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Q3 2023 PROG Holdings Inc Earnings Call

EVENT DATE/TIME: OCTOBER 25, 2023 / 12:30PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the PROG Holdings Q3 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

And I would now like to hand the conference over to your speaker today, Mr. John Baugh, Vice President of Investor Relations. Sir, please go ahead.

John Allen Baugh ***PROG Holdings, Inc. - VP of IR***

Thank you, and good morning, everyone. Welcome to the PROG Holdings Third 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 GMV performance and lease merchandise write-offs in future periods, consumer demand and the retail environment going forward, the level of 90-day buyouts in future periods, gross and EBITDA margins, our capital allocation priorities, our updated 2023 full year outlook and our outlook for the fourth quarter of 2023.

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, 2022 as well as our quarterly report on Form 10-Q for the quarter ended September 30, 2023, 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 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, Product Holdings President and Chief Executive Officer. Steve?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Thank you, John. Good morning, everyone, and thank you for joining us. Today, we are reporting better-than-expected Q3 financial results. We will also share our thoughts on a few important Q4 metrics and provide an update on our full year 2023 financial outlook along with a brief glimpse into 2024. Despite a difficult operating environment, we've exceeded our financial outlook again this quarter, recording revenues for Q3 that were higher than expectations and adjusted EBITDA that was well above the range we provided in July. As you might recall, in the first half of the year, our earnings were lifted by the trend of fewer customers choosing 90-day buyout options along with robust portfolio performance. Strong customer payment behavior trends continued in Q3, slightly offset by 90-day buyouts trending higher and back to pre-pandemic levels. Higher-than-expected gross margin and lower write-offs combined with our disciplined approach to spending, supported our material Q3 earnings beat. I am once again extremely proud of the team's ability to execute at a high level. The strong customer payment behavior is evidenced by our year-over-year 200 basis point gross margin expansion, improved write-offs of 6.6% as compared to 7.2% in Q3 last year and adjusted EBITDA growth of $6.8 million or 10.4%, resulting in a 12.3% margin.

Non-GAAP diluted EPS grew 32.4% year-over-year as we also benefited from a lower share count. As you may have seen in this morning's earnings release, we are incorporating our year-to-date outperformance and these favorable trends in our updated outlook for 2023. Progressive Leasing's GMV decline of 6.5% was within our mid-single-digit decline expectations despite challenging retail conditions. Our view is that the macro backdrop presents a blend of optimism and caution. We are seeing the rate of inflation ease, healthy labor markets and GDP forecast stronger than initially projected. However, average Q3 retail traffic was down double digits year-over-year across large-ticket consumer durables, and we anticipate this is likely to persist. We're also monitoring the potential impact of student loan payment resumption and recessionary concerns going into 2024.

We believe our business model has a degree of insulation from a typical recession, during which an increase in unemployment and credit tightening above us could result in higher applicant volume and higher quality applicants at the top of our funnel for both Progressive Leasing and Vive. I'd like to highlight the resilience of our customers through uncertain macro conditions, evidenced by lower than anticipated and lower than historical trends of delinquent accounts moving to charge-offs. Our strategic move to tighten decisioning in mid-2022 and our active management of our portfolio since then, have significantly benefited performance. Separately, strain on discretionary incomes has dampened demand for many of the leasable products offered by our retail partners.

We have skillfully navigated these demand headwinds through strong operational execution, balancing GMV pressures with portfolio management, cost control and strategic investments to enable future growth. For the holiday season, we have planned initiatives aimed at maximizing retailer traffic conversion as we are expecting traffic to be down year-over-year. We anticipate our Q4 GMV year-over-year comparison to be roughly similar to Q3, although the all-important holiday season and its material impact on our quarterly GMV results are still in front of us. On the portfolio performance side, we expect Q4 to align more closely to pre-pandemic levels with normalized 90-day customer buyout activity.

Next, I'd like to provide some initial thoughts on 2024. As I mentioned earlier in our thoughts on the macro environment, demand for leasable categories is down year-over-year. And in our view, that trend will likely continue into 2024. We intend to partially offset these headwinds through achieving deeper integrations with existing retail partners, capitalizing on anticipated tighter conditions in the credit stack above us and expanding our retailer base. As we conclude 2023, a high single-digit negative year-over-year comparison in our gross leased assets will bring revenue pressures, predominantly in the first half of 2024. We have proven our ability to navigate through dynamic and challenging environments, managing these headwinds through prudent cost management and strategic investments while generating robust profits and cash flow. Sustainable growth remains a key focus within our three-pillared strategy to grow, enhance and expand.

As a reminder, the grow pillar emphasizes our dedication to business development efforts across new and existing retail partnerships. In 2023, within a retail challenged environment, we grew our balance of share within our top retail partners and continued our track record of renewing key retailers with multiyear exclusive contracts. Also, our pursuit of new retail opportunities across regional and national brands is an important component of our strategy to capture more of our industry's $30 billion to $40 billion addressable market. We are focused on growth efforts across several other dimensions, including brand awareness and new customer acquisition through marketing, products boosting our direct-to-consumer business and strategic partnerships. E-commerce penetration remains a strength with nearly 3x the number of new partners added via our customizable integration process through Q3 this year compared to last, and the channel consistently contributes around 15% of total GMV.

Under the enhance pillar of our strategy, our initiatives are focused on improving customer experience and optimizing the sales funnel from awareness to purchase. We made progress on our 2023-2024 tech road map, which, as a reminder, is centered on 3 core areas:

improving our customer-centric flexible lease platform, providing self-service tools to enable a superior retailer experience while helping the customer make the best and most informed choices and offering greater personalization for a streamlined shopping and decisioning experience.

As for the expand pillar, we are evolving and integrating the other products in our ecosystem to help empower our customers through their financial journey. During this challenging macro environment, we want to bring awareness to a larger breadth of potential customers that could benefit from the virtual lease-to-own payment option supplemented by the other products in our ecosystem, such as our second look product Vive, buy now pay later option Four, and credit builder loan, Build. The core of how we operate and grow remains in the execution of our mission to create a better today and unlock the possibilities of tomorrow through financial empowerment. Lastly, we look forward to further productivity gains and improvement to our customer experience through the application of generative AI led by our PROG Labs group.

Turning to capital allocation. We acquired an additional 1 million shares of our common stock in Q3 at an average price of $34.85 per share, bringing our year-to-date purchases to 7.5% of our outstanding shares. Year-to-date, we have generated $292 million of cash flow from operations, closing the quarter with a cash balance of $295 million. Our capital allocation priorities remain unchanged, and we expect to fund growth, look for strategic M&A opportunities and return excess cash to shareholders. Our strong results year-to-date are driven by the hard work and strategic initiatives put forth by our teams, and I would like to extend my thanks to our employees and partners for their efforts.

With that, I'll turn the call over to our CFO, Brian Garner. Brian?

Brian J. Garner *PROG Holdings, Inc. - CFO*

Thanks, Steve. Let me start with a quick summary of our Q3 financial highlights. For the third quarter in a row, we exceeded earnings expectations despite a lackluster demand environment. Our active management of our lease portfolio continues to deliver strong returns and customer payment performance came in meaningfully better than we projected in the Q3 outlook we provided in July.

Our management of portfolio performance and SG&A were the key drivers of our strong results for the period. With Progressive Leasing's adjusted EBITDA margins coming in slightly above the high end of our targeted annual range of 11% to 13%. During the quarter, we saw resiliency within our delinquent accounts as a smaller percentage are moving to charge-off compared to historical trends. Revenue from customers choosing to exercise their 90-day purchase option in the quarter trended back towards normalized levels, which we anticipated in our July outlook.

Q3 consolidated revenues declined 6.9% year-over-year, as our gross leased asset balance was down 10.7% at the start of the quarter and finished Q3 down 9.6%, as the retail environment for durable consumer goods remains challenging. Nonetheless, our revenue performance exceeded the top end of our outlook as the customer payment strength exceeded our expectations.

Consolidated adjusted EBITDA increased by 10.4% to $71.7 million from $65 million in the year ago period as we delivered margin expansion through portfolio management. Non-GAAP diluted EPS increased to $0.90 per share, growing 32.4% from $0.68 per share in Q3 of 2022. For our Progressive Leasing segment, GMV declined 6.5% in the prior year period, an improvement from the 14.7% year-over-year decline we posted last quarter, as we fully lapped the tightened decisioning in late Q2 2022. While we saw GMV softness across most categories as broader retail trends showed double-digit declines in appliances, furniture, and electronics during the period, we are confident that our performance represents an increase on average in our balance of share of our top 5 retailers results in our leasable categories.

Revenue within the segment declined 7%, which was primarily influenced by the lower gross leased asset balance throughout the third quarter, partially offset by strong customer payment behavior. Progressive Leasing's gross margin was better than expected, coming in at 32.3% versus 30.3% last year, primarily driven by strong portfolio performance. Our write-offs were 6.6%, which was down from 7.2% last year. Based upon current trends, we expect our write-offs for the year to end well within our targeted 6% to 8% annual range. Progressive Leasing's SG&A expenses were 13.7% of revenue versus 12.4% in the prior year. We continue to invest in areas that facilitate our ability to scale and drive future growth. However, we reduced our spend compared to the level we had incorporated in our Q3 outlook as we aligned our spend levels with the current demand environment.

Adjusted EBITDA from the Progressive Leasing segment was $74.8 million compared to $68.4 million in the same period of last year and margins of 13.3% improved 200 basis points at the high end of our targeted annual range of 11% to 13%.

Pivoting to consolidated results. Q3 revenues for PROG Holdings were $582.9 million, compared to $625.8 million in the year ago period, a 6.9% decrease. Adjusted EBITDA was $71.7 million or 12.3% of revenues compared to $65 million or 10.4% last year. Year-to-date, we have generated $292.5 million of cash from operations, which is net of the working capital needed to fund GMV. We still anticipate a use of cash in Q4 as is typical with the seasonal holiday boost to GMV.

Our Q3 GAAP diluted EPS was $0.76, while non-GAAP EPS came in at $0.90. We had $600 million of gross debt and $294.8 million of cash at the end of the third quarter with a net leverage ratio of 0.98x trailing 12 months adjusted EBITDA. We remain undrawn on our $350 million revolver at quarter end. During the quarter, we repurchased 1 million shares of common stock at an average price of $34.85 per share. At the end of Q3, we had $229 million of remaining authorization under our previously approved $1 billion share repurchase program.

Finally, with respect to our Q4 outlook, we are encouraged by our strong portfolio results and taking a disciplined approach to spending in light of our current challenging demand environment. While we expect strong gross margins and EBITDA margins to continue into Q4, a smaller portfolio size and challenging GMV environment will put pressure on revenues as we exit the year. We anticipate ending the year with a gross leased asset balance down high single digits. While we are not yet providing detailed commentary on 2024, the year-end decline in lease portfolio size will be the starting point for 2024 revenues, putting pressure predominantly on the first half of 2024. We will actively manage the factors within our control to optimize our internal operations where possible, and maximize portfolio returns while pursuing opportunities for growth.

For Q4, we expect consolidated revenue in the range of $549 million to $569 million, consolidated adjusted EBITDA in the range of $58 million to $63 million, and non-GAAP diluted EPS in the range of $0.61 to $0.71. In closing, I want to thank the team for his hard work this past quarter, which yielded very strong results in the face of a difficult environment.

I will now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Kyle Joseph, of Jefferies.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Congrats on navigating a difficult environment. In terms of GMV in the quarter, can you give us a sense for the cadence to really snap back towards kind of that down mid-single digits in July? Or did it gradually kind of build back towards that level?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Thanks, Kyle. As we talked about from lapping the decisioning that we tightened in June of '22, it was a little bit more of a progression because the way we look at decisioning a few different ways and approval rates, I should be more specific, in a few different ways. And kind of a trailing 4-week average is probably the best way to look at it because of some of the lags in conversion and funding from an approved application. So it took a little while in July, but we did see those approval rates kind of get on par and flip back over kind of in early August. So we got into that mid-single-digit range for most of the quarter. Although I will say that based on all the retail reports and the traffic reports and we haven't seen a lot of the retailers reporting their results yet, the publicly available ones anyways. But the quarter seemed to soften a little bit as the quarter went on. So our mid-single-digit negative GMV was consistent with what we were expecting, but we didn't see any material improvement like from month to month to month within our retail partners.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

And then just one follow-up for me. Just want to touch on the health of the underlying consumer. Frankly, it sounds like the consumer is getting a little bit better off in terms of seeing a normalization of 90-day buyouts, ongoing strength in in payment activity. And frankly, I think, typically, losses go up between the second and the third quarter, unless the last 4 years have really skewed up seasonality. But just kind of, yes, your thoughts on the underlying consumer and if that's something you bake into the potential resumption of demand.

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

It's been an interesting year in that regard. I mean, after a pretty stressful 2022, which is well documented, the consumer has been really resilient this year. Our portfolio performance has been strong. And we obviously improved the quality of the portfolio through our decisioning posture, but the customer has performed well. And you mentioned 90-day buyouts, they were historically low. They're starting to trend back up a little bit, which could be a portend the fact that they've got a little bit more cash or liquidity. Interesting dynamic that I think we mentioned in the prepared remarks is that we are seeing customers go delinquent, but the behavior within those delinquent buckets has changed a little bit to where they're not just, based on historical patterns, rolling through the buckets to charge off. They may camp out in the delinquent bucket for a little while. And that's fine for us because as long as we're communicating with them, we're happy to work out a plan or work out something for them to have a positive outcome. So that's been a positive result.

Brian and I have sat here on these calls and talked about we're not counting on Goldilocks lasting forever. And it certainly persisted longer than we thought. But the low charge-offs are positive, but the really Goldilocks was described as the low 90-day buyout activity and low charge-offs and the 90-day buyout activity is trending back up. So I would just say, I'm not sure if they're getting stronger, but there's certainly been resilient all year. There's a lot of headwinds out there and muddled macro data. We're certainly watching the student loan stuff. I think it's too early to tell what the impact of that will be and how it will impact performance. So as always, we have our hands firmly on the wheel as it relates to the portfolio and our decisioning posture. But right now, certainly pleased with the performance of the portfolio and the resilience of the consumer.

Operator

Our next question will come from Bradley Thomas, of KeyBanc Capital Markets.

Bradley Bingham Thomas ***KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst***

My first question was just if you can talk a little bit about door counts and what we're seeing in terms of the cadence of doors and how things are going as you work with some of your current retail partners on some of the e-commerce rollouts for them.

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

I'll start, and then Brian can give the door count numbers. I mean, we continue to make a lot of progress on e-com. We talked about our plug-ins and our integrationless rollouts, if you will, and we're having a lot of luck there. We're actually seeing some nice momentum and even prioritization, I would say, from some of our larger retailer partners that we've had for a while that we don't have transactional e-com with yet. And so some of our product innovations have moved the needle very more quickly on that, and then really partnering well with the larger enterprise customers to, or partners to get lit up in e-com has been nice. Now as we sit here today, depending on the specific retailer, we're right up against a code freeze for holiday season. So not a lot is going to happen between now and the holidays in that regard. But those deeper integrations will certainly serve us well in the future, and we look forward to having the ability to be transactional wherever the customer wants to meet us and that, in our view, requires a really nice omni-channel experience, which is we're making a lot of progress on.

So I'll turn it over to Brian on the door stuff.

Brian J. Garner ***PROG Holdings, Inc. - CFO***

The doors were right around 19,500. So that's approximately 2% decline from a year-over-year perspective. I think the only color that I'd give, as we've stated before, is obviously we have a meaningful level of GMV coming through e-commerce stores and that tends to skew that number a bit. So trending down slightly. And I think that's consistent with Steve's remarks around the foot traffic and retail more broadly being pretty challenged during the period.

Bradley Bingham Thomas ***KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst***

And then obviously, we know this is a tough environment for the end market for many of your retail partners. Can you talk a little bit about if you end up with a retailer that closes the door or goes out of business, what leverage you're able to pull to try to keep that customer within the Progressive system?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

It's something certainly that has evolved over time and our marketing chops, if you will, have really gotten a lot better. So we've got a high instance of repeat business. And we communicate with our customers fairly frequently through nurture campaigns and other marketing campaigns. So we know what they leased last time, and we hope to provide some insights as to what they might like the next time. And so to the extent that door ceases to exist, we have certainly the ability to drive that customer back to a different door within the same environment or, I guess, at the extreme, if a retailer sees it to exist that we could try and fulfill that need in a retailer that has similar products. So it certainly is -- we have the ability to manage and direct to that customer. Not perfectly, it's not a one for one, of course, but we feel good about our ability to keep them in the PROG ecosystem.

Operator

The next question will come from Jason Haas, of Bank of America.

Jason Daniel Haas ***BofA Securities, Research Division - VP***

It's good to see that the progressive EBITDA margin looks like it's going to be above 13% for the year, and I know the long-term target has been 11% to 13%. So I'm curious if that's -- you could be above that 13% above that high end of the range going forward? Or I think you alluded to there could be revenue pressure on revenue next year just given where the gross lease asset balance is going to end this year. So just curious how you're thinking about -- I know it's early, but how do you think about that margin target for next year and beyond?

Brian J. Garner ***PROG Holdings, Inc. - CFO***

I think more broadly, we're holding to this 11% to 13% range. I think that's a good range for the Progressive Leasing segment. The tailwinds that we've seen this year, to Steve's point about the Goldilocks scenario have certainly played their way out in EBITDA margins. The $13.3 million that we saw this quarter and the trend that we're on for the year is certainly over earning what we typically would expect. Now, I think the state of the consumer is anyone's guess about -- in terms of the long term, but I think we're cautiously optimistic about what we're seeing in terms of payment behavior and the resiliency that we're seeing with even our delinquent accounts. Like Steve said, we're seeing a higher yield in the portfolio that's delinquent than we typically have seen.

So going into 2024, without getting too specific, I'd expect maybe to pull back more comfortably within that 11% to 13% range versus being over the high end of it. So, I do expect some correction there. But then again, I've been surprised at how long this Goldilocks scenario has persisted to date. So, I guess the commentary I'd give as we enter 2024.

Jason Daniel Haas ***BofA Securities, Research Division - VP***

And then as a follow-up, have you seen any impact from the cybersecurity incident that you had? Or is it still in the case that there hasn't been any impact on the business from that?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Yes, Jason, obviously, we can't give too much more color there. And when we file the Q, you'll see not a whole lot of different disclosures. But I mean the internal teams responded quickly. We engaged leading third-party experts and launched an investigation and notified law enforcement and there were no major operational impacts to Progressive Leasing and the other subsidiaries weren't impacted. So I mean, the investigation remains ongoing. But as you can see from the tables that we provided in the release, the incident did not have a material impact on the third quarter results, but we'll continue to update you as we learn new information.

Operator

Our next question will come from Anthony Chukumba, of Loop Capital Markets.

Anthony Chinonye Chukumba ***Loop Capital Markets LLC, Research Division - MD***

You had a really nice sequential improvement in GMV between the second and third quarter. I guess my first question is, what are your sort of like high level GMV expectations for the fourth quarter, particularly -- just what are your expectations for the fourth quarter?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Yes, Anthony. We mentioned that we expect Q4 to be roughly in the similar range to Q3, so down that mid-single digits. I would tell you that as we sat here in July, I think our expectation was that we would be seeing an improvement in Q4 over Q3. And that may still happen because the all-important holiday season is ahead of us, the GMV impact from holiday are certainly material on Q4. But what we've seen and what we heard in the press and in the headlines is the traffic seems to have softened or expectations for traffic seems to have softened since even the summer.

So we're in that kind of negative mid-single-digit range, which is not inconsistent with what we said earlier, even when we were down mid-teens, we were saying that about 2/3 of that was due to the year-over-year decisioning posture. And now that we've lapped that, it kind of leaves the remainder, which is the mid-single digits down. I would be remiss if I didn't say that we are outperforming the headline comp, and that is a testament to our business' ability to partner well and to gain balance of share in these challenging times. So, in the leasable categories that we serve, the comps are down worse than mid-single digits, but that is the -- that's what we're achieving, and we certainly have operator optimism, and we hope to outperform that, but our base case is down a similar amount to Q3.

Anthony Chinonye Chukumba ***Loop Capital Markets LLC, Research Division - MD***

Apologies for having missed that in your prepared remarks, I haven't had my morning coffee. I guess a somewhat related question. As you think about 2024, and I know you gave some high-level thoughts on that. But I guess it was just a sort of obligatory question, what's going on right now in terms of your new partner pipeline because you mentioned that was something that could potentially help you in 2024, given the fact that your grosses assets are going to be down heading into 2024?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Yes. I mean, you're right, and it's a constant focus of ours. And it's funny, "the obligatory pipeline question," that's what we call it around here, too. But it is a constant focus. We're having some nice wins in some smaller accounts that wouldn't be named. Our e-com products are certainly helping in that regard as well. We always assume that we're going to have a nice enterprise account when what time that happens in a given year certainly impacts the trajectory of GMV. And so that remains to be seen, and we're not obviously naming any particular names. But we always go into our operating plan for the next year, assuming some pipeline in GMV to keep the pressure on us and 2024 will not be different in that regard.

Operator

(Operator Instructions) Our next question will come from Bobby Griffin, of Raymond James.

Bobby Griffin

I guess the first question is, you guys have done a great job this year on operating expense control. But at the same time, you've called out some investments and working on the integration of e-commerce and stuff. So as we think about where we are from a spending perspective, is there a catch-up period that has to come with SG&A next year into 2024? Or do you feel good that even with some of the more kind of conscious approach you've taken this year, the pace of investments has remained pretty stable. So there isn't like a catch-up period into next year.

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

I'll start and I'll let Brian chime in. But I mean, obviously, as we think about the theme of '23 and controlling the controllables, SG&A is -- the portfolio and SG&A are the 2 things that we have. And we'll continue to do that, right? So we're committed to that 11% to 13% margin. We talked about 2024, especially the first half having some revenue pressures due to the portfolio size that we're anticipating at the end of this year. And we will move levers and pull levers to make sure that we deliver that. As far as catch-up goes, we certainly have some technical debt that we're retiring that we've talked about and some of those things are back-office things like ERPs and HCMs.

We've got some more exciting kind of revenue-generating and customer-facing things that we are not going to put on the back burner just because it's a slow demand environment because as we've talked about a lot during this challenging GMV period, it's our goal to broaden the foundation and broaden the base of retailers and customers such that when demand does rebound, we have a bigger springboard from which to grow. So I wouldn't call it a catch-up period. We're managing it strongly. We've seen some wage inflation this year, but certainly look for other opportunities for efficiencies. And this is the time when we have to actively manage the business in order to deliver the results and SG&A is a massive focus for us.

Bobby Griffin

And then I appreciate the comments on 2024, at least the first part. That makes sense from the revenue perspective, given what's going on with both sides of the portfolio. As profits have flown through the P&L, is there anything that we should keep in mind that took place this year as we calibrate kind of our models for next year, just large items that either were a good guide this year or it could end up being a headwind next year. I know we talked about less early buyouts, but it still appears early buyouts are above pre-COVID levels, right?

Brian J. Garner ***PROG Holdings, Inc. - CFO***

Yes. They're starting to normalize with pre-COVID levels. And I think, Bobby, you're hitting on it. I think I'd draw your attention particularly the first half gross margins that we recorded here in 2023. And I think what represents a bit of a difficult comp as we look at 2024. And so, we have been cautious all throughout this year, and it's part of what has resulted in our outperformance versus the outlook about how this consumer is going to behave and their resilience and wherewithal in this challenging environment. And that's what's really boosted the gross margins above our expectations. And so, whether that persists next year I think, is a key input to the model. And certainly, the first half, this Goldilocks scenario we were referring to was very strong in terms of EBITDA, or, sorry, the gross margin performance.

So I think I would just be cautious about assuming we're going to be able to replicate to that degree as the base case. So that's the other area I would draw you to. You're hitting on SG&A, there's always going to be an element of fixed cost within our business, even though we're highly variable. So deleveraging is a potential when you're starting from a down a lower GLA balance, gross lease asset balance entering next year. So that's something to watch. But to Steve's point, this is an area that's actively managed and it's always going to be informed by our top line performance. , as we face these headwinds, we're going to be looking at inefficiencies and discretionary spend to a higher degree of scrutiny to ensure that we're able to land within this 11% to 13% Progressive Leasing segment long-term EBITDA margin target. So, we're having a great year from a margin perspective. I'd expect maybe a bit of softening in terms of the bottom-line margin, and gross margin, perhaps, as we look at 2024.

Bobby Griffin

And I guess last one for me is predicting how the student loan impact flows through is highly uncertain. So I get that. We've had a couple of months of student loans returning. So have you seen anything interesting in your data set to kind of help us think about the behavior and what that could do? Or is it still too early in terms of the payments returning?

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Yes, I think it's too early. I mean we obviously are watching folks in our portfolio that have student loan trade lines also in our applicant pool as well. The data are muddled a little bit because there are various programs available for relief or deferments. And I would guess that our consumer is probably the largest beneficiaries of those. The payments, I believe, restarted in October. So it's too early to tell how that's going to affect performance. But we are watching it. I mean, and to the extent that other providers above us in the stack are also watching it and making adjustments, it could also further the opening of the top of the funnel that we've been anticipating and talking about for several quarters now.

Bobby Griffin

Okay. Congrats on the upside this quarter, a strong operational quarter.

Operator

I am seeing no further questions in the queue.

I would now like to turn the conference back to Steve Michaels for closing remarks.

Steven A. Michaels ***PROG Holdings, Inc. - CEO, President & Director***

Thank you again for joining us this morning and for your continued interest in PROG Holdings. Our teams did a great job in delivering another strong quarter. We feel good about the positioning of our portfolio. We're making the right investments in people and technology to further our three-pillared strategy of grow, enhance, expand. We look forward to updating you on the full year as well as a more detailed view on our 2024 thoughts when we have our next call in February. Have a great day.

Operator

This concludes today's conference call. Thank you all for participating. You may now disconnect, and have a pleasant day.