Conn's HomePlus

Investor Presentation

Q2 FY 2020
(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; 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, 2019 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, adjusted EBITDA and adjusted EBITDA margin. 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, (2) they are used by some of our institutional investors and the analyst community to help them analyze our operating results and (3), in the case of adjusted EBITDA, used for management incentive programs. Our reconciliations of non-GAAP financial measures to GAAP financial measures are located in the appendix to this presentation.

MAKE IT HAPPEN

Conn's HomePlus® creates possibilities by providing customers with access to aspirational products for their home through differentiated financing options

Synergies Between Retail and Credit Offerings Differentiates Conn's From Other Companies

Highly Profitable Retail Business

Focus on aspirational products and better/ best retail strategy drives highly 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

Established Platform Able to Support Growth Strategy

Over the past three years Conn's has focused on creating a platform to support its long-term growth opportunity

Dedicated to Creating Shareholder Value

- Achieved GAAP earnings of $2.28 per diluted share for FY19 compared to loss of ($0.83) per diluted share for FY17
- Producing strong financial results by balancing credit risk and retail growth

FY19

Restarted Organic Retail Growth

- Began approving new stores to accelerate pace of new store openings
- Expanded retail gross margin by 380 basis points from FY17 to FY19 from merchandising improvements and supply chain efficiencies

FY18

Stabilized Credit Segment Performance

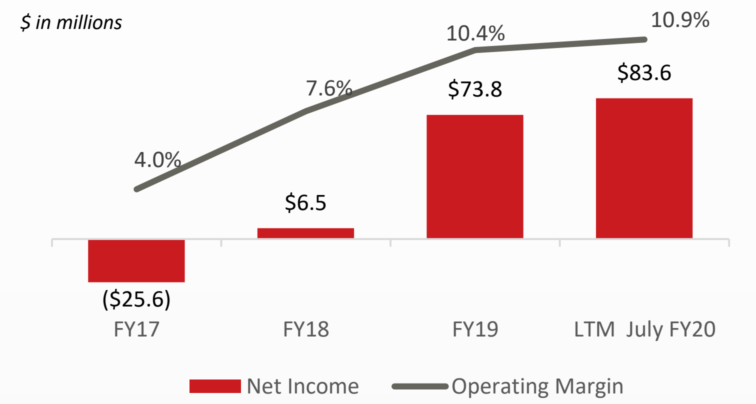
- Removed ~10% of same store sales to stabilize credit segment and slowed new store growth
- Significantly expanded spread between net yield and net charge-offs, deleveraged balance sheet and reduced cost of funds

FY17

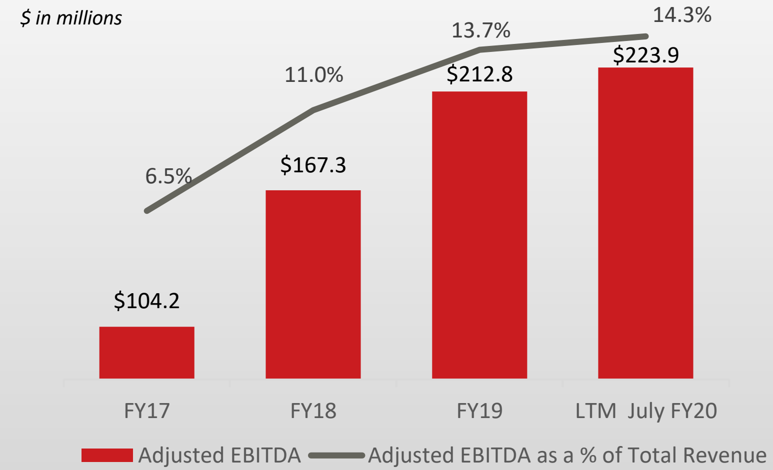
Assembled Proven Leadership Team

- Attracted proven leaders with deep retail and credit experience necessary to manage unique business
- Focused on long-term and sustainable growth
- Invested in credit segment in people, analytics and systems

Net Income and Operating Margin



Adjusted EBITDA and Adjusted EBITDA Margin



Growth Strategy and Differentiated Business Model Drive Compelling Financial Opportunity

Financial and Operating Targets

8%-10%
Annual Retail Sales Growth

- Low-single digit annual same store sales growth
- Mid-single digit annual sales growth from new stores
- Measured pace of growth balances retail opportunity with stable credit performance
- New stores are typically accretive to income after one year

+40%
Retail Gross Margin

- Focus on aspirational products and better / best retail strategy
- Small number of strategic vendor relationships drives volume discounts
- Operating leverage generated as investments to support new stores and growth anniversary
- Benefits of mix shift to higher margin furniture and mattress category

~1,000
Bps of Credit Spread

- ~1,000 bps of credit spread (difference between yield and losses on in-house financing) creates roughly breakeven credit segment
- Drives sales with +40% retail gross margin while balancing credit risk
- Spread in excess of ~1,000 basis points reinvested back into retail business

Multiple Growth Opportunities in Large Addressable Market

Expand Share by Entering New Markets

~30%[1] of U.S. population, or 38 million[2] households, have a FICO Score of 650 or less

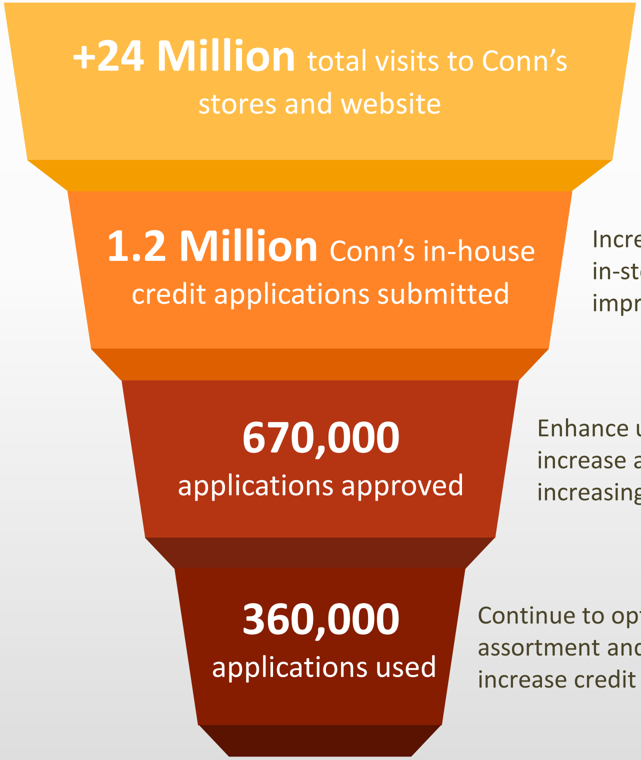
~4.6% average penetration of target customer in existing states, versus ~7.2% in "home" state of Texas

~77%[3] of non-prime population uses retail credit

Currently operate in only 14 states



Further Penetrate Existing Markets [4]



Opportunities

Increase traffic through marketing initiatives

Increase both online and in-store applications and improve retail execution

Enhance underwriting to increase approval rates without increasing risk

Continue to optimize merchandising assortment and promotional offers to increase credit utilization

(1) Fair Isaac Corporation
(2) https://www.statista.com/statistics/183635/number-of-households-in-the-us/
(3) Total Addressable Market study prepared for Conn's - May 2019
(4) Data represents FY19 actuals

Conn's Provides Customers with a Range of Financing Options Tailored to their Situation

	OTHER RETAILERS	Conn's HomePlus	
CASH / CREDIT CARD	Cash is primary source of payment at most retailers ✓	**~6%** of sales from cash ✓	→ Better / best merchandising strategy, next-day delivery and in-house service attracts cash customers
PRIME FICO >650	Most retailers offer third-party financing to prime borrowers ✓	**~16%** of sales from third-party financing to prime borrowers ✓	→ Long-standing partnership with Synchrony enables compelling terms compared to other retailers
NEAR PRIME / NON-PRIME FICO 550-650	Other retailers do not have a competing financing option similar to Conn's in-house financing ✗	**~70%** of sales from Conn's in-house financing product ✓	→ Breakeven credit strategy and highly profitable retail segment enable Conn's to extend affordable financing to an underserved customer segment
DEEP SUBPRIME FICO <550	Limited number of retailers offer a lease-to-own option ✓	**~8%** of sales from third-party lease-to-own plans ✓	→ Lease-to-own sales have grown since switching providers to Progressive two years ago

By offering its own in-house credit,
Conn's has a competitive advantage by providing customers more financing options than other retailers

Note: Conn's financing data represents FY19 actuals

Hybrid Credit / Retail Business Model is a Competitive Advantage that Supports a Breakeven Credit Strategy and Unmatched Financing Offering

Conn's In-house Credit Offering

Conn's Credit Advantages

- Competing standalone finance companies must charge higher interest rates or approve fewer people to profitably underwrite to Conn's core customer profile
- Offering simple, secured installment contracts for over 50 years
- Retail profitability supports breakeven credit strategy

Conn's Affordable Offering

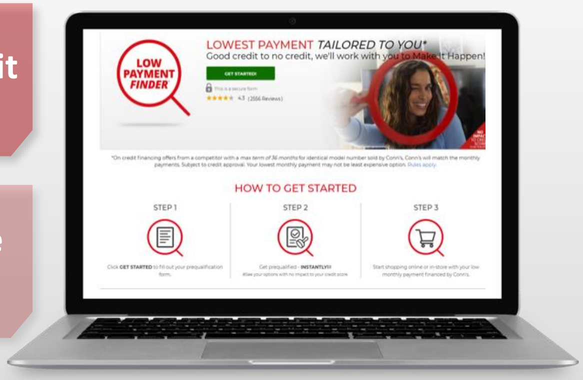
- Conn's typically charges up to 29.99% interest compared to My Best Buy Visa purchase variable APR of up to 29.99% and Amazon.com card variable purchase APR of 28.24% [(1)]
- National average of credit card interest rate for borrowers with non-prime credit is over 25% [(2)] compared to Conn's credit average interest rate of ~21%[(3)]
  - ~24% of portfolio includes no-interest promotional receivables
- Total cost of ownership of a financing through a lease-to-own product **>2.0x** more expensive than Conn's in-house credit [(4)]
- Competing near prime credit cards have limited availability, low available credit and high fees

Comprehensive Credit Waterfall

Diverse Credit Offerings

- **Cash** – Prime
- **Synchrony** – Prime
- **Conn's Credit** – Near Prime
- **Progressive** – Subprime

Underwriting decisions and collections activities are centralized and independent from retail operations. Over 60% of credit decisions are approved automatically based on Conn's auto-decision algorithm.



(1)APR data as of August 26, 2019. Source www.bestbuy.com and www.amazon.com
(2) https://www.creditcards.com/credit-card-news/historic-credit-card-interest-rate-chart.php
(3) Includes promotional financing
(4) Comparison assumes $2,000 transaction with Conn's financing of 36-month term and $85 monthly payment versus lease-to-own option of 24-month term and $249 monthly payment.

Stable Credit Platform Creates Additional Opportunities to Grow Retail Sales

	LTM[1]		Opportunities / Reinvestment
Yield	21.8%		▪ Net yield increasing as higher interest direct loan products further season into the portfolio ▪ Higher yield provides opportunities to increase promotional financing offers to drive retail sales
Net Charge-Off	12.6%		▪ Managing losses through sophisticated underwriting and improving collection and recovery performance ▪ Stable credit performance allows the company to use credit segment to drive retail sales
Credit Spread	**9.2%**	**Target >10%**	▪ Maintaining ~1,000 bps of credit spread maximizes retail performance and enables stable funding costs, while providing the company with flexibility to navigate changing economic and regulatory environments

~1,000 bps of credit spread produces roughly breakeven credit segment

Higher spread creates opportunity to grow retail sales

[1] For the trailing twelve months ended for July 31, 2019

In-House Service

Credit Options

Next Day Delivery

LOW PAYMENT FINDER

Consultative Sales

Breadth of Assortment

Omni-channel

Price Match

Conn's creates a premium shopping experience for a consumer underserved by the market, which supports...

53% Repeat Customers

1.3x Average Purchases per Year[1]

77% NPS Score vs Industry 64%

A+ Rating and Accredited Business Rating by Better Business Bureau

4.5 Star Google Rating

[1] Based on customer purchases during calendar year 2018

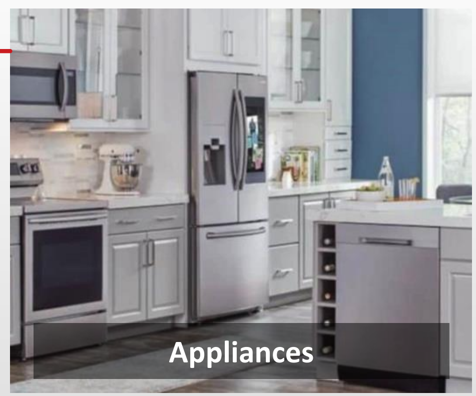
Offering Aspirational, High-Quality and Durable Products for the Home

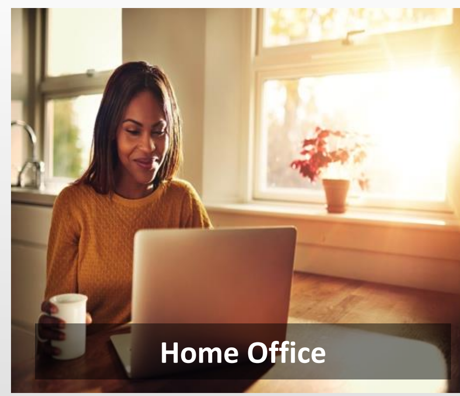
Better / Best Merchandising Strategy Drives Financing Transaction and Produces Higher Retail Gross Margin Compared to Other Retailers

- 36% of FY 2019 product sales
- Highest margin category
- Assortment includes on-trend styles and color
- High quality furniture sold largely in room packages
- Cost advantage from diversified overseas sourcing

- 24% of FY 2019 product sales
- TV product focus is premium, large screens, driving higher average selling price and margins

- 31% of FY 2019 product sales
- Commission sales force is an advantage relative to other retailers
- Leader in premium model sales





- 8% of FY 2019 product sales
- Assortment includes gaming PCs and accessories
- Margins benefit from sale of bundles and virus protection plans

Note: Other products represented 1% of FY 2019 sales

Platform Enables Differentiated e-Commerce Offering

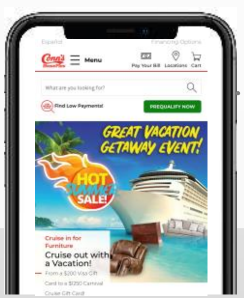
Growing Online / Mobile / Digital Engagement

- Continue to see increasing online traffic as customers view the website before visiting stores
- More than half of Conn's total applications in FY19 were from the web
- Meaningful investments completed during FY19 and early FY20 to support e-Commerce strategy

Well-Positioned Strategy

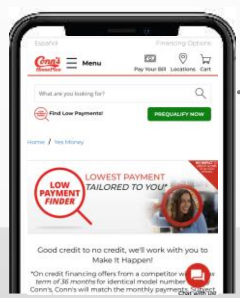
- Conn's has created a fully digital end-to-end credit approval process
- Existing distribution and logistics capabilities support next day in-house delivery
- Omnichannel offering and experience further expands Conn's competitive advantage

e-Commerce Launch Was a Signficant Milestone, Allowing Customers to...



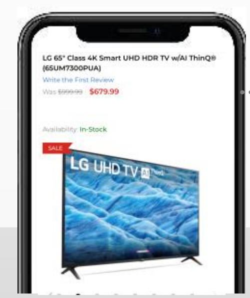
Interact

- New website launched in Q1 FY20
- Website optimized for mobile
- Mobile app under development



Apply

- Credit platform supports fully online process
- Sophisticated waterfall between in-house and third-party offerings



Purchase

- Omnichannel platform
- Last-mile delivery capabilities already in place
- Expands market reach beyond physical stores

Significant Whitespace Opportunity Driven by Differentiated Business Model

Our core customer is located throughout the US which enables a significant and long-term geographic expansion

14 new stores planned for FY20, with accelerating pace of new store openings in FY21

Expanding into Florida market in FY21, which we believe could ultimately support 40+ stores

Powerful Unit Economics and New Store Growth Characteristics

Controlled new store sales to proactively manage credit performance associated with new customers

New store unit growth accretive to same store sales as new stores enter comp base

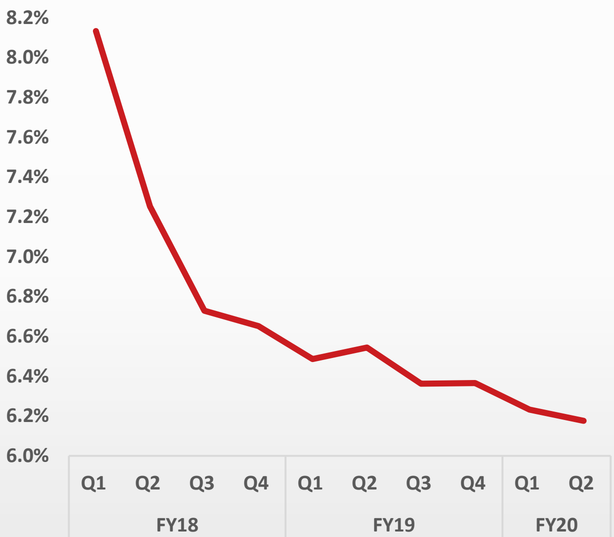
New Store Financial Overview

- Low capital investment of ~$1 million per new store
  - ~$7 million of additional capital required in first year to fund growth in accounts receivables of new stores
- Rapid cash payback of ~12 months
- Low breakeven at less than $4 million in annual sales
- New stores fund expansion though quick cash payback
- Pre-opening SG&A expenses of approximately $350,000 start ~6 months prior to opening


Conservative Capital Structure and Strong Liquidity Position Provide Financial Flexibility

Continued deleveraging has driven a reduction in our effective interest rate

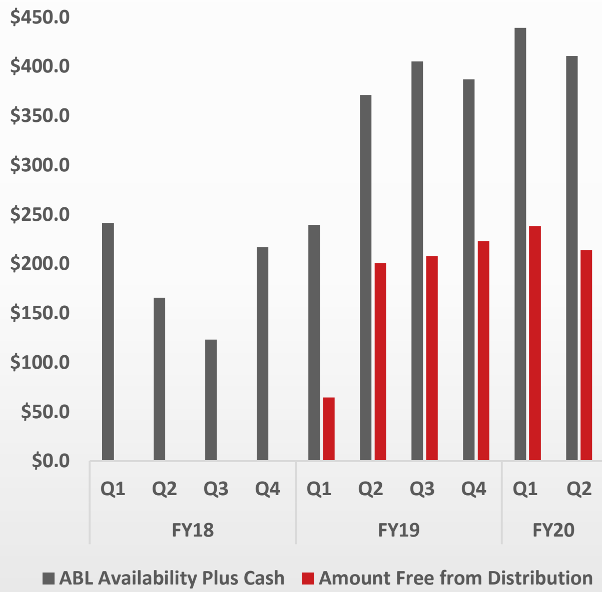
Effective Interest Rate



- Balance sheet has continued to deleverage as a result of strong operating performance and improved financing terms

Strong liquidity reflected by high availability and increasing amount free from distribution

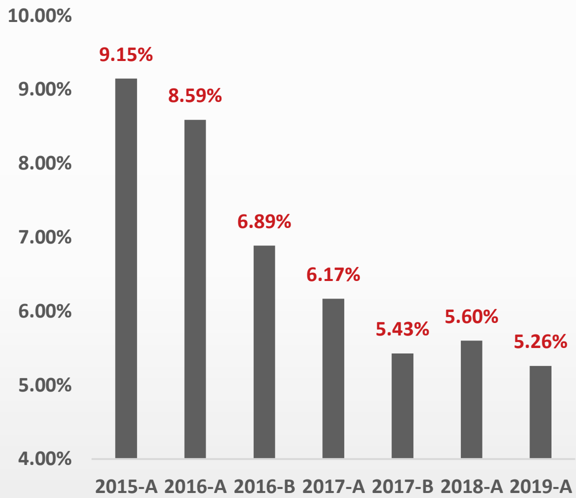
Liquidity



- $650 million facility size with four-year term; improved terms and covenant modifications with amendment in FY19
- $75 million buyback approved in Q2FY20
- 9.6% of outstanding shares repurchased through August 29, 2019

Lower all-in cost of funds driven by portfolio performance and better transaction execution

ABS All-in Cost of Funds

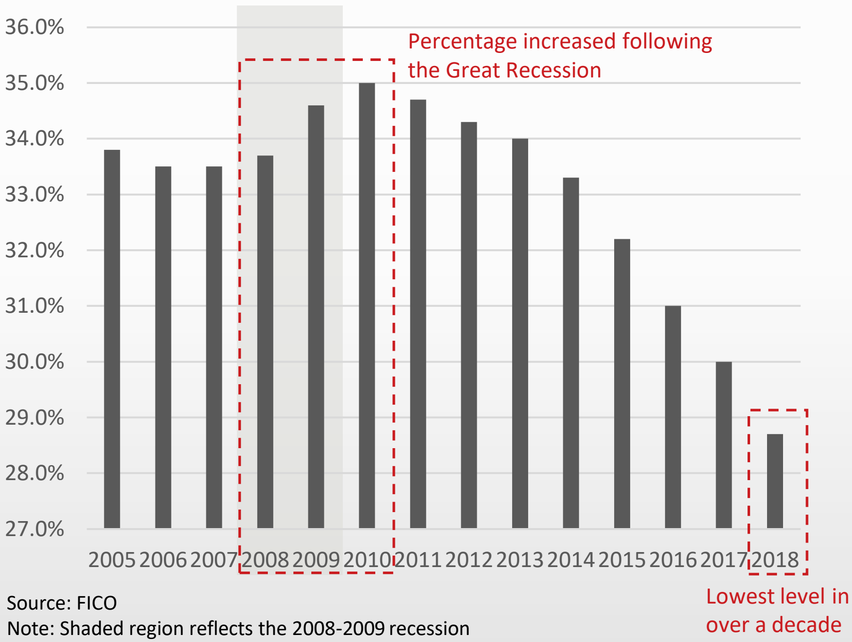


- Successfully executed 7 ABS transactions since re-entering the ABS market in 2015
- Continue to experience strong and increasing investor demand
- Improved ratings from both Fitch and Kroll in 2019-A

Stable Customer Demographic and Demonstrated Historical Performance Regardless of Economic Cycle

U.S. Population with FICO Score Below 650 Increased in Last Economic Downturn Providing Tailwinds to Cycle Impact

Percent of U.S. Population with <650 FICO Score



Source: FICO
Note: Shaded region reflects the 2008-2009 recession

- Historically, economic downturns have increased population of consumers with FICO below 650 creating opportunity to acquire new customers
- Traditional lenders typically retrench during recessions leaving even more consumers underserved
- Percent of the U.S. population with FICO <650 is lowest in over a decade highlighting long term opportunity
- Our core customer has been tested in multiple economic downturns, including the Great Recession, and has performed resiliently

Conservative credit strategy, highly profitable retail business, strong balance sheet and management experience further insulates the company from macroeconomic challenges

Quarterly Financial Update

($ in millions, except per share amounts)	Q2 FY20	Q2 FY19	Variance
Revenues:			
Net sales	$ 306.1	$ 296.3	$ 9.7
Finance charges and other	95.0	88.3	6.7
Total revenues	**$ 401.1**	**$ 384.6**	**$ 16.5**
Costs and expenses:			
Cost of Goods	$ 182.1	$ 173.6	$ 8.5
Selling, general and administrative	127.5	120.7	6.8
Provision for bad debts	49.7	50.8	$ (1.1)
Charges and Credits	-	0.3	(0.3)
Total costs and expenses	**359.3**	**345.4**	**13.9**
Operating Income	**41.8**	**39.2**	**2.6**
Interest (income) expense	14.4	15.6	(1.2)
Loss on extinguishment of debt	-	1.4	(1.4)
Income before income taxes	**27.4**	**22.3**	**5.1**
Provision for income taxes	7.4	5.3	2.1
Net income	**$ 20.0**	**$ 17.0**	**$ 3.0**
Diluted Earnings Per Share	**$ 0.62**	**$ 0.53**	**$ 0.09**
Retail gross margin	40.5%	41.4%	-90 bps
SG&A as a percent of revenue	31.8%	31.4%	40 bps
Net yield	21.9%	21.3%	60 bps
Charge-off percentage	13.0%	13.8%	-80 bps
Credit spread	8.9%	7.5%	140 bps
Effective tax rate	27.0%	23.8%	320 bps

Financial Highlights

- Total revenue growth of 4.3% compared to prior year
- Diluted earnings per share of $0.62, a 17% increase over Q2 of last year

Retail

- Total retail sales growth of 3.3% compared to Q2 last year, with non-Hurricane Harvey same store sales growth of 0.4%
- Retail gross margin of 40.5%; fifth consecutive quarter at or above 40.0% target
- Opened four new stores during the quarter and 13 new sores since Q2 of last year

Credit

- Credit spread of 890 basis points, the best second quarter credit spread in six years
- Finance charges and other revenue increase primarily driven by 60 bps increase in yield and an increase in insurance income as a result of higher retrospective commissions
- Decline in provision for bad debts driven by lower charge-offs as credit segment performance continues to improve
- Recoveries of $6.1 million, a 26% increase over Q2 last year
- Interest expense of $14.4 million, down $1.2 million compared to Q2 last year

Adjusted EBITDA and Adjusted EBITDA Margin

($ in millions)	LTM Ended July 31, 2019	Year Ended January 31, 2019	Year Ended January 31, 2018	Year Ended January 31, 2017
Net income (loss)	**$ 83.6**	**$ 73.8**	**$ 6.5**	**$ (25.6)**
Adjustments:				
Depreciation expense	33.8	31.6	30.8	28.9
Interest expense	59.2	62.7	80.1	98.6
Provision (benefit) for income taxes	27.2	22.9	25.2	(8.9)
Loss on extinguishment of debt (1)	-	1.8	3.3	-
Stock-based compensation expense (2)	13.3	12.2	8.1	4.8
Indirect tax audit reserve (3)	2.0	2.0	2.6	1.4
Store and facility closure and relocation costs (4)	(0.7)	-	2.4	1.1
Legal and professional fees and related reserves associated with the exploration of strategic alternatives, securities-related litigation, a legal judgment and other legal matters (5)	4.8	5.1	1.2	0.1
Employee severance (6)	0.7	0.7	1.3	1.6
Write-off of capitalized software costs (7)		-	5.8	-
Executive management transition costs		-	-	0.2
Impairment from disposal		-	-	2.0
Adjusted EBITDA	**$223.9**	**$212.8**	**$167.3**	**$104.2**
Total revenues	$1,561.4	$1,549.8	$1,516.0	$1,596.8
Operating Margin	10.9%	10.4%	7.6%	4.0%
Adjusted EBITDA Margin	**14.3%**	**13.7%**	**11.0%**	**6.5%**

(1) Represents costs incurred for the early retirement of our debt.
(2) Represents the total costs incurred for stock based compensation.
(3) Represents charges related to increases in our indirect tax audit reserve primarily related to the period from fiscal year 2008 to fiscal year 2016.
(4) Represents the costs incurred for store closures, relocations, and the reduction in square footage of a distribution center.
(5) Represents costs related to the TFL judgment and costs related to contingency reserves for legal matters.
(6) Represents severance costs related to a change in the executive management team.
(7) Represents a loss from the write-off of previously capitalized costs for a software project that was abandoned during fiscal year 2018 related to the implementation of a new point of sale system that began in fiscal year 2013.