

Rent-to-Own Retail

UK market profile and forecasts 2015

Apex Insight Ltd

Threshold & Union House,
65-69 Shepherds Bush Green,
London W12 8TX

+44 20 7100 7239
www.apex-insight.com
mail@apex-insight.com

About this report

What does the report contain?

- In this report we review the UK rent-to-own, rent-to-buy, or hire purchase, retail market.
- We quantify the market size, historical growth rates and levels of industry profitability while reviewing key factors behind these figures.
- We also carry out an in-depth analysis of the relevant drivers of industry growth – in particular the macroeconomic environment and supplier trends – setting out historical trends and available forecasts.
- Our forecast for industry growth is based on this analysis of historical trends and growth drivers.

What are the objectives of this report?

- Rent-to-own is a fast-growing segment of retailing in the UK, expanding to take up some of the increasing degree of slack on the high street.
- These retailers are frequently criticised for imposing a combination of credit terms and insurances which leads to items being significantly more expensive than via other channels.
- However, for many consumers, they increasingly make it possible for them to obtain goods which would not otherwise be accessible.
- This report aims to explore these views. It also considers the factors which have driven the high rates of growth that the sector has experienced and sets our views on how likely it is to continue in the future.
- We believe that, in order for those involved in the market to make the best decisions in this complex and changing environment, they need to have access to the best information. The aim of this report is to provide this
- It is intended for:
 - Operators of rent-to-own retail businesses themselves
 - Investors in these businesses
 - Retail property-owners, developers and landlords

- Market regulators and policymakers
- Banks, analysts, consultants and other parties with interests in the sector

What are the sources and methodology?

- Interviews with senior-level contacts in the consumer credit industry
- Extensive research into published industry sources
- In-depth analysis of the macroeconomic environment and relevant market drivers
- Financial analysis of the accounts of companies in the industry
- Information from these sources has been synthesised and presented clearly and concisely with extensive use of charts and tables to illuminate points and support conclusions
- Market forecasts have been constructed using simple assumptions which are clearly stated. Supporting evidence is provided for our assumptions but readers can easily flex them to model alternative scenarios.

Summary

Market background

- The market consists of high-street shops and online retailers selling larger items along with a credit package which, by spreading payments over a year, is designed to make them affordable for lower income buyers.
- Categories of items commonly sold include computers / technology, audio / visual, furniture and domestic appliances.
- A rent-to-own agreement is a form of secured loan with the goods generally remaining the property of the seller until the final payment is received and a provision for them to be recovered if payments are missed.
- Loan periods are generally from 1-3 years with an APR of between 30-70% being typical.

Market growth and drivers

- The market has grown quickly in recent years. Market growth has mainly resulted from store roll-outs.
- This growth has been driven by a series of trends which have coincided:
 - A significant increase in the number of customers in the sub-prime segments as a result of the economic downturn
 - Significant reduction in the appetite of the mainstream banks for serving such customers
 - A favourable regulatory environment in the UK
 - Retreat of many other categories of retailers from the high street which has enabled some attractive locations to be obtained on favourable terms

Competitive landscape

- The leading companies in the sector are all private-equity owned:
 - Caversham, which operates the BrightHouse chain and is owned by Vision Capital.
 - Perfect Home, whose shareholders include Cabot Square Capital as well as a leading US rent-to-own operator, Aarons, Inc.
 - Buy As You View, based in South Wales, which operates an internet based model and is owned by Rutland Capital.
- These leading operators have continued to grow both in terms of revenue and store numbers, although at a slower rate than prior to 2014.

Outlook

- The prospects for the market depend to a large extent on the four key drivers outlined above (numbers of target customers, appetite of mainstream lenders to provide alternative forms of credit, regulation and availability of sites).
- While each of these areas has specific uncertainties and risks which are examined individually and taken into account in our forecast, indications are that overall market conditions are likely to remain favourable and support further store roll-out.
- The key area of uncertainty is around regulation. The FCA is currently reviewing the area, following a study carried out by the All Party Parliamentary Group for Debt and Personal Finance which identified aspects of the market as problematic and in need of tighter regulation.
 - It is possible, but not certain, that the FCA could introduce tighter regulation which could have an adverse effect on the sector.

About Apex Insight

Company background

- Apex Insight is an independent provider of research, analysis and advice
 - Founded in 2012 by a team with experience of working in strategy consulting and the transaction advisory team of a Big 4 firm
 - Focus on a range of services markets including consumer credit
 - Publish market reports and carry out consulting work to address more specific requirements

Consulting services

Custom market analysis

- Research and evaluation of your required market to your desired scope.
- Market quantification, competitor insight and intelligence, analysis of drivers and forecasts

Commercial / operational due diligence

- Experience of advising on c.200 transactions.
- Work includes assessment of market attractiveness, competitive position, customer relationships, information systems and operational performance.

Primary research

- We have deep experience in conducting face-to-face interviews with senior-level decision-makers and managing large-scale surveys, plus even more experience in analysing findings to provide insights and actionable results

Growth strategy

- Outward looking and fact-based: market entry strategies, search and screening programmes for new partners, customers or acquisition targets, benchmarking.

Related research

- [Pawnbrokers and High Street Loan Stores: UK market profile and forecast 2015](#) (August 2015)
- [European Peer-to-Peer Lending: Market Insight 2015](#) (June 2015)
- [UK Consumer Debt Collection and Debt Purchase: Market Insight 2014](#) (November 2014)
- [Online Payday Lending: UK Market Profile and Forecast 2014](#) (September 2014)
- [Home Credit: UK Market Profile and Forecasts](#) (April 2014)

Research subscriptions

- For clients who require access to multiple reports plus report updates and analyst time for further research, presentations, etc.
- Can be tailored to meet individual requirements cost-effectively

Contents

About this report	2
What does the report contain?	2
What are the objectives of this report?.....	2
What are the sources and methodology?	2
Summary	3
Market background.....	3
Market growth and drivers.....	3
Competitive landscape	3
Outlook	3
About Apex Insight	4
Company background	4
Consulting services	4
Related research	4
Research subscriptions	4
Contents	5
List of charts and tables	7
Market Overview	8
Description.....	8
Proposition.....	8
Customers	8
Rent-to-own agreement	8
Late payments.....	8
Credit screening and scoring.....	8

Market characteristics and trends	9
Value drivers	9
Stores.....	9
Promotion.....	9
Adjacent markets	9
Pawnbroking.....	9
Payday lending.....	9
Conventional lending.....	9
Credit unions.....	10
Trade unions	11
Customer needs	11
Research into customer needs	11
Borrowing costs.....	12
Market size and growth	14
Market size and growth	14
Discussion of market drivers	14
Target consumer segment.....	15
Availability of conventional forms of credit	15
Regulation.....	15
Retail market conditions.....	15
Conclusion	15
Macroeconomic trends.....	15
GDP	16

Unemployed and underemployed.....	16	GDP	31
Wage levels and household disposable income	17	Unemployment	31
Student debt	18	Wages	32
Access to mainstream banks and credit sources.....	18	Market forecast.....	33
International comparisons.....	19	Risks to the forecast.....	33
Consumer credit.....	20	List of abbreviations	35
Credit cards	21		
Regulation	21		
New regulation introduced by the FCA	22		
Arguments for tighter regulation.....	22		
Arguments against tighter regulation.....	23		
Competitive landscape	24		
Leading companies	24		
BrightHouse	24		
Perfect Home	24		
Buy As You View.....	24		
Others	24		
Comparison of performance.....	26		
Credit provider profiles	28		
BrightHouse.....	28		
Buy As You View	29		
Perfect Home.....	30		
Forecasts	31		

List of charts and tables

1. Reasons for taking out a high-cost credit agreement / % of respondents
2. Five most common reasons for taking out a high-cost loan / % of respondents
3. High cost credit types APR / %
4. Total amounts repaid (including principal) for £100 loan / £
5. Historical UK rent-to-own market size / £m
6. UK real GDP / % annual changes
7. Historical number of unemployed and underemployed / m
8. Number of people in employment / m
9. UK average wages and real household disposable income annual growth rates / % annual change
10. UK student loan total outstanding balance /£bn
11. Historical UK number of bank branches / '000
12. European countries' number of bank branches per million people in 2011
13. European countries' bank branches CAGR (1999-2011) / %
14. Number of adults without a bank account/cannot access credit
15. UK outstanding consumer credit / £m
16. Number of credit cards in issue / m, end of year
17. Leading UK rent-to-own providers market share / £m
18. Historical no. of stores by year
19. Leading UK rent-to-own providers, CAGR 2009-15 (2009-14 for BAYV)
20. Latest pre-tax profit margins of leading rent-to-own providers / %
21. Latest revenue per employee for rent-to-own providers / £'000
22. Figure 22: BrightHouse Limited summary financials
23. Figure 23: Buy As You View summary financials
24. Figure 24: Perfect Home Holdings Ltd. summary financials
25. UK real GDP / annual changes
26. Unemployment and underemployment / m
27. Number of people in employment / m
28. UK average earnings / % annual change (nominal)
29. Rent-to-own - forecast market size / £m

Market Overview

Description

Proposition

- Rent-to-own, or rent-to-buy, retailers operate high-street locations which sell larger items along with a credit package which, by spreading payments over a year, is designed to make them affordable for lower income buyers.
- According to BrightHouse, the market leader, the main categories of products sold in its stores are:
 - Computers and technology, which accounts for around 30% of sales
 - Audio and visual (30%)
 - Furniture (20%)
 - Domestic appliances (30%)
- Rent-to-own retailers often sell exclusive items for which the customer cannot easily make direct price comparisons with other retailers.
- They also often offer services and accidental damage insurance cover at an additional cost, which can be significant. Some of these services and charges are compulsory.
 - For example, BrightHouse sells goods under its 'five star service' package, which bundles delivery, installation, repair and, if necessary, loan products while a repair is carried out or replacement if economic repair is not possible.

Customers

- We believe there are around 400,000 customers across the UK who purchase from rent-to-own retailers.
- BrightHouse defines its target customers as those who live within three miles of a store, do not own cars, and have friends or family who are customers.
- Rent-to-own customers include those in work and unemployed, with around half being in receipt of benefits.

Rent-to-own agreement

- The agreement is a form of secured loan that gives the lender certain rights over the borrower, including entitlement to repossess the good in certain circumstances, until the agreement has been completed.
- Under a rent-to-own agreement the goods are hired to the borrower for a specified period of time. Therefore the good remains the property of the lender until the final payment.
- During this time the consumer must pay regular (typically weekly or monthly) payments. The total amount payable is based on the cash price of the good, plus interest over the period of agreement and any additional charges.
- The loan period is typically between one and three years. When all payments under the agreement are paid, the customer can exercise the option to have ownership of the item transferred by sending a letter within 30 days.
- Often the rent-to-own company will offer the customer a reduced rate on a further rent-to-own loan for a new item or 'upgrade' in exchange for waiving the right to have ownership transferred to them.

Late payments

- Late payments are typically subject to a penalty charge.
- A creditor cannot take back the good unless they have issued a default notice, given at least seven days for the customer to meet the agreement and been granted a court order for the repossession.
- If a customer decides to terminate the agreement voluntarily they are required to pay half of the total amount payable minus the payments that have already been made.

Credit screening and scoring

- Assessment is mainly carried out via face-to-face contact with the customer
- A tailored scorecard with customer demographic details, fraud checks and proof of identification is used.
- Existing customers who wish to acquire further products are assessed via a scorecard that determines their credit limit.



Apex Insight Ltd

Threshold & Union House,
65-69 Shepherds Bush Green,
London W12 8TX

www.apex-insight.com
+44 (0)207 100 7239
mail@apex-insight.com

Licence options

- Standard licence:
 - This is intended for use by a single reader but sharing by up to five team members within the same organisation is permitted
 - Saving a copy to a network drive, transmission by email, sharing with advisers, clients, sub-contractors or any other party would represent a breach of copyright and is not permitted
 - Quotation of short sections from the document is permitted as long as the specific report is quoted as being the source
- Extended licence:
 - Sharing with colleagues within the same organisation and saving on a network drive are permitted.
 - Sharing with advisers and sub-contractors is permitted if and only if (a) we are notified of intent to do so and (b) receive notification from the advisor or sub-contractor that it accepts the report under the terms of a single-user licence prior to it being shared.
 - Sharing, with advisors or sub-contractors without such prior notification, or with any other external party, would represent breach of copyright and is not permitted.

Terms and Conditions

- Apex Insight can take no responsibility for any incorrect information supplied to us by external parties. Quantitative market information is based a range of sources and assumptions and therefore is subject to a degree of judgement.
- Apex Insight reports are publications containing valuable market information provided to our clients. Our clients acknowledge when ordering that reports are not for publication or disclosure to parties not covered by the relevant licence.
- No part of any Apex Insight report may be given, lent, resold, or disclosed to third parties without our written permission. Third parties include subsidiary companies, other legal entities, customers, financial investors, suppliers or any other organisation or associate of the purchasing company.
- Apex Insight reports in full or in part may not be reproduced, stored in a retrieval system, or transmitted in any form or by any means; electronic, mechanical, photocopying, recording, or otherwise, without the permission of the publisher or where covered by a licence agreement or where sold under the terms of an Apex Insight contract.
- Payment is due upon receipt of invoice.
- Standard delivery time of print publications is 14 days from date of receipt of payment. For electronic publications delivery time is as soon as practicable following receipt of payment.
- Draft reports sold prior to formal release are subject to later correction. Orders for draft reports will be invoiced with delivery of the draft report. Draft reports must be returned to the address above on receipt of the final copy.