FirstCash
October 28, 2021

Corporate Speakers

- Gar Jackson; IR Officer; FirstCash
- Rick Wessel; CEO and Vice Chairman; FirstCash
- Doug Rippel; Chairman and Founder; American First Finance
- Howard Hambleton; President and CEO; American First Finance
- Brent Stuart; President and COO: FirstCash
- Doug Orr; EVP and CFO; FirstCash

Participants

- John Hecht; Analyst; Jefferies
- Vincent Caintic; Analyst; Stephens Inc
- John Rowan; Analyst; Janney
- Henry Coffey; Analyst; Wedbush
- Alonso Garcia; Analyst; Credit Suisse
- Gilberto Garcia; Barclays; Analyst

PRESENTATION

Operator: Please stand by. Your program is about to begin. (Operator Instructions).

Good morning, and welcome to the FirstCash conference call. My name is Ashley and I will be your conference operator today. (Operator Instructions).

A slide presentation accompanies today's webcast. The participants are invited to follow along with today's slides themselves. The presentation may be accessed from the investor section of the FirstCash website. After the speakers' prepared remarks there will be a short question-and-answer session. Instructions will be given at that time. Please note that this is being recorded.

I would now like to introduce your host, Gar Jackson, as Global IR Group. Please go ahead, sir.

Gar Jackson: Thank you, Operator. Good morning, everyone, and thank you for taking the time to join us today to discuss FirstCash's acquisition of American First Finance. As a reminder, this call is being recorded, and a press release and slide presentation regarding today's news is available on the Investor Relations section of the FirstCash website.

Before we begin, I'd like to remind everyone that today's comments include forward-looking statements reflecting FirstCash's view of future events and, therefore, potential impact on performance. These views include the risk factors disclosed by the Company in its Form 10-Qs and 10-K for the year ended December 31, 2020.

Further, refer to these statements regarding forward-looking statements incorporated in our press release from this morning. Please also note that the contents of this conference call are covered by these statements. Also please refer to the information on the disclaimer slides in the presentation as well as the additional information contained in the regulatory filings for FirstCash.

In addition, the information reported on this call speaks only as of today, October 28, 2021, and therefore you're advised that time sensitive information may no longer be accurate as of the time of any replay.

Presenting during the call today will be Rick Wessel, Chief Executive Officer and Vice Chairman of FirstCash; Brent Stuart, President and COO of FirstCash; and Doug Orr, FirstCash's Executive Vice President and Chief Financial Officer. From the AFF side, we also have Doug Rippel, Chairman and Founder; and Howard Hambleton, President and Chief Executive Officer.

And with that, I'll now turn the call over to Rick to kick things off. Rick?

Rick Wessel: Thank you, Gar, and good morning, everyone. I'm excited to have the opportunity to speak with you today about our acquisition of American First Finance, which is known as AFF. This transaction is an important milestone for our Company, one that builds on our 30-year track record of success with retrial pawn stores and launches us into the large and growing point of sale, or POS, and buy-now-pay-later retail payment space.

Before diving into the many strategic and financial benefits that this combination will bring to FirstCash shareholders, I'd like to spend a few minutes talking about why this transaction is the right next step for FirstCash and why AFF is the right partner to advance our growth objectives.

Since our founding in 1988, we've had an exciting history. We've spent our early years scaling the business and expanding our geographic footprint in the U.S. and internationally. All of this strengthened our foundation and led us to our merger with Cash America in 2016.

Over the last 10 years, our growth has only accelerated with over 70 acquisitions. We've successfully executed on our strategy with a focus on continuing to increase or scale, serving even more customers in growing revenue by opening de novo retail locations and acquiring existing pawn stores.

As a result, we've been able to significantly expand our presence in the high growth Latin American markets and drive new levels of value creation. Today, FirstCash is the leading international operator of pawn stores with a strong track record of performance and expertise supporting underserved customers.

Not only do we operate over 2,800 brick and mortar retail pawn locations in the U.S. and Latin America, but we have earned our reputation as a trusted brand with our customer base.

Our transaction with AFF is about continuing this growth and achieving even greater levels of industry leadership and value creation.

Now if you flip to slide four, now let me give you a quick summary of the transaction. This is a cash and stock transaction valued at approximately $1.17 billion at close. For the closing purchase price AFF will receive approximately 8.05 million shares of FirstCash stock and $406 million in cash. Subject to adjustment of AFF's net debt. The cash portion of this consideration will be funded through a combination of cash on hand and debt financing.

FirstCash will also provide up to an additional $300 million of consideration if AFF achieves certain adjusted EBITDA targets through the first half of 2023. This transaction will drive immediate revenue and earnings growth as well as opportunities for accretion and strong free cash flow generation over the near and long-term. You'll hear more on this from Doug Orr later on.

As part of the transaction FirstCash will form a new parent company which will assume FirstCash's listing on the Nasdaq and maintain our FCFS ticker. Upon completion of the transaction AFF's owner Doug Rippel will own approximately 16.6% of the new parent company and existing FirstCash shareholders will own the remaining 83.4%. Upon close, I will lead the combined company as chief executive officer and vice chairman.

AFF will operate as a separate business unit within FirstCash, it will continue to be led by Howard Hambleton and the existing AFF management team. Doug Rippel will also be appointed to the board of FirstCash.

We expect the transaction to close in late 2021 or early first quarter 2022 once we receive all the necessary regulatory approvals including anti-trust approvals.

Now if you flip to slide five. Turning to the benefits of this combination, as I -- as I mentioned earlier, this transaction will enable FirstCash to enter the attractive POS and buy-now-pay-later retail payment space, which has an estimated market size of $600 billion. We will be able to build on our leadership position in the pawn industry by leveraging AFF's expanding product offerings, strong technology enabled financing platform, broader customer and merchant reach, and differentiated ecommerce capabilities.

Together, FirstCash and AFF will provide greater financing alternatives and serve even more customers than either company has been able to do on its own.

As I mentioned earlier, the financial benefits are significant. Before I hand it over to Doug and Howard, I want to reiterate the tremendous respect we have for AFF and its team. As we position ourselves for the future, we are excited to welcome Doug, Howard, and their team of incredibly talented employees into the FirstCash family.

Now instead of hearing me going on about AFF, let me have our new partners give you a perspective in their own words. I will start with Doug Rippel, the Founder and Executive Chairman of AFF.

Doug Rippel: Thanks, Rick. It's a great pleasure being on the call this morning to announce the combination of our two incredible companies. While not as long as FirstCash, AFF has an exciting journey. I know this transaction is the right next step for our Company.

I'm thrilled with how this deal has come together and the prospects of combining these two very complimentary businesses to provide even more options for our respective customers. I've admired Rick and the FirstCash team and the powerful business model they've engineered to finding very strong financial characteristics, deep customer relationships, and an expansive physical footprint.

FirstCash's operational track record speaks for itself, and there's no doubt it's the perfect partner for AFF so we can continue to grow our business, customer, and merchant base over the long-term.

And I personally look forward to joining the board to help oversee our combined company well into the future. Howard, do you want to talk a little more about AFF?

Howard Hambleton: Sure. Thank you, Doug. I, too, echo your excitement for this combination. It's really exciting.

So perhaps I'll start by highlighting who AFF is. Well we are the fourth largest provider of POS payment solutions to underserved retail customers in the United States. We're also a Texas-based company headquartered in Dallas. Over the course of our history, we've significantly scaled our business, and today we have a really diverse portfolio of offerings include lease to own or LTO, retail installment contracts and bank-originated loans.

There is a lot of sophistication in the underwriting models that go with these solutions, and they all work in an omnichannel fashion to meet the merchant and consumer need where, how, and exactly when they need it the most.

Over the last several years, our team has made a great deal of progress expanding our portfolio financing solutions, transforming the customer experience, building deep merchant relationships, and executing a differentiated omnichannel growth strategy.

This is truly what sets us apart. Our suite of products coupled with our technology support and expansive nationwide network of more than 6,500 retail merchant partner stores and ecommerce platforms. Our solutions have given AFF a significant presence with retailer merchant partners across a wide array of industries focused on furniture and mattresses, appliances, jewelry, electronics, along with automotive products and repair services. That's just to name a few.

And all of this, it's translated to strong revenue growth for AFF while we've watched our partners succeed along the way. Our growth has been driven primarily by our continuous addition of high quality national, regional, and independent retail merchant partners along with the relentless focus toward driving their business over time.

We also have a strong multichannel sales team and super passionate support teams who both develop and grow these new and existing relationships. And at the heart of it all, we truly love our merchants.

Every merchant has different wants and needs based on their business, and this is where AFF has truly excelled in my opinion. In addition to our variety of payment solutions, we offer a variety of user experience options from mobile text to [apply], to browser-based applications, to waterfall platforms to full POS integration. Our approach has always been agile or flexible like our technology set as it should be given different merchants have different goals and expectations and where one size doesn't fit all.

Unlike many other payment providers we offer pre-qual solutions, easy to use in-card integrations, and product display page tools along with remarketing efforts. They're all aimed at driving conversion.

Whether our merchants are using a mainstream plug-in platform like the ones listed on the right here or they have their own homegrown platform, AFF has built a diverse set of solutions that fit the environment the merchant is operating in best. This approach that dares to be different has served AFF well thus far and will continue to guide us into the future with FirstCash.

As Doug Rippel mentioned, we've had an exciting history here at AFF, and this will only continue as part of FirstCash. I'm incredibly excited to join this talented management team and continue to grow our business. Let me turn it back over to Rick now.

Rick Wessel: Thank you, Doug and Howard. If I could draw your attention to slide eight, let's now take a look at the new market we're entering. Customer preferences have shown a significant shift towards digital purchasing and with that has come strong demand for POS financing. Today, POS financing is one of the fastest growing portions of the financial services sector.

As you well know, FirstCash has a proven track record of providing retail-based operations focused on underserved customers. And with the addition of AFF's leading capabilities across LTO and retail finance products, FirstCash will also become a leader in the highly complimentary POS payment space focused on similar customers.

Over the long-term, FirstCash expects to explore opportunities to deploy LTO products in Latin America. Additionally, for all AFF LTO customers who wish to return leased merchandise, our pawn stores can accept these items at one of our over 1,000 U.S. pawn locations across 25 states and Washington, D.C.

As you heard from Howard, AFF’s fully integrated technology platform is easily incorporated into the merchant partners’ payment systems in-cart check out platforms and more broadly online as well as for mobile devices. With the additional of AFF, FirstCash will be well positioned to drive growth in both existing and new product and service categories.

Over the long-term, AFF will also support FirstCash’s efforts to integrate digital payment options for pawn customers in retail stores, providing greater convenience and operational efficiencies.

Overall, the enhanced technology infrastructure and skill set will enable us to modernize our core pawn business and accelerate our omnichannel strategy.

Now, let's pass it over to Brent to talk more about how FirstCash plans to benefit from these enhanced technology, data and payment capabilities.

Brent Stuart: Thank you, Rick. AFF will help diversify FirstCash beyond it's core pawn business and provide new sources of revenue. With the addition of AFF's lease-to-own platform, FirstCash will significantly expand its pawn retail payment solutions beyond our existing layaway program which we have in place for many years.

FirstCash successfully launched a lease-to-own pilot program in some of our U.S. stores in late 2020. Much like the AFF lease-to-own platform the solution has allowed customers to lease-to-own products they may otherwise not have been able to buy at the point of sale.

The primary advantage versus layaway is that the customers can take home the merchandise immediately. The lease-to-own product has resonated with more the bank segment of our customer base and the average dollar amount of the lease-to-own contract is tracking meaningfully higher than a non lease-to-own retail sales transaction would.

Year-to-date, we have submitted over 13,000 customer applications for lease-to-own purchases in just 200 pilot locations. There have been over 9,000 leases written year-to-date in the pilot stores with an average initial spend of $465.

Approximately 80% of our traditional in-store retail sales are in categories from jewelry, electronics and tools and from our pilot, these categories map well to lease-to-own purchases. It is evident this lease-to-own product not only resonates with our traditional retail and layaway customer, but also signifies how this flexible option creates customer loyalty and repeat business in a very short timeframe.

Over 30% of our lease-to-own customers are returning to the store within three weeks of their initial purchase to take advantage of their available spending limit. Repeat lease-to-own customers are currently averaging 1.5 purchases since the rollout of the pilot with 10% of those lease-to-own customers averaging three plus purchases over the pilot period.

With these results from our pilot, we are clearly excited about what the addition of the AFF platform can offer our customers going forward and what that means for the continued growth of our core pawn business.

I will now hand it over to Doug Orr to touch on the financial benefits of the transaction. Doug?

Doug Orr: Thanks, Brent. Let's look at slide 11. Significant revenue and earnings growth opportunities. AFF has a very strong financial profile and it will contribute immediately to FirstCash's performance.

For the full year 2020, AFF achieved revenues of approximately $350 million with estimated revenues of over $600 million in 2021 and over $800 million in 2022. For earnings, AFF is projected to deliver between $120 million to $140 million of EBITDA in 2022.

I would note that AFF's standalone EBITDA margins have historically been similar to other publicly traded industry peers.

As Rick mentioned earlier, we expect this transaction to be approximately 15% accretive to adjusted EPS in 2022 with further accretion expected in 2023. Adjusted EBITDA accretion for 2022 is projected at approximately 30%.

On slide 12, I'll discuss free cash flow and capital allocation. We are also excited about the cash generating abilities of our combined business. We expect to use the cash to remain focused on long-term shareholder returns to further investment in our core, domestic, and international pawn business while also accelerating AFF's growth.

Specifically, FirstCash expects to maintain its current dividend policy and to opportunistically repurchase shares under its existing authorization. FirstCash remains committed to maintaining a solid balance sheet and its strong and stable credit ratings.

While we expect to see a slight bounce in leverage over the next 12 months, we anticipate that this will quickly revert to more normal levels.

In summary, this transaction will provide significant financial benefits, supports our strong financial foundation, and will enable us to capture significant growth opportunities ahead while we continue delivering returns to our shareholders. Rick, back to you.

Rick Wessel: Thank you, Doug. Before we open the call for questions, I'd like to reiterate that we are confident that in the compelling strategic and financial rationale of this transaction and the many benefits it will bring to FirstCash shareholders.

Building on our complimentary strengths this transaction diversifies us beyond our core pawn business with the addition of a new revenue stream, significantly expands our customer base, and accelerates our omnichannel strategy.

And importantly, we are confident this transaction will position FirstCash to deliver significant value to our shareholders. This is a truly excited milestone for FirstCash and our best in class team. I look forward to welcoming Doug, Howard, and the talented members of the AFF team to our Company, and I am eager to hit the ground running to bring our two companies together and unlock the value inherent in the new FirstCash.

With that, Operator, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator: Thank you. (Operator Instructions). In the interest of time, we do ask that you please limit yourself to one initial and one follow up question. And we'll take our first question from John Hecht with Jefferies. Please go ahead.

John Hecht: Morning, guys. Thanks. Very exciting announcement. First question is just to kind of get a sense for the retailer partnerships. What are the maybe the characteristics and mix of the retail partnerships kind of large versus small? How many stores are you in, and then what's the mix of mobile versus in-store transactions at this point?

Howard Hambleton: Hi, John. Good morning. This is Howard Hambleton. Great question. So as we mentioned we have 6,500 or I guess I would say over 6,500 what we call active merchants as our space has defined it. That means merchants or locations that are actively funding with American First Finance.

And we -- we're across 26 different verticals, and a single location can only use one of our three product options. But that being said, we from a mix perspective, we have thousands of single store mom-pop operators all the way up to some of the largest national retailers in the tire and wheel space. We work with 10 of the top 50 furniture operators in the United States.

And then you have what I guess we would call our regional relationships as well. So we've structured our sales organization in a way that we can focus on each of those merchant opportunities or categories so that it's not one sales team trying to go after the single store operators and the big nationals. We have a national sales team and then we have a field sales team that's a combination of both W2 and independent sales reps.

I think that because of our product suite and our ability to serve so many different verticals especially providers that where LTO is not a viable options, that's enabled us to go into markets that are less competitive. We're seeing a great amount of adoption in the service provider categories just as furniture and its adoption of no credit needed programs has really become mainstream.

I believe a lot of these other verticals have taken notice and they're seeing the value that this type of solution can provide to their customers and to their business.

John Hecht: Okay, that's very helpful. Appreciate that. And maybe just one quick financial question is maybe for the LTO product, the installment product, and the bank product, can you just give us maybe the standard terms and structure and average size of those types of deals?

Howard Hambleton: Yes, so they're -- they are three different products. We operate the least owned product. The merchants have a retail installment solution they can offer, and then we have a bank partnership that issues loans. So they are structured a little bit different in their own right, and they're -- the underwriting I would say is somewhat similar, but there's hundreds of combinations of different underwriting models that are used accordingly.

When it comes to terms and conditions all of our options come with 101-day early pay off for the most part, and we see a great amount of utilization by the consumer for that option. They're able to pay it off with a nominal price above what they would pay if they were paying cash.

So they all come with that early payoff option, and we see -- and we see a lot of utilization of that. We saw even more so the last year and a half with the stimulus money coming into the market, but that's coming back down to what I would call pre-COVID levels.

We've always offered solutions that range in terms from 6 to 12 to 18 to 24 months, and that's one area where American First Finance has been unique for the greater history of our company because most of the competitors have only ever offered 12-month terms.

We've always felt like giving more time to the end user would make the payments more affordable, and it actually translates into a higher ticket for the merchant partner.

We are seeing competitors start to follow suit to some extent but not necessarily to the extent that we've been out there. And the average -- the average amount that's funded is in the $1,200 to $1,300 range. We've seen that change over the years and right now with certain verticals that we service since we're seeing prices go up as a result of some of the shipping increases, et cetera. So that's naturally raising our average ticket. But I would say $1,200 to $1,300. And the average life of a contract is probably around I'd say 14 months.

Did that answer your question John?

John Hecht: Yes. That's helpful. Thanks. And then if I may ask one more. From a strategic perspective, what do you think the cadence will be to bring this into the FirstCash stores? And you note that there's the potential for international expansion, where on the horizon should we see that potential?

Doug Orr: Hey, John, it's Doug. I don't know, Rick may want to chime in here. I mean, we're -- we think -- we obviously think that this is a phenomenal opportunity. I mean, we don't have to be in a huge -- we're not going to rush the process, but certainly there's opportunity there. That as Brent mentioned, we piloted this program successfully, but so we would hope over the next year that we would be rolling that through the first test stores.

The international piece is the much longer term project. So we don't want to put any dates or expectations around it.

John Hecht: Okay, thanks very much guys.

Rick Wessel: John, I mean --

Doug Orr: Hey, Rick.

John Hecht: Sorry, Rick.

Rick Wessel: John, with 1,700 stores in Latin America and what we've learned over the last 20 years being in Latin America, we just think that there is some opportunities there for this product or some form of it to be expanded and rolled out down there. So it will be something that we'll be looking at.

John Hecht: Okay, great. Thanks for the color. Thanks, guys.

Operator: And we'll take our next question from the Vincent Caintic with Stephens. Please go ahead your line is open.

Vincent Caintic: Hey, thanks, good morning. Thanks very much and congratulations on this combination. Sounds very interesting. First question on the accretion map, so I appreciate the details you gave there and 30% sounds like a really nice accretion number. If I take the -- so the $120 million to $130 million, so let's just call it $130 million, we're assuming that there's 30% accretion in 2022. Am I right to think that the baseline pre-deal EBITDA for next year for just cash alone is about $430 million? I'm basically taking the $130 million divided by 30%. So, just kind of wondering if you can give us some help on the pre-deal EBITDA or if there's any other puts and takes for that. Thank you.

Doug Orr: Well, you know, I mean -- this is Doug. I mean, as you know we don't have any guidance out there for this year or next year. So, it's hard to speak to that. But I can just tell you though that our -- obviously, there are analyst estimates that are out there that you can look to.

Vincent Caintic: Okay. Understood. The next question, if maybe talk about some of the financials of AFF. So particularly I mean one of the questions at least with this earning season with the lease-to-own names is just expectations for credit as we go through the rest of the year. So any maybe how you're thinking about credit and write-off rates.

And then if you could maybe also provide some like how your revenue breaks down in terms of what's -- how much of the revenue component is like lease rental income versus interest income over other fees and so on. Thank you.

Doug Orr: So this is Doug again. In terms of the revenue breakdown we provided that in the investor deck. I think this is a key thing is that we look at it on a pro forma basis. 65% of our revenues are still going to come from our core pawn business. And so, this is still the primary driver in the -- for the next several years, but what obviously there's significant upside with the contributions from AFF.

If you look at the total breakdown is, like I said, it's about 65% pawn, fees and retail. 24% will come from the LTO product, and then the lending products, the bank loan product and the installment lending product's only about 11% of the pro forma revenue, so it's a very manageable number.

And I guess Howard can speak to the credit trends.

Howard Hambleton: Yes, so I guess I would -- and you probably know this by now, but clearly 2020 and 2021 were really good years I think for everyone's bad debt for the most part, and a lot of that is just simply due to all of the stimulus dollars that were floating out in the market.

And what's interesting is that even though all this capital is out there and we did see a lot of cash sales as a form of tender increase for our retail merchants, we also saw consumers still want to use our payment options to procure whatever good or service that they were interested in.

So throughout all of that, our application rates tended to trend up. Our conversion rates were consistent throughout that whole period. But now that that stimulus has dried up, we fully expect our bad debt levels to trend back to what we call pre-COVID timeframe, which is essentially 2019, which that wasn't a bad year at all for us. It was a really good year. It's just we'd never seen 2020 and 2021 before.

And so, we are fully forecasting what we would call 2019 levels, which for us were very good.

Vincent Caintic: Got it. Thank you. So I guess when you're thinking about 2022 for the different products so for Vista-owned and for installment products you're underwriting to like a kind of a 2019 level, so you're being conservative when you -- sort of when you think about your expectations. Would that be fair?

Howard Hambleton: You're spot on. Yes.

Vincent Caintic: Okay, that's perfect. Yes. Okay, great. Thanks very much. Appreciate the help.

Operator: And we'll take our next question from John Rowan with Janney. Please go ahead.

John Rowan: Morning, guys. So --

Doug Orr: Morning, John.

John Rowan: -- Doug, the 15% accretion this year or next year rather, I just want to make sure. I mean, is there a kind of change in the share repurchase cadence? It sounds like you're going to be obviously opportunistic now not that you have a program in place but kind of pre-COVID you were a lot more programmatic and basically having 100% payout. I'm curious if that 15% accretion is net of any change and expected share repurchases?

Doug Orr: Again, I don't -- I would say that it's not a big factor. I mean, John, we've always said all along that our capital allocation strategy was, number one, is grow the business. And we continue to grow the pawn business.

Witness the acquisition we did just over a week ago in the U.S., and we still think that there's topline for additional acquisition opportunities going forward in the pawn space. We'll continue to open stores in Latin America, so we're investing capital down there.

And then obviously we're -- have invested here in AFF. So, I think the commitment is just go forward, still commit -- the number one priority is growing the business. Number two, continue our dividend program. And then opportunistically we -- we've historically had the ability to do buybacks. But I wouldn't -- I would say there's not any kind of material assumptions in that accretion number for buybacks.

John Rowan: Okay. And then I appreciate all the data that you guys gave around the average term and the average ticket size for the lease to own product. The one thing that we don't have is pricing. And I'm just curious if the pricing on this product falls closer to a two by two formula that's indicative of many state-level laws or if this is on the -- on the lower end of the spectrum closer to -- I assume it's not closer to a buy-now-pay-later type r[ate] restructure?

Howard Hambleton: Your assumptions correct. We obviously comply with all the different state statutes that pertain to the lease-purchase transaction. But I would say our pricing is market -- it's right in line with where most of the virtual lease down providers are.

John Rowan: So, your peers are more so like I'm assuming Catapults and Acimas of the world?

Howard Hambleton: Yes. Yes, the Acima, Snap, Progressive.

John Rowan: Okay. And then one more question actually for Brent. Obviously, you have a network of stores that can take in lease merchandise. Obviously, when you're charging those types of rates it has to be a non-recourse transaction to qualify for that rate structure, right. So, when someone wants to return something you have to take it back. What does AFF currently do with it? How much of that merchandise can flow through the FirstCash stores? What margins will you get on that merchandise? And how much does it improve AFF to possibly have a better retail throughput for return merchandise? Thank you.

Brent Stuart: Hey, John, It's Brent. I'll let Howard speak to the return policies now. But going forward, we think that's an opportunistic opportunity for us is to have that return merchandise available for sale in our stores. We've actually experimented with some of that in our current LTO pilot and it's worked very well.

Howard Hambleton: Yes, and I -- currently, we work with a network of charities where customers have the ability to return that merchandise to the charity that's available in the market that they reside.

John Rowan: Okay. Thank you.

Operator: And we'll take our next question from Henry Coffey with Wedbush. Please go ahead.

Henry Coffey: Yes, good morning. And thank you for taking my question and hosting this call. I'm trying to digest this business a little bit. I know this is an unfair way to ask the question but with -- if you look at the leasing product, the installment interest product, what you do with the banks, et cetera, what -- can you convert -- if I went to buy the good in the store, could you convert my payment stream into an APRs to give me some sense of what the -- how an outsider would be looking at this transaction?

Howard Hambleton: Yes, you could -- it really ranges. I mean we -- typically, it's going to be 145% to 170% range if you are trying to impute an APR.

Henry Coffey: Yes, just so we can try to understand the business. And then it's regulated at the state level. Are there states -- is it like the pawn shop business where there are states where you're very comfortable with what you can accomplish with the product? And then are there other states like, quote, New York or Massachusetts, where the state regulation is too restrictive?

Howard Hambleton: Yes, so we don't offer all of -- all three products in all 50 states. With lease-to-own, we can apply that depending on the vertical and the use case in 47 states. And then with our bank partnership, it's really the bank making the determination as to where they want to offer their loan product and they -- there's been a lot of guidance around where they feel like that is going to have the least amount of concern. And so states like New York, their -- bank does not offer their product there.

With retail installment, the laws, there are roughly 21 states that permit that type of transaction between the merchant and the retail consumer at that -- at that rate.

Henry Coffey: We file lending club and are aware of Upstart and that whole installment product. LendingClub owns their own bank so they work everything the bank. Upstart uses bank partnerships. Is this the same sort of thing where you're basically originating a product for the bank earning a fee but the bank is making -- ultimately making the credit decision and holding the loan on balance sheet? Is that how it works? Or is it a pass through situation like we used to see in the olden days of the LendingClub installment loan business where they'd go to West Bank or something like that?

Howard Hambleton: It works like your former explanation. And so we're helping the bank find the merchant partner and then we act as a servicer, but the bank is originating and holding that loan.

Rick Wessel: And Henry --

Henry Coffey: And then just --

Doug Orr: Well, I was just going to say, I'd also note that the -- on a pro forma basis the bank product is only about 6% of revenues. And I would -- Howard may comment further on this, but I mean if you look at most of the growth and where the business is headed, most of the growth is actually coming out of the LTO product. And you're not seeing near the growth rate on the bank product. So I think the -- I think we see that bank exposure going down over time on a consolidated basis.

Henry Coffey: And then just my last question --

Howard Hambleton: A lot of that --

Henry Coffey: I'm sorry. Go on.

Howard Hambleton: I was just going to say a lot of that's just driven by the fact that LPO, again, has so much more geographic reach and versus the bank and where they're willing to play with that product.

Henry Coffey: Yes. No, that's evident that that's the product that has the best potential. To really understand this situation, on one hand you have a business that's great -- looks like a great business with a lot of growth prospects. It -- to me, it looks like an improvement on the sales finance equation.

And then on the other side of the business now you have this company called FirstCash where you've already tested the idea of using the product in the store for FirstCash -- for FirstCash customers to buy FirstCash goods or are they buying new goods from other parties?

Brent Stuart: No, Henry, they're writing lease-to-own products on our existing inventory. So it's compliments our in-stores really nicely.

Henry Coffey: And then -- and then another leg of this whole issue is particularly if you -- let's pretend this was 2020, January first and you had owned this business and your stores were just getting stripped naked basically with such strong retail sales. The return merchandise from the new -- customers buying new goods would also feed into the equation and be something that you could sell through the store?

Brent Stuart: Potentially, yes, that's it.

Henry Coffey: Listen, thank you. Very interesting and thank you for all the detail.

Brent Stuart: Thanks, Henry.

Operator: And we'll take our next question from Alonso Garcia with Credit Suisse. Please go ahead.

Alonso Garcia: Good morning everyone and thank you for taking my question. I just wanted to ask about the -- I mean if you are in the acquisition numbers that you are providing if you're assuming any kind of synergies? If that's the case, where are those synergies come from?

And my second question would be if you could discuss the leverage position of the company post this acquisition? Thank you.

Doug Orr: Thanks, Alonso. This is Doug. Good questions. You know in terms of your first question on the synergies, yes. There is very minimal synergy assumptions right now. So, again, this is -- AFF is going to operate essentially as a independent business unit of First Cash. And so yes, we're not counting on a significant cost synergy number.

Like we've talked about down the road, there's some potential revenue synergies but again those were pretty modest assumptions at this point. And we're being very conservative on that. I would say that in terms of the leverage and the financing, obviously First Cash has a strong credit profile.

We've got strong credit ratings and it's important for us to maintain that status going forward but I think we're very comfortable that we'll be able to finance this in a way that does not significantly change our capital outlook and our ability to access the credit markets. We think we're in a really good position.

Alonso Garcia: Great. Thank you very much.

Operator: And we'll take our next question from Gilberto Garcia with Barclays. Please go ahead.

Gilberto Garcia: Hello and good morning and thank you for the call. Apologies, if this is a basic question but new to this business. Who takes the credit risk from the LTO transactions?

Howard Hambleton: American First Finance does. So we essentially are purchasing the good from the merchant partner and then we turn around and then we're leasing that to the consumer from American First Finance. And we retain title to that lease item until the customers fulfill their obligations that would allow them to take title or ownership.

Gilberto Garcia: Okay. And can you talk a little bit about the sort default rates and recovery that you see in the business?

Doug Orr: Yes, I mean we haven't given that specific guidance. I just point you to some of the public peers and I think that AFF is going to be very consistent in terms of its overall EBITDA margin and the way that breaks out, but if you look at a company like Progressive or Acima within Rent-A-Center, I think that's -- those are good comps.

Alonso Garcia: Okay, great. Understood. Thank you very much, and congratulations.

Rick Wessel: Thank you.

Operator: And we'll take a follow -- we'll take a follow up from John Rowan with Janney. Please go ahead. Your line is open.

John Rowan: Hey, guys. Just to -- just to make sure that we're clear given kind of the conversation around rate, these are -- I'll just say my assumption first. These are non-recourse transactions that have a, whatever, two-by-two pricing structure which is written into almost every state's rent to own regulations.

My guess is that the terms on the least mean that it's probably under a 90-day duration with options to extend. The reason why I'm going here is just to decide or to confirm that this is not really a product that falls under the CFPB's regulation. Is that correct?

Howard Hambleton: That's correct. Yes, our --

John Rowan: Okay, thank you.

Howard Hambleton: -- minimum --

John Rowan: Sorry. I didn't mean to cut you off. I just wanted to -- because the way lease-owned works if it's non-recourse and it's under 90 days with options to extend, it's not considered a financial product per the CFPB and not under their purview, right?

Howard Hambleton: Correct.

John Rowan: It just falls under state rent to own laws. That's what we're talking about, right? Okay, thanks.

Operator: And there are no further questions at this time. I'll turn the call back over to Mr. Jackson for any closing and additional remarks.

Gar Jackson: Well, thanks -- thanks, everyone, for joining us today for the call. Have a good day.

Operator: Thank you, and this does conclude today's program. Thank you for your participation. You may disconnect at any time.