro and a potential upcoming recession. Thank you.

Steven Michaels
Yeah, I mean -- so I kind of -- without being too cute, like I feel our customer is in a recession right now. Like we may not be in a recession, but the bottom 40% -- you see the Walmart news. I mean, there's just so many data points that, you know, our customer is in a recession now. There's strong employment, right? So that's a good thing. That's why it's kind of a unique set of economic circumstances right now. But our customer is facing, you know, double-digit inflation in the things that matter, in energy and housing and food. And so they're feeling it already.

We're not anticipating things getting materially worse, but we are not anticipating them getting better. So we're firmly, as we always are, firmly watching our pool performance. And other than our customer service hub activity and our call center activity, there's not a ton that we can do on a pool that was originated in December of '21 or January of '22. But the pools that, as Brian said, that were originated post a couple of our decisioning changes, we are watching them and seeing how they're performing.

We feel -- you know, we feel good about the early indicators on those pools and we're doing everything we can to not have the pools originated before those changes deteriorate further. We are not anticipating massive improvements, or any improvements, quite frankly, in those pools' performance, but we're doing everything we can to make sure they don't deteriorate further from here.

Vincent Caintic
Okay. Okay, that's perfect. Thanks very much.

Operator
The next question comes from Hal Goetsch of Loop Capital. Please go ahead.

Hal Goetsch
Thank you, guys. My question is on approval rates. I think you mentioned that maybe right now, your approval rates are 200 basis points lower than 2019 levels. And I think in Q2, you mentioned they were 100 basis points lower than 2019. Those are much tighter conditions there, but also your funnel of potential customers is a lot bigger. You have a lot more merchants on the platform. And I think you mentioned you had 30 new e-commerce retailers in the first half of the year.

And my question is like what is happening to just overall applications? Before you can improve them, someone has to apply. So give us your thoughts on what you're seeing coming to you before you approve it. Is that growing -- is that down because of the economy? And my follow-up is, since we do have a job -- a strong job market, is there a chance for better recovery later on down the line when people adjust to their new cost structures but still have their jobs and they start re-engaging on payments if they've lapsed? Thank you.

Steven Michaels
Yeah. So on the first part of the question, you're right, the top of the funnel is -- applications are higher because we have a broader base of retailers and we're adding new e-comm players all the

time. I do want to drill into approval rates quickly as it relates to being compared to pre-pandemic 2019 levels. There has been channel shift, right, and we talk about 32 new e-comm retailers just this year. So the source of your applications will impact approval rates as well. And by their very nature, e-comm or digital applications would have a lower approval rate than in-store sales assisted applications. So when we are comparing July of '22 approval rates to July of '19 approval rates, channel shift is a sizable component of those changes, besides our view on the health of the consumer in this period versus that period.

But back to your question about the app volume, I mean, app volume is up -- is up nicely, and conversion is hanging in there. We're just not approving as many as we were back then for various reasons, because we're managing the portfolio to our targeted levels. But what we expect and what we hope is we can continue to diversify the base and broaden the base of retailers and new consumers, to Brad's point about our customer base going up; such that when things do turn or when less -- when we see the tightened credit supply above us, which is still our base case assumption, the top of the funnel opens up even wider and we have an even bigger pool of applicants to approve and to convert and to grow GMV with. So there's work being done during this time of maybe more caution to help us grow when we come out of the other side of this.

Your question about employment, I mean, incomes matter, right? And our customer is resilient and lives through various recessions or cycles a lot, and they'll get a second job. They'll pick up a part-time job. They'll do something. And so I do expect that they can adjust to the new normal. And as long as things don't continue to get progressively worse, they just kind of stay the same, strong employment helps.

Now, so far, wage inflation hasn't caught up or hasn't kept up with cost inflation for our consumer. So they're in a deficit. But, you know, over time they will make the necessary adjustments, and hopefully that will show through in our portfolio performance and customer payments.

Hal Goetsch
Great, thank you.

CONCLUSION

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

Steven Michaels
Thank you, and we appreciate you joining us this morning as we update you on Q2. I know I said this in my prepared remarks, but I'd certainly like to thank all the PROG people. It's a tough environment, and they're doing a great job taking care of our customers and partnering with our retailers to continue to prove the value of the partnership every day. And I really appreciate everybody's efforts.

It's a tough environment that we're navigating through. Who would have thought that it would be harder to exit the pandemic than to manage into the pandemic, but that's where we find ourselves. And we appreciate you all's interest, and we look forward to updating you in the coming quarters.

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