Conn's HomePlus

Investor Presentation

Q3 FY 2021
(Nasdaq: CONN)

Forward Looking Statements & Other Disclosure Matters

Forward-Looking Statements - This presentation contains forward-looking statements within the meaning of the federal securities laws, including but not limited to, the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Such forward-looking statements include information concerning the Company's future financial performance, business strategy, plans, goals and objectives. Statements containing the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," "predict," "will", "potential" or the negative of such terms or other similar expressions are generally forward-looking in nature and not historical facts. Such forward-looking statements are based on our current expectations. We can give no assurance that such statements will prove to be correct, and actual results may differ materially. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to: general economic conditions impacting our customers or potential customers; our ability to execute periodic securitizations of future originated customer loans on favorable terms; our ability to continue existing customer financing programs or to offer new customer financing programs; changes in the delinquency status of our credit portfolio; unfavorable developments in ongoing litigation; increased regulatory oversight; higher than anticipated net charge- offs in the credit portfolio; the success of our planned opening of new stores; technological and market developments and sales trends for our major product offerings; our ability to manage effectively the selection of our major product offerings; our ability to protect against cyber-attacks or data security breaches and to protect the integrity and security of individually identifiable data of our customers and employees; our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our revolving credit facility, and proceeds from accessing debt or equity markets; the effects of epidemics or pandemics, including the COVID-19 outbreak; the impact of our previous restatement and correction of the Company's previously issued financial statements; the previously identified material weakness in the Company's internal control over financial reporting and the Company's ability to remediate that material weakness; the initiation of legal or regulatory proceedings with respect to the prior restatement and corrections; the adverse effects on the Company's business, results of operations, financial condition and stock price as a result of the previous restatement and correction process; and other risks detailed in Part I, Item IA, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 and other reports filed with the SEC. If one or more of these or other risks or uncertainties materialize (or the consequences of such a development changes), or should our underlying assumptions prove incorrect, actual outcomes may vary materially from those reflected in our forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. We disclaim any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise, or to provide periodic updates or guidance. All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

Non-GAAP Measures - To supplement the consolidated financial statements, which are prepared and presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the Company also provides the following non -GAAP financial measures: retail segment adjusted operating income, retail segment adjusted operating margin, credit segment adjusted operating income (loss), credit segment adjusted operating margin, adjusted net income, adjusted net income per diluted share, and net debt. These non-GAAP financial measures are not meant to be considered as a substitute for, or superior to, comparable GAAP measures and should be considered in addition to results presented in accordance with GAAP. They are intended to provide additional insight into our operations and the factors and trends affecting the business. Management believes these non-GAAP financial measures are useful to financial statement readers because (1) they allow for greater transparency with respect to key metrics we use in our financial and operational decision making and (2) they are used by some of our institutional investors and the analyst community to help them analyze our operating results. Our reconciliations of non-GAAP financial measures that are used in this presentation to GAAP financial measures are located in the appendix.

Conn's Overview:
Creating Possibilities for our Customers

Investment Highlights

- Retail + credit business model provides unmatched customer value proposition
- Resilient business providing essential home products throughout 144 showrooms in 15 states
- Emerging e-commerce business with focus on accelerating and increasing investments in digital and omnichannel capabilities

Leading Credit Offerings Across the Full Credit Spectrum

Cash/Credit Card FY21 YTD - ~19% of sales FY20 - ~7% of sales	**Conn's Credit** Near Prime Credit Offering FY21 YTD - ~53% of sales FY20 - ~68% of sales
Synchrony Prime Credit Offering FY21 YTD - ~21% of sales FY20 - ~18% of sales	**L-T-O** Installment Payment Offering FY21 YTD - ~8% of sales FY20 - ~7% of sales

Highlights

Retail Net Revenue $1.1B LTM	Credit FC&O $346M LTM	Retail GM 38.1% LTM	E-commerce growth of 172% YOY LTM
Over 553K Customer Accounts as of 10/31/20	$1.3B Portfolio Balance as of 10/31/20	Over 4K Associates as of 12/7/20	144 Retail Locations as of 12/7/20

High-Quality and Durable Home Products

			
Appliances ~39% of LTM Sales	**Furniture & Mattress** ~33% of LTM Sales	**Consumer Electronics** ~19% of LTM Sales	**Home Office** ~7% of LTM Sales

Note: Other products represented ~2% of LTM sales
Note: LTM period represents the 12 months ended October 31, 2020
Note: Conn's Credit FY20 and FY21 YTD percentage of sales include down payments received
L-T-O = Lease-to-Own

Synergies Between Retail and Credit Offerings Differentiates Conn's From Competitors

Highly Profitable Retail Business

Focus on aspirational products and better/ best retail strategy drives profitable retail business that supports strong corporate earnings

Unique Competitive Advantage

Hybrid business model is difficult to replicate, requires a significant amount of capital and sophistication, and creates a unique competitive advantage

Breakeven Credit Strategy

Breakeven credit strategy allows us to provide an affordable in-house financing offering to our underserved core customer that is unmatched by standalone credit companies

Comparable retailers lack the breadth of financing options and best-in-class customer experience, while other credit companies cannot provide similarly priced financing programs to our core customer

Building Long-Standing Relationships by Supporting Our Customers, Communities and Employees Throughout the COVID-19 Crisis

Supporting our Customers

Implemented payment relief programs for customers negatively affected by COVID-19

- Provides customers with the flexibility to manage their finances through these difficult times

Maintained retail and credit operations throughout crisis

- Processes and procedures in place to maintain appropriate health and safety measures
- Focusing on enhancing digital capabilities to streamline the consumer experience, where appropriate

Supporting our Communities

For over 130 years Conn's has supported its local communities regardless of the economic cycle or environment

Conn's Cares empowers children in our local communities and beyond to dream, learn, connect, and succeed

Worked with local officials to maintain operations in order to provide essential home related products and affordable financing offerings throughout the COVID-19 crisis and importantly during shelter-in-place mandates

Supporting our Employees

Implemented enhanced health and safety protocols in order to protect and safeguard the health and wellness of our employees

Modified operations and hours to better meet the needs of our employees

Implemented a work from home program for our corporate and call center teams to provide the flexibility needed during these challenging times

Temporarily increased hourly wages by $2 per hour to support our front-line employees

Navigating the Changing Environment

Focused on Serving our Customers

- Adjusted operations to ensure we are protecting the health and safety of our customers and employees
- Providing essential home products, affordable financing options, and superior customer service
- Offered financial relief programs to customers impacted by COVID-19

Resilient Business and Operating Model

- We have the flexibility to tighten credit while still providing consumers with alternative financing options as a result of our multiple third-party partnerships and diverse credit options
- Q3 cash and third-party payment sales grew 33% versus the same period last fiscal year

Conservative Credit Approach

- Implemented prudent underwriting changes beginning in mid-March 2020 associated with the COVID-19 crisis
- Credit approach remains conservative to mitigate potential impacts of high unemployment and economic uncertainty
- Unprecedented shift to cash and third-party payment sales de-risks credit segment

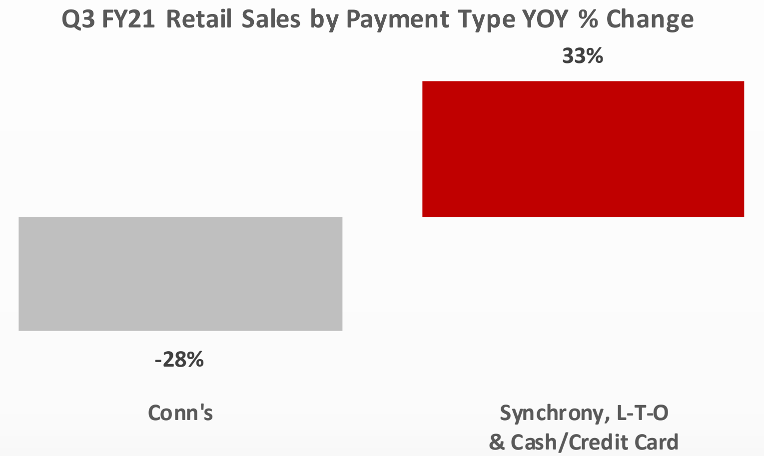
Focused Investments and Streamlined Operations

- Slowed new showroom growth plans and delayed Florida expansion
- Accelerating and increasing investments in digital and omnichannel capabilities
- Fiscal YTD SG&A expenses declined $20.6 million, despite 12 more showrooms open this fiscal year than last fiscal year

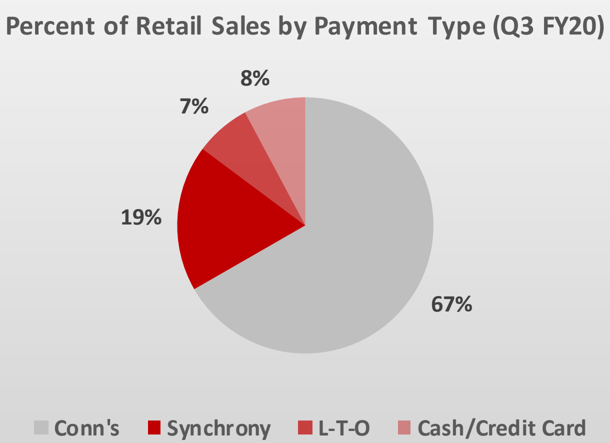
Signficant Liquidity and Operating Cash Flow

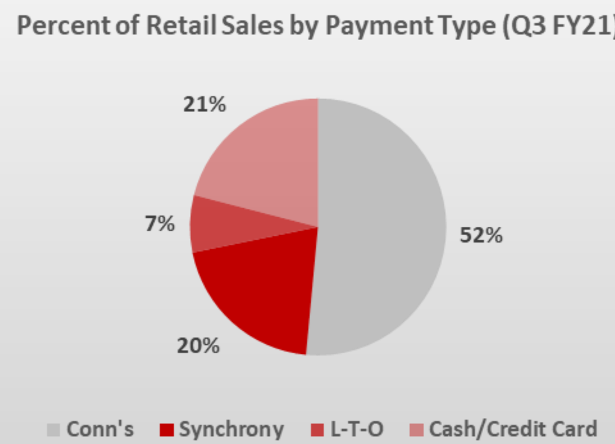
- Strong third-party sales and contracting portfolio generates significant operating cash flow
- Fiscal YTD operating cash flow was $385 million at October 31, 2020 an increase of 317% from October 31, 2019
- Strengthening balance sheet and liquidity position as net debt as % of portfolio balance declined by 10.8 percentage points from January 31, 2020

Cash and Third-Party Sales Grew 33% Compared to the Prior Fiscal Year Reflecting Strong Demand for Home-Related Products



Balance of sale by payment type has shifted materially versus Q3 of last fiscal year driven by proactive underwriting changes and strong cash and third-party sales

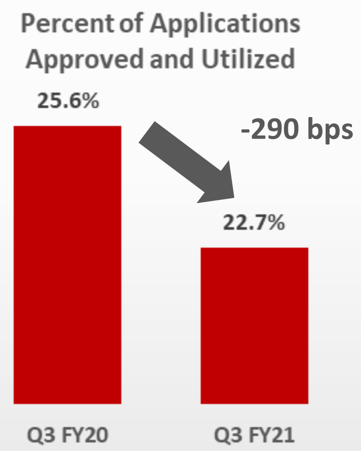




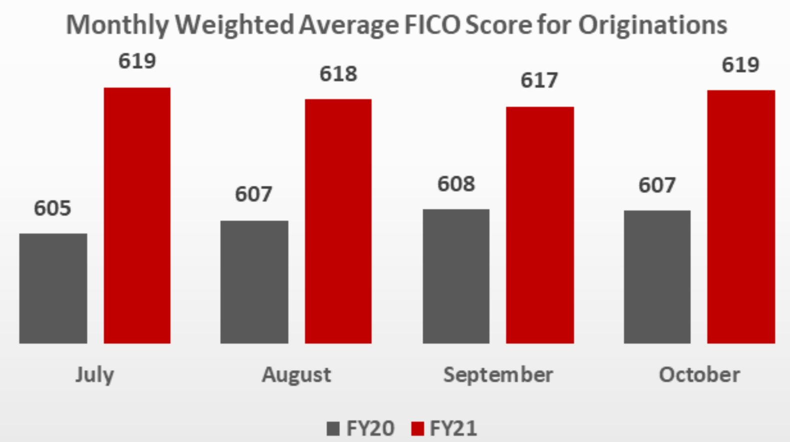
Note: Conn’s Credit Q3 FY20 and Q3 FY21 percentage of retail sales include down payments received

Sales financed by Conn's in-house credit declined by 28% from the prior fiscal year period as a result of tighter underwriting

Conservative underwriting approach resulting in a decline in approved and utilized applications

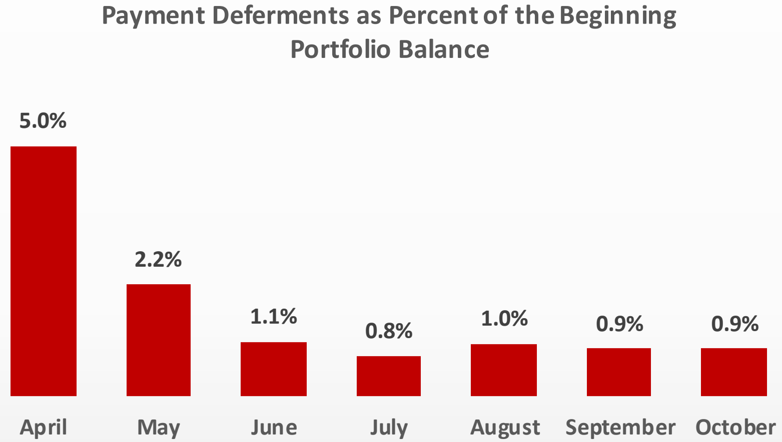


Credit quality of originated loans improving as a result of better applicant quality and tighter underwriting

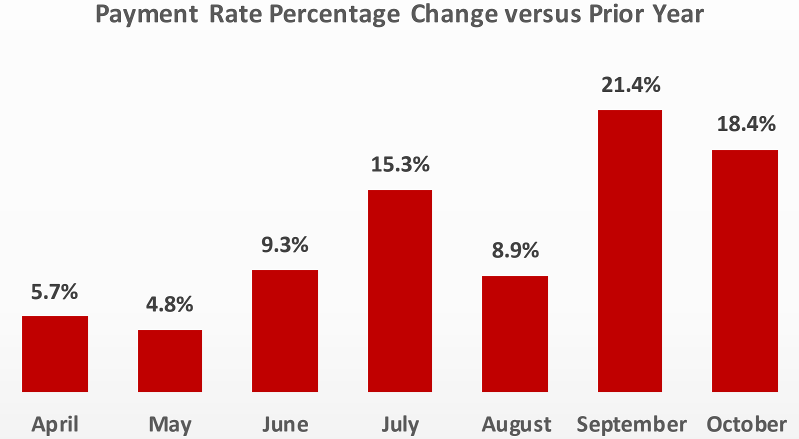


Positive Portfolio Performance Driven by Higher Quality Originations and Strong Cash Collections

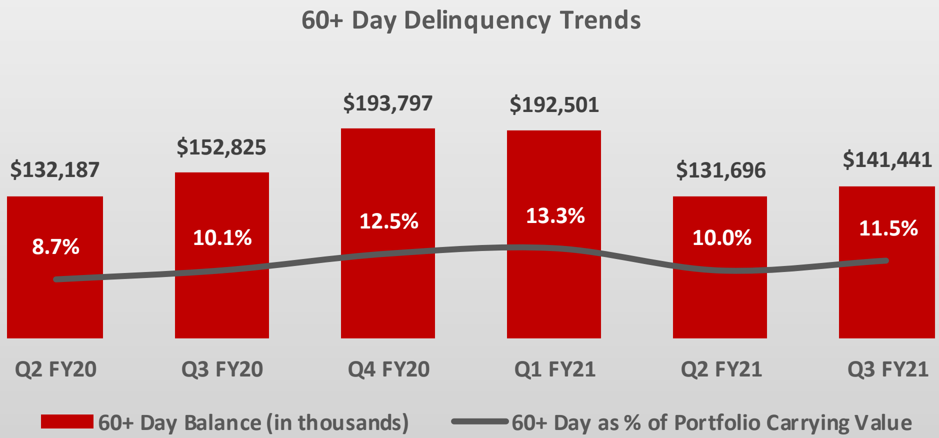
Payment deferrals as a percent of the portfolio balance has declined from the peak in April and has remained below pre-COVID levels since June



Less consumer spending and strong collection execution driving year-over-year increases in payment rate

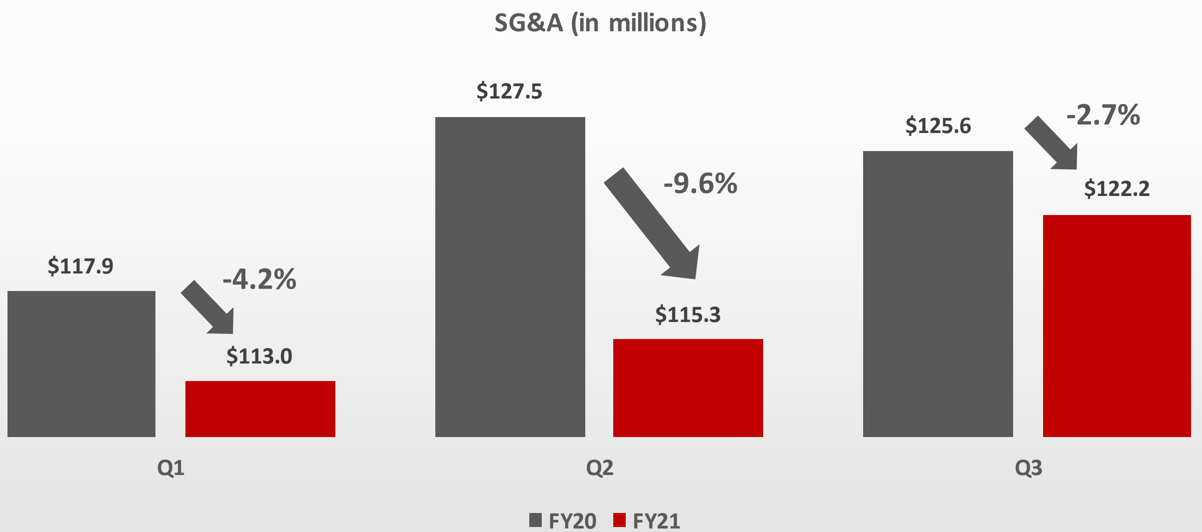


60+ day delinquency balance declined by over $52 million year-to-date



Disciplined Cost Control Continues to Drive Year-Over-Year Reduction in SG&A

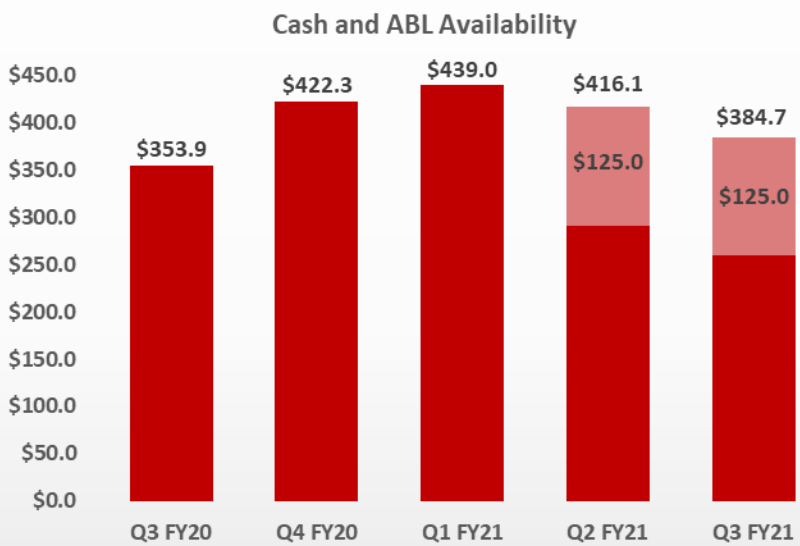
- **Lowered operating expenses in mid-March across several categories**
  - Reduced marketing and advertising, discretionary spend, store and corporate labor expenses and base salaries of executives and certain other salaried employees
- **Continue to proactively evaluate and adjust all controllable expenses as the environment requires**



	Q1 FY20	Q1 FY21	Q2 FY20	Q2 FY21	Q3 FY20	Q3 FY21
Ending Stores	127	139	131	141	137	143
	+9.4%		+7.6%		+4.4%	

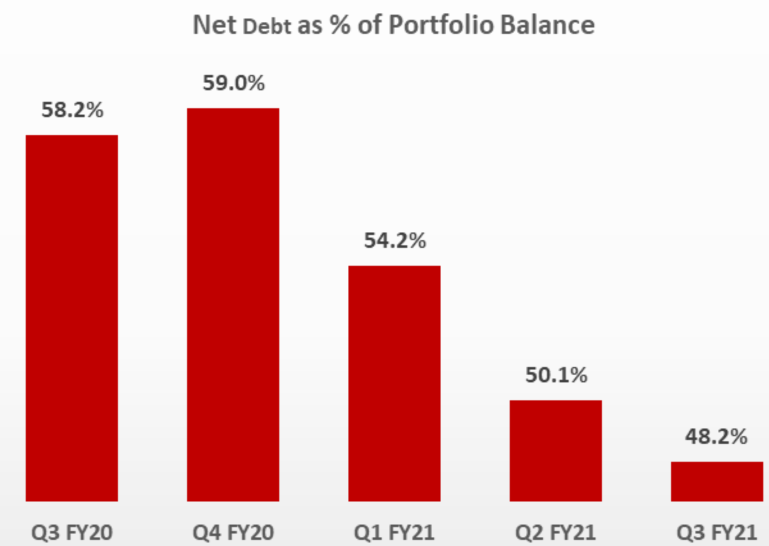
Strong Liquidity and Capital Position

Strong liquidity position to manage COVID-19 uncertainty



- $650 million facility size with four-year term to manage the business through uncertainty
- Minimum liquidity requirement of $125 million pursuant to the Third Amendment of our Revolving Credit Facility entered into on June 5, 2020 during covenant relief period
- On November 30, 2020, we terminated the covenant relief period early pursuant to terms in the Third Amendment of our Revolving Credit Facility

Year-over-year increase in operating cash flow driving reduction in net debt as a percent of the portfolio balance



- Net debt as a percent of the portfolio balance has declined 10.8 percentage points from 59.0% at January 31, 2020
- Generated $385 million of fiscal YTD operating cash flow at October 31, 2020, an increase of 317% from October 31, 2019
- In October, we closed our 2020-A ABS transaction, selling the Class A and Class B Notes for $240 million, while retaining $63 million of Class C Notes
- On November 30, 2020, we announced a cash tender for up to $100 million of our 7.25% senior notes that mature in July 2022

Third Quarter Fiscal 2021 Highlights

($ in millions, except per share amounts)	Q3 FY21	Q3 FY20	Variance
Revenues:			
Net sales	$ 259.8	$ 280.1	$ (20.4)
Finance charges and other revenues	74.4	96.0	(21.6)
Total revenues	**$ 334.2**	**$ 376.1**	**$ (42.0)**
Costs and expenses:			
Cost of goods sold	$ 160.4	$ 170.5	$ (10.1)
Selling, general and administrative expense	122.2	125.6	(3.4)
Provision for bad debts	27.5	45.9	(18.4)
Charges and credits	-	3.8	(3.8)
Total costs and expenses	**310.0**	**345.8**	**(35.8)**
Operating income	**24.1**	**30.3**	**(6.2)**
Interest expense	11.6	15.1	(3.5)
Income before income taxes	**12.6**	**15.3**	**(2.7)**
Provision for income taxes	5.1	3.8	1.3
Net income	**$ 7.4**	**$ 11.5**	**$ (4.1)**
Diluted Earnings Per Share	**$ 0.25**	**$ 0.39**	**$ (0.14)**
Adjusted Net Income per Diluted Share	**$ 0.25**	**$ 0.49**	**$ (0.24)**
Retail gross margin	38.3%	39.2%	-90 bps
SG&A as a percent of revenue	36.6%	33.4%	320 bps
Net yield	21.1%	21.7%	-60 bps
Charge-off percentage	14.7%	11.4%	330 bps
Credit spread	6.4%	10.3%	-390 bps
Effective tax rate	41.0%	24.8%	1620 bps

Financial Highlights

- GAAP Diluted earnings per share of $0.25, compared to $0.39 in Q3 of last year
- Year-over-year reduction in SG&A expense of 2.7%, despite 12 more showrooms open this fiscal year than last fiscal year

Retail

- Total retail sales declined 7.3% compared to Q3 last fiscal year, including a same store sales decline of 10.9%. Same store sales were impacted by COVID-19 as higher appliance sales were offset by:
  - More stringent underwriting standards made in response to the COVID-19 crisis
  - Inventory shortages driven by manufacturing and logistics issues across the supply chain
- Retail gross margin of 38.3%, 90 bps points lower than Q3 last fiscal year, driven primarily by lower RSA sales and retrospective RSA income

Credit

- Finance charges and other revenue declined 22.5% primarily driven by a decrease of 16.0% in the average balance of the customer receivable portfolio, a decrease in insurance commissions due to a decline in the balance of sale of our in-house credit financing and a decrease in insurance retrospective income
- 60+ day delinquency balance increased $9.7 million sequentially in Q3 versus a $20.6 million sequential increase in Q3 last fiscal year
- Decrease in provision for bad debts driven primarily by a decrease in Conn's financing penetration, higher cash collections and a reduction in the COVID-related reserves

Due to rounding, numbers presented above may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

Appendix: Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Diluted Share

($ in millions, except per share amounts)	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019	Nine Months Ended October 31, 2020	Nine Months Ended October 31, 2019
Net income (loss), as reported	$7.4	$11.5	($28.3)	$51.0
Adjustments:				
Professional fees (1)	-	-	3.6	-
Facility relocation costs (2)	-	2.6	-	1.9
Write-off of software cost (3)	-	1.2	-	1.2
Tax impact of adjustments	-	(0.9)	(0.8)	(0.7)
Net income (loss), as adjusted	**$7.4**	**$14.4**	**($25.5)**	**$53.4**
Weighted average common shares outstanding - Diluted	29,483,481	29,710,740	29,013,759	31,353,834
Diluted earnings (loss) per share:				
As reported	$ 0.25	$ 0.39	$ (0.97)	$ 1.62
As adjusted	$ 0.25	$ 0.49	$ (0.88)	$ 1.70

(1) Represents professional fees associated with non-recurring expenses.

(2) Represents impairments from the exiting of certain leases upon the relocation of three distribution centers into one facility and the gain from the sale of a cross-dock during the three and nine months ended October 31, 2019. Includes an additional gain from increased sublease income related to the consolidation of our corporate headquarters during the nine months ended October 31, 2019.

(3) Represents impairments of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system.

Due to rounding, numbers presented above may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

Appendix: Net Debt as Percentage of Customer Accounts Receivable Portfolio Balance

NET DEBT AS PERCENTAGE OF CUSTOMER ACCOUNTS RECEIVABLE PORTFOLIO BALANCE

in thousands	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020	October 31, 2019
Current finance lease obligations	$ 769	$ 758	$ 772	$ 605	$ 607
Long-term debt and finance lease obligations	800,586	748,902	1,172,987	1,025,535	965,063
Total debt	**801,355**	**749,660**	**1,173,759**	**1,026,140**	**965,670**
Cash and cash equivalents	$ 107,822	$ 6,385	$ 287,337	$ 5,485	$ 4,672
Restricted cash	78,374	63,836	73,455	75,370	49,247
Total cash	**186,196**	**70,221**	**360,792**	**80,855**	**53,919**
Net debt	**$ 615,159**	**$ 679,439**	**$ 812,967**	**$ 945,285**	**$ 911,751**
Customer accounts receivable portfolio balance	$ 1,276,100	$ 1,357,030	$ 1,499,965	$ 1,602,037	$ 1,567,700
Net debt as a percentage of customer accounts receivable portfolio balance	**48.2%**	**50.1%**	**54.2%**	**59.0%**	**58.2%**