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RCII - Q2 2013 Rent-A-Center Earnings Conference Call

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OVERVIEW:

RCII reported 2Q13 total revenues of $760.5m, net earnings of $42m and diluted EPS of $0.76. Expects 2013 total revenues to increase approx. 3% and diluted EPS to be $3.03-3.15.

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CORPORATE PARTICIPANTS

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Robert Davis *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

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Laura Champine *Canaccord Genuity - Analyst*

Brad Thomas *KeyBanc Capital Markets - Analyst*

TJ McConville *Raymond James & Associates - Analyst*

Barry Haimes *Sage Asset Management - Analyst*

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PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's second-quarter 2013 earnings release conference call. At this time, all participants are in a listen-only mode. Following today's presentation, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded, Tuesday, July 23, 2013.

Your speakers today are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center; Mr. Mitch Fadel, President and Chief Operating Officer; Mr. Robert Davis, Chief Financial Officer; and Mr. David Carpenter, Vice President of Investor Relations.

I would now like to turn the conference over to Mr. Carpenter. Please go ahead, sir.

David Carpenter - *Rent-A-Center, Inc. - VP of IR*

Thank you, Shirley. Good morning, everyone, and thank you for joining us. You should have received a copy of the earnings release distributed after the market closed yesterday that outlines our operational and financial results that were made in the second quarter. If for some reason you did not receive a copy of the release, you can download it from our website at investor.rentacenter.com.

In addition, certain financial and statistical information that will be discussed during the conference call will also be provided on the same website. Also, in accordance with SEC rules concerning non-GAAP financial measures, the reconciliation of EBITDA is provided in our earnings press release under the statement of earnings highlights.

Finally, I must remind you that some of the statements made in this call, such as forecast growth in revenues, earnings, operating margins, cash flow and profitability, and other business or trend information, are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in the earnings release issued yesterday, as well as our annual report on Form 10-K for the year ended December 31, 2012, and our

quarterly report on Form 10-Q for the quarter ended March 31, 2013. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements.

I'd now like to turn the conference call over to Mark.

Mark Speese - *Rent-A-Center, Inc. - Chairman, CEO*

Thank you, David. Good morning, everyone, and thank you for joining us. Let me begin by saying that I am quite pleased with the progress that we are making in our portfolio of agreements in the Core US business, with a strong period-over-period improvement in deliveries of 6.6%. In fact, given these current trends, we believe that our portfolio of agreements will surpass prior-year levels during the third quarter, and thereby produce positive same-store sales results in the Core business during the fourth quarter of this year.

As for our overall results, the total revenue increased 1.4% year-over-year, with RAC Acceptance and Mexico more than offsetting the decline in our Core business. Our net earnings were down a little over $2 million, or about 5%. And while I am not happy with that result, it has improved compared to the first quarter. We continue to make progress, not only on the top line, but also in managing our expenses.

And like our Core same-store sales, I believe our net earnings will also be positive year-over-year in the fourth quarter as well. In a moment, Mitch will provide more quarterly details on each of the segments.

In regards to the growth initiatives, they continue to perform very well. In RAC Acceptance, revenues were up over 52%, to over $117 million in the quarter; now equaling over 15% of our total revenue and approximately 23% of our total operating profit. I'm very pleased with the results we continue to see here.

In Mexico, revenues grew over 137% in the quarter, now totaling $11.3 million. We opened an additional 20 stores during the quarter, ending with 130 locations. And we remain on pace to begin generating positive store level, or four-wall, operating profit by the end of the year. We remain very excited about the long-term prospects and opportunities that Mexico provides for us.

In terms of guidance, Robert will provide more specifics on the revised 2013 guidance that were noted in the press release last night. But let me point out our expectations for EPS. As you are aware, during the quarter the Company announced both a $250 million bond offering and a $200 million accelerated stock repurchase program, or ASR. As part of the ASR, we were able to retire 4.6 million shares of our stock in the quarter. Due to the impact of the share repurchase and our business outlook, we have increased our annual guidance, now expected to be between $3.03 and $3.15 per share. And like before, this does include the approximate $0.25 drag in earnings due to the International initiatives.

In contrast to the healthy gains in stock and home values enjoyed by the upper-income households, lower-income households have had stagnant or declining income, and little or no increases in their household wealth. Therefore, this lower-income consumer must be attracted by a very positive value offering. And in that regard, we continue to make tweaks to the levers in our business model that seem to be resonating with our customers. And as such, we believe we will continue to grow our Core's portfolio of agreements throughout the balance of this year.

So, all in all, a good quarter. The trends in the Core business remain positive and encouraging. Both the growth initiatives -- RAC Acceptance and Mexico -- continue to perform well, and are generally in line with all of our expectations. And our balance sheet, even with the addition of $250 million of leverage, remains very healthy and provides the flexibility to continue to execute our long-term plans. I believe we are well positioned to finish the second half of the year on positive notes, and that we are well positioned as we go into the future as well.

I do want to thank all of our co-workers for their hard work and contributions during the quarter; and, as always, we appreciate your support.

And with that, I would like to ask Mitch to provide you more commentary on the various business segments for the quarter. Mitch?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Thanks, Mark, and good morning, everyone. As Mark mentioned, we are very pleased with our results and building our portfolio on our Core segment, as well as the results in both of our growth initiative -- RAC Acceptance and Mexico. Our overall same-store sales declined 1.6% in the second quarter, much improved from our first quarter of minus 4.3%. Now, the majority of that improvement was in the Core segment, as they improved almost 3 full percentage points, coming in at minus 5.9%, after a minus 8.8% in the first quarter. So, great improvement in the Core. RAC Acceptance came in at plus 32%, and our International segment came in at a very strong 54%.

As Mark was talking about, when we talk about demand in the Core business, we are primarily talking about new deliveries. And as he mentioned and you read in the press release, we did 6.6% more deliveries this year in the second quarter than last year in that same quarter. And, as Mark discussed, our plans to continue to drive traffic and deliveries through strategic promotional activity and advertising, leading to our positive same-store sales forecast in the Core segment by the fourth quarter.

Our collections metrics remain in line with our expectations for this time of year. And our customer losses in the Core rent-to-own stores again came in at 2.4%, at the lower end of our historic ranges. Our inventory held for rent number generally held steady with where we ended the first quarter, at 26% of all inventory in the Core. Just a little higher than we would like it, but a number that we expect will come down as our positive business trends continue.

We are very pleased with the performance in RAC Acceptance -- the 32% same-store sales increase; overall revenue of over $117 million in the quarter; and segment operating profit of over $17 million in the quarter are very impressive results. We did get 110 more kiosks open in the quarter. However, as you can see in our guidance, the openings were a little behind our plan we put forth at the beginning of the year. Let me remind you, when we first started with the kiosk expansion back two or three years ago, we said we planned to add about 200 per year, up to about 1000 potential stores. We obviously are blasting past 1000 kiosks, and way ahead of 200 per year. In fact, we've opened 208 in the first six months of this year.

Now, even though we continue to open at a rapid pace and faster than we thought we could a few years ago, and demand with our retail partners remains very strong, we are opening at a little slower pace than we thought we could accomplish at the beginning of this year. We now expect to add a net of approximately 325 for the year, not the original 350 amount. The timing of the openings, and the 25 net difference, is what is driving a little bit lower revenue guidance in this segment; but no lower on the earnings side, as our performance in these kiosks remain strong.

In Mexico, we added 20 more stores, ending the quarter with 130 stores in that 54% comp in our International segment. We are currently on track to add the 60 there this year. And, as Mark mentioned, we are still on track to achieve four-wall breakeven on a monthly basis in Mexico by the end of the year. So, again, overall much improved performance and trends in the Core segment. Another very good quarter in RAC Acceptance and Mexico. Our focus remains on all three segments, especially in the Core, as we focus on getting that positive by the fourth quarter.

And for all their efforts, I'd like to thank our 20,000-plus coworkers for everything they do, as we improve the quality of life for our coworkers and our customers every day.

And with that, Robert?

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

Thank you, Mitch. I'm going to spend just a few moments updating everyone on the financial results during the quarter, and then review our updated 2013 annual guidance. And then after that, we'll open the call to questions.

As outlined in the press release, our total revenues were $760.5 million during the second quarter of 2013, an increase of $10.8 million or 1.4% as compared to the second quarter of last year.

Our net earnings in the quarter were $42 million, while diluted earnings per share equated to $0.76, an increase of 2.7%. These results in the quarter include about a $0.08 drag on earnings due to the continued investment and ramp-up of our International growth initiatives. Operating margins in the quarter declined 30 basis points, primarily due to the negative same-store sales results.

Similarly, our second-quarter EBITDA margin declined 40 basis points to 12.8%. With our current forecast for positive same-store sales in the fourth quarter in the Core segment, both of these margins are expected to increase over the prior year during that quarter. We generated positive cash flow during the second quarter; and year to date, we have generated over $115 million in operating cash flow.

During the quarter, the Company, reflecting continued confidence in our long-term growth prospects and strong cash flows, we continue to invest in new stores, new channels, and new markets. We executed a $200 million accelerated share repurchase. We financed it through a newly issued low coupon bond, and made a $12 million dividend payment. Furthermore, we will make our 13th consecutive quarterly cash dividend payment later this week. We believe we've taken a fair and balanced approach to total shareholder return.

We did end the quarter with over $78 million in cash on hand, and a leverage ratio of 2.1 times, which is well below the floor on our covenant requirement of 3.25 times. We continue to believe our balance sheet is an extraordinary shape; and, as such, we believe we remain well positioned to execute on our growth initiatives.

Now, in terms of guidance, based on how we have performed year to date, both operationally and financially, while considering our outlook for the remainder of the year and taking into consideration the net impact of our accelerated share repurchase, we are increasing our annual 2013 EPS guidance. We are now expecting diluted EPS to range between $3.03 and $3.15, which includes an approximate net $0.25 drag on EPS, relating to our International growth initiatives.

We now expect total revenues to increase approximately 3%, with same-store sales ranging between flat and a positive 1%. In terms of EBITDA and free cash flow, the Company continues to believe EBITDA will approximate $400 million, with free cash flow expected to be roughly $65 million. Now, while we continue to invest for growth and for the long-term, for 2013 we expect both our consolidated operating and EBITDA margins to decline approximately 25 basis points or so. Yet, in both cases, we are expecting the dollars will remain essentially flat with the prior year.

Now, this expected decline in those two margins is an improvement, or less of a decline that we had forecasted previously, primarily due to improvements in gross margins in all segments and our expense management.

Going back to EPS guidance for a moment, and while reviewing some of the current analysts' estimates by quarter for the remainder of the year, I want to provide some additional color on our EPS expectations for the next two quarters.

As you know, we have adopted the practice of providing annual guidance only, as opposed to quarterly guidance, in large part due to our growth initiatives and the impact these initiatives have on our results. As an example, a significant ramp-up in location count for our RACA business model can be somewhat unpredictable on a quarterly basis, due in part to the demand from our retail partners, but less so on an annual basis.

In any event, providing only annual guidance can lead to quarterly analysts' estimates that are varied from management's view, although the year may be in sync. So, in an attempt to alleviate some of this, we have provided some data points on our website regarding the historical spread of our annual results by quarter. This is meant to be a guide, not a predictor. Many other elements come into play that could cause results to vary from the historical data points provided, such as same-store sales results, number of new stores opened by segment, average age of the store base by segment, et cetera.

So, in that vein, I want to point out in that management currently expects the spread of EPS results for the third and fourth quarter to be wider than the last couple of years. A few explanations as to why include a fourth-quarter forecast of positive same-store sales in the Core segment; fewer new store openings this fourth quarter, meaning less dilution; as well as the more mature store base on average in the fourth quarter from our initiatives, which means more accretion when considering how stores ramp up in our model.

I hope these are helpful thoughts to consider as you update your estimates for the remainder of the year. Dave Carpenter will follow up with each of you after the call to answer any questions you have regarding this topic specifically.

Now, this 2013 guidance does not include the potential impact of any repurchases of our common stock that the Company may make; changes to future dividends; material changes to outstanding indebtedness; or the potential impact of acquisitions, dispositions, or store closures that may be completed or occur after the date of this press release.

With that, Shirley, would you please now open the call to questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Laura Champine, Canaccord.

Laura Champine - *Canaccord Genuity - Analyst*

Thanks for taking my question. Robert, I think this one's for you. On the balance sheet, the rental merchandise on rent is up 16% year-on-year. But revenues from rentals and fees are only up 1.5%. Could you help me explain that disparity?

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

So, if you look at the segment data in the press release we issued last night, and one example of what Mitch talked about earlier in regards to building our portfolio of agreements, and the activity that's taken place to have us cross that threshold in the third quarter and lead to a positive same-store sales result in the fourth quarter. On-rent inventory in the Core US excitement is up $35 million from last June to this June, which is an indicator of that revenue that we expect to come over time. So, it's really a timing issue. As you build the agreements, as you know, the revenue follows after that from a portfolio perspective.

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

But you're also talking -- I think Laura, the numbers you were talking about were in total. And of course a big part of that, $80 million of that on-rent is an RAC Acceptance, a big increase in RAC Acceptance, as well as the revenue being up. But, yes, the revenue kind of follows on the Core side, like Robert was talking about.

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

Right.

Laura Champine - *Canaccord Genuity - Analyst*

Okay. So just a clarification, too, when you talk about deliveries being up 6.6%, is that units delivered, or is that dollar volume delivered?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

It's agreements. It's agreements. Our units per agreement have performed very well also, but we actually count contracts, if you will, or agreements.

Laura Champine - *Canaccord Genuity - Analyst*

Got it. Thank you.

Operator

Brad Thomas, KeyBanc Capital Markets.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Good morning, everybody. Wanted to first ask about the kiosk business. Obviously RAC Acceptance continues to do very, very well. You obviously noted that the openings are a little bit behind plan. But there is still very, very strong demand for these kiosks. I'm just wondering if there's any particular factor that came up here in terms of the delay? Just the timings in terms of the demand, or the timing that you're able to get a new kiosk opening in place -- just a little more color would be helpful.

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Sure. I think it's mostly timing, because the demand is real strong. Also you'll recall, Brad, we did h.h. gregg -- or we're in the process of doing h.h. gregg -- which is one of our bigger partners that we've signed up over the last couple of years, and that's been quite an effort this year. So that probably has -- we've had a lot of focus there to make sure we do that right. That might have slowed down some of the other openings, but it's primarily timing.

I'd to point out -- well, the h.h. gregg thing; I'd also point out the closures are a lot lower than we thought they were going to be at the end of -- at the beginning of the year, and less than last year. So where we are going in, they are higher-quality kiosks. And we're not going in just for the sake of going in and adding a kiosk and then finding out six or eight or nine, 10 months later that there is not enough volume in that store.

So, being more selective, and you can see that in the closures. And then the h.h. gregg thing would be the other -- my other point that that certainly took a great effort by our team to do. And you're right, what you pointed out, it still a lot better than we thought it was going to be a few years ago.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Great. And then I'll follow up on the International side. You're maintaining your guidance of about a $0.25 drag for the year. It sounds like Mexico is still improving nicely, with an expectation to be four-wall profitable by the end of the year. You only lost about $0.11 investing in that segment in the first half of the year. Can you give us a sense of maybe if there's potential for upside to that guidance, based on the improvement that you're seeing right now?

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

I would say that it's a little bit more than $0.11, just given our share count. It's more like $0.13 or so, $0.14, in the first half of the year. So there is some improvement quarter-over-quarter, but not materially enough to where we would view that as significant upside. And then as we look into 2014, of which we haven't given guidance to, a run rate basis of having a profitable four-wall business does not imply that Mexico will be profitable next year, just given the timing of stores. But it will be, quote-unquote, less dilutive in 2014 as we move forward.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Of course. All right. Thanks so much, guys, and good luck.

Operator

Budd Bugatch, Raymond James.

TJ McConville - *Raymond James & Associates - Analyst*

Good morning Mark, Mitch, Robert, David. It's TJ McConville filling in for Budd. Congratulations on the quarter and thanks for taking my questions. Guys, the first area I want to make sure I understand is in RAC Acceptance. And I think in response to a previous question, Mitch, you sort of answered mine. The closure decisions you're making on the now 40 closures this year, those are independent of the number of stores you're opening, correct?

I just want to make sure that those aren't moving together for some reason that I don't understand.

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Yes, no. No, they are independent of each other, for sure.

TJ McConville - *Raymond James & Associates - Analyst*

Okay. And in the total revenue guidance for the year, it looks like we came down about $25 million on a net reduction of 25 kiosks. That just seems like a larger contribution for kiosks than I would have thought. Is there another aspect to the performance in the business that you're seeing now, that you may not have thought last quarter?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Certainly, it's not all RAC Acceptance. That's an excellent point; we never meant to imply it was all RAC Acceptance. The Core business, though it had a great second quarter from adding the agreements, we did that by also being promotional. So there was a little less revenue in the second quarter, based on that. So, I think it's partially the Core. Not that the Core underperformed; we still expect to be positive by the fourth quarter.

But by being more promotional, it cost us some revenue. The $25 million in RAC Acceptance is not the only thing that lowered the overall revenue guidance. But just speaking to the $25 million in RAC Acceptance, besides the 25 net stores, it's also the timing of when we had them figured in there too, TJ.

TJ McConville - *Raymond James & Associates - Analyst*

Okay. Okay, understood. And so you went to the next area I was going to ask you about, was -- can you give us maybe an average customer agreement duration in months, or length of agreement? It sounds like you're hinting at you're stretching out the terms a little bit or offering some free up front. So, is there any quantification we can put around that, just so we can get a better sense of the promotional cadence?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

The average life of the agreement hasn't changed for us. It's in that 4- to 5-month range on average. It's more the promotional up front, when we talk about promotional activity. A little of it, of course, is pricing on electronics, because of deflation. So a little bit on pricing, but primarily on being promotional on front trial offers and the like. But the retention of those trial offers is remaining consistent; that's the key point.

TJ McConville - *Raymond James & Associates - Analyst*

Okay. And then -- last one for me, guys -- just on the competitive set in, specifically, the kiosk business; obviously the success attracts attention. So anything you're noticing from a competitive set that's worth pointing out this quarter?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Well, our primary competition in that space right now is clearly the virtual competition. Flexi Compras is out there; they haven't been growing a whole lot. The virtual ones seem to be where the growth is. And, certainly, a product we expect to have at some time in the future is the virtual solution to go along with our kiosk solution, as well. Which allows us to do some of the lower-volume partners, where we can't staff a kiosk, but we could do it through virtual, as well as some partners that only want to do a virtual network. So, we expect to get there; we're not there today. But we expect to get there with a virtual solution, as well.

I guess TJ is gone.

David Carpenter - *Rent-A-Center, Inc. - VP of IR*

Yes. Sheryl Lee, can you have our next participant in the queue ask a question?

Operator

Barry Haimes, Sage.

Barry Haimes - *Sage Asset Management - Analyst*

Hi. Thanks very much. I have two questions. One is on the increased promotional cadence that led to the 6.6% increase in your agreements in the quarter. When do the bulk of those get to the end of the promotional period, so you get a sense as to whether the retention rate is consistent?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Hey, Barry, can you speak up a little louder and re-ask the question? We can barely hear you.

Barry Haimes - *Sage Asset Management - Analyst*

Okay, is that better?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Yes, thank you.

Barry Haimes - *Sage Asset Management - Analyst*

Okay, sorry about that. So, the first question was the increase in the promotional cadence in the quarter that led to the 6.6% increase in agreements -- when is the timeframe when the bulk of those get to the end of the promotional period, so you get a feel for whether the retention rate is consistent with your historical? That's the first question.

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Yes, but mostly, when we talk about being promotional with a trial offer, it's one or two weeks. So we're already there. We're already there. That's why I mentioned earlier, we're seeing retention hold even though a lot of them are trial offers. Retention is holding at the same rate as it would otherwise, whether we did the trial offer or not. So we're already there, to answer your question, Barry.

Barry Haimes - *Sage Asset Management - Analyst*

Got it, great. And the second question is -- so it looks like you're talking about flat to 1% same stores for the year, coming off a 3% decline in the first half. So that would suggest a pretty big pickup in the second half. Is this increase in agreements the key driver of that? Or what gives you the confidence that the second half will be sufficiently stronger than the first half?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Yes, good question, Barry. Definitely, it's the way we performed in the second quarter, and so far in July in the Core business. And once the -- keep in mind, the contribution today -- I talked about RAC Acceptance being 32% same-store sales, and the International segment being in the 50s. Those combined, the contribution is roughly 3.5%, 3.6% from those. So if the Core was flat in the second quarter, our same-store sales would've been 3.5%, 3.6%.

So, once the Core gets flat and positive, and it gets closer to flat in the third quarter based on the current trend, overall between the third quarter and in the fourth quarter, driving the kind of numbers you're talking about to get us to that flat to 1%. So, like I said, keep in mind, if the Core is just flat, we're close to a 4% comp right now, just when we get that Core flat. And we expect to be positive in the fourth quarter, not just flat.

Barry Haimes - *Sage Asset Management - Analyst*

Great. Thanks. That helps a lot. I appreciate it.

Operator

James Ellman, Ascend.

James Ellman - *Ascend Capital - Analyst*

Great. Thanks for taking my question. Another one, the second half of 2013, if we could just look out a little bit -- Obamacare or ACA, I'm just trying to understand -- I would imagine your client base is probably more likely to not have healthcare than the average American. It sounds like ACA may get delayed a year or two. Would that be a positive for your business, if individuals don't have to either pay that up to $1000 out of tax, out-of-pocket, or have to start buying healthcare?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

I don't know; Mark may have a view on this. I'll start. I don't know that it's a positive; I certainly don't it as a negative to our customer. But I don't know that it will create any positive, either.

Mark Speese - *Rent-A-Center, Inc. - Chairman, CEO*

I would agree with that comment. As I understand it, it is going to be postponed a year. That has, I think, already been decided. To go as far as saying it being a positive, I would be with the way that Mitch said. As we sit here today, it certainly is not a negative. So, I'm not sure that I would go further to say it's going to drive more business than what we might be seeing right now. But I don't see -- it clearly won't have any adverse impact on us.

James Ellman - *Ascend Capital - Analyst*

Okay. But if the average Rent-A-Center customer has to start spending $1000, $2000, $3000 a year on healthcare than they weren't spending on before, wouldn't that have a (multiple speakers) impact on --?

Mark Speese - *Rent-A-Center, Inc. - Chairman, CEO*

Clearly, no, that's right. Now, I can't tell you what percent of our customers may or may not have insurance. I think your theory is somewhat accurate. It's fair to say that the large majority probably don't. And then to the extent that that's an added cost that they are going to have to deal with at some point in the future, that would, you could suggest, could create a headwind for us.

James Ellman - *Ascend Capital - Analyst*

Okay. And then just in terms of the share repurchase which you pushed through, which of course was quite positive to earnings per share -- and you raised your guidance from that today. But does the less cash on hand, does that have any impact on the smaller new store count and kiosk count that you are going to have?

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

No, it has nothing to do with it. We generally maintain a cash on hand balance between $70 million and $100 million. It fluctuates based on seasonality and timing. I'll reminded the group that we've got a $500 million revolver, of which $280 million-plus is currently available to tap into. And so that -- the cash on hand has no bearing whatsoever on our anticipated growth through the remainder of the year.

James Ellman - *Ascend Capital - Analyst*

All right. So you have room to lever up the balance sheet more to increase or maintain the growth in store and kiosk count, correct?

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

Yes. Not that we have any intent of levering the balance sheet; we've projected to have free cash flow for the year of over $65 million, so no intent to quote-unquote lever up the balance sheet. If the leverage increases at all through the balance of the year, it's timing, not us needing to quote-unquote lever up to grow. That's not --

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Mark Speese - *Rent-A-Center, Inc. - Chairman, CEO*

In fact, all of our stated growth plans, much like we've accomplished in the past, has not been at the expense of leverage, absent an acquisition. We've been able to open and expand all of this solely out of free cash flow. And that will not change as we sit here today, either.

James Ellman - *Ascend Capital - Analyst*

Very good. Thanks so much for the time.

Operator

(Operator Instructions). Charles Ruff, Insight Investments.

Charles Ruff - *Insight Investments - Analyst*

Hi. Thank you very much for taking my questions. Earlier, when someone asked about why the second half would be better, you talked about same-store sales for the Core improving. And I guess I'm still a little confused on why you expect that. Why will Core same-store sales be better in the second half, and actually grow by the fourth quarter?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Well, in a recurring revenue stream business like ours, you know how many accounts are coming in at the beginning of the year. And we're closer to the portfolio count than we were at the beginning of the second quarter. And the second quarter improved by 3% over the first quarter same-store sales. So, it's not like on July 1, in this business, you start all over, because it's a recurring revenue stream. So you're really looking, really the last five quarters' impact -- what a same-store sales is in any one quarter, because you're going back.

So, knowing where the last four quarters have been, and looking at our own internal forecast on the third and fourth quarter, it's just the way the numbers work with the recurring revenue and building the portfolio the way it's building now. And, like I said, we had a 3% improvement in the second quarter based on the way that the recurring revenue is rolling right now.

Charles Ruff - *Insight Investments - Analyst*

Okay. And also I read that Sears has entered the rent-to-own business a couple months ago. Have you seen any impact from that? How strong a competitor are they? Do they price competitively? Any comments on that?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Well, Sears didn't actually enter the rent-to-own business. What Sears did is contract a RAC Acceptance type of competitor. It's a virtual competitor called WhyNotLeaseIt. So, Sears has an alternative; if you go in there and get turned down for their credit card or whatever credit you can apply for at Sears, that they have actually a rent-to-rent alternative. There is an option to buy it, I believe. But it's actually a rent-to-rent agreement, not a rent-to-own agreement like Rent-A-Center or RAC Acceptance uses.

So, Sears has an alternative for you, similar to h.h. gregg having the RAC Acceptance alternative. Sears now has an alternative called WhyNotLeaseIt. Time will tell if a virtual player like that can be successful. There's nobody in the store to talk to a customer about the transaction, like in a manned kiosk like we have. But, so you just go online and apply that way. We'll see if it's successful.

We can't tell right now if it's taking any business. Again, it's a rent-to-rent agreement, not a rent-to-own agreement. But we certainly haven't seen any noticeable impact. In fact, with our Core business being up 6.6% in deliveries in the second quarter, we obviously didn't see any negative impact there.

Charles Ruff - *Insight Investments - Analyst*

Okay, great. And, last question, what are you assuming for the average fully diluted share count in your earnings guidance?

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

Very similar to where it is today -- obviously, the repurchase took place during the second quarter. But the remaining 20% won't be settled up or finalized until a later date, which could flow all the way into early part of next year. So, there will be some incremental benefit, just based on the timing of the transaction in Q2, to get the full benefit of that in the following quarters. But our year-end fully diluted EPS is based on a share count that is slightly less than what it is right now, but similar.

Charles Ruff - *Insight Investments - Analyst*

Okay. 55.3, give or take?

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

(Laughter) Yes, in the ballpark.

Charles Ruff - *Insight Investments - Analyst*

Okay, thank you.

Operator

Arvind Bhatia, Sterne, Agee.

Brett Strauser - *Sterne, Agee & Leach, Inc. - Analyst*

Hey, guys. This is Brett in for Arvind. Thanks for taking my question. I wanted to ask about the h.h. gregg tests and how the initial response has been in those stores, particularly in the electronic segment.

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Seems to be going well, Brett. Like any of our partners, we both want to do even more. But it's certainly on our expectation, on our model, and so forth. We have been happy so far. And I think they are too. And, like I said, we're always talking about ways where we can increase the business. But as far as our general model, we're right on top of it, maybe even slightly ahead in the h.h. gregg stores, so we are doing fine there.

Brett Strauser - *Sterne, Agee & Leach, Inc. - Analyst*

Okay. And then can you comment on your RAC Acceptance openings for next year, just directionally? If we should be expecting more or less store openings than this year?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

No, we're still working on putting next year's forecast together. So I think it would be premature for us to say, because we're still working on that.

Brett Strauser - *Sterne, Agee & Leach, Inc. - Analyst*

Okay. And one last one for me, if I could. I've noticed that this virtual competitor we have talked about on this call has a presence in some of the same locations where there is a RAC Acceptance presence. And I'm wondering, just operationally, how that works in those stores?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Yes, it varies by retail partner. Some of them do have a virtual competitor. They'll take the customer, the virtual competitor, or take it to us. Many of our retail partners like to have as many options as they can for the customer. I can tell you this, Brett, our experience has been the volume of our business, because we have a person in the store -- at least one person, sometimes two at one time -- but because we are a manned kiosk, the volume shatters what virtual players do when we're in the same store.

Brett Strauser - *Sterne, Agee & Leach, Inc. - Analyst*

Got it. And when you decide to offer your virtual offering, will your pricing be lower?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

Not sure yet. We're still putting together our virtual solution.

Brett Strauser - *Sterne, Agee & Leach, Inc. - Analyst*

Okay. That's all for me. Thanks, guys.

Operator

Brett Strauser, Sterne, Agee.

Robert Davis - *Rent-A-Center, Inc. - EVP of Finance, CFO, Treasurer*

I think that was just him. You need to go to the next one.

Operator

Jason Kirsch, Eminence Capital.

Jason Kirsch - *Eminence Capital - Analyst*

(Technical difficulty) for taking my call. I was just wondering if you guys could talk about the reason for the full-year reduction in the RAC revenue guidance from $540 million to $515 million. I understand you're opening up fewer kiosks. But if you assume that each kiosk does 25% of their year-one revenue of $185,000, it would explain roughly $1.1 million of the $25 million reduction in the guidance. So can you just talk about maybe how the unit economics of the kiosks have changed? Or what is resulting in the reduction in guidance?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

They really -- they haven't changed. It's a matter of timing also, Jason, on when you open them. And how we had the model built at the beginning of the year where we felt we would be by now, compared to how the reduced number is spreading out through the year, is the other impact of when you open them. Because they build up pretty quickly, so it's when you open them, not only the net difference in number.

Jason Kirsch - *Eminence Capital - Analyst*

Okay. Does that explain all of it? Or is it that the productivity of one kiosk, or a certain class of kiosks, is different than what you would expect it, as you roll out into a greater sample size of kiosks in the later stages of their maturity?

Mitch Fadel - *Rent-A-Center, Inc. - President, COO*

I'm not sure I understand that question. I could just tell you that the open stores are running right on top of their model, on average. So, we're hitting the model. And the only thing, once you are hitting the per store model, the only thing that can then bring down the revenue is the timing and the number of openings.

Jason Kirsch - *Eminence Capital - Analyst*

Okay, thank you.

Operator

There are no further questions in queue at this time.

Mark Speese - *Rent-A-Center, Inc. - Chairman, CEO*

Well, ladies and gentlemen, thank you again for joining us. We appreciate your continued interest and support of the Company. As we started this call, and as you hopefully have heard, I think generally speaking we're pleased with where we are today and, more importantly, how we're positioned for the future.

The Core business, again, turning positive; and looks very encouraging as we go into the second half of the year. The growth initiatives continuing to perform well, in line with our expectations. And clearly management focused on continuing to deliver results.

Thanks again for your support, and we look forward to speaking to you next quarter.

Operator

This concludes today's conference call. You may now disconnect.
