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RCII - Q4 2011 RENT-A-CENTER EARNINGS CONFERENCE CALL

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OVERVIEW:

RCII reported 4Q11 total revenues of $737.5m, net earnings of $50.5m and adjusted diluted EPS of $0.85. Expects 2012 total revenues to exceed $3b for the first time in Co.'s history by increasing 7-10% and diluted EPS to be $3.00-3.20.

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

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

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PRESENTATION

Operator

Good morning, and thank you for holding. Welcome to Rent-A-Center's fourth quarter and year end 2011 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, January 31, 2012. Your speakers today are Mr. Mark Speese, Chairman and 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.

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

Thank you, Matthew. 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 fourth 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 forecasts, 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 most recent quarterly report on Form 10-Q for the quarter ended September 30, 2011. 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?

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

Thank you, David. Good morning everyone and again thank you for joining us for our fourth quarter 2011 report. Let me start by saying that I am generally pleased with our results for the quarter and our overall performance for the year as a whole. Now while we did fall a little short of our expectation for the quarter regarding our core rent-to-own revenue, the demand remains strong within the core as our number of agreements ended the year within our expectations. Now Mitch will go into some further detail with you, but the short of it is that we have seen some customers trading down as well as a slowdown in packaging or add-on's taken by the customer. This has led to a slightly lower average monthly agreement amount which led to the lower than expected revenues. With regard to our growth initiatives, I remain very excited.

In our RAC acceptance business, we opened 445 locations in 2011. Well above our original forecast for the year of 275 to 325. Ending the year with 750 locations and performing within our expectations. Regarding the international initiatives, I'm pleased to report that our results there are also very well. I just recently visited Mexico, and a couple of our new markets, and I returned excited and optimistic about the long-term potential. Certainly we have much to do yet but the foundation is laid. The transaction or the business proposition is being well received by consumers and our operating results again have generally been in line with all of our expectations. We're also seeing similar results in Canada in comparison to our model. So I believe we're very well positioned as we begin 2012 to have yet another good year. While the last several years have been turbulent for the country as a whole and we have faced various headwinds, we have and continue to perform well, executing our plan and growing our business.

For 2012, our total revenue growth expectations are up or a positive plus 7% to plus 10%, and our EPS growth is projected to be up 3% to 10%. Again, I'll remind everyone that includes approximately $0.20 of earnings drag from our international initiatives. And again, Robert will provide more detail on our guidance here shortly also. I do want to thank all of our coworkers across the various business lines for all that they do day in and day out helping us to achieve our results, and as always, we appreciate your support as well. With that, let me turn the call over to Mitch and ask him to give more detail on the operating results specifically.

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

Thanks Mark and good morning everyone. As Mark mentioned, overall we are generally pleased with our earnings for the fourth quarter and for the year. We did fall just short of our revenue for the quarter, not because of demand, but because of mix. Our deliveries per store for the quarter were about where we expected them to be and they topped the prior year by about 2%. Our number of units rented per agreement, a metric that had been trending up for over a year, backed up a little on us. So we had a slight revenue shortfall due to tickets. Again, demand was good and where we expected it to be. In fact our 2.7% same store sales number was our best in any fourth quarter since 2002. A little more than half of that came from our core domestic rent-to-own and the rest came from the results of the impact of approximately 100 RAC Acceptance stores coming into the comp. We believe the tight consumer credit market continues to drive customers our way as an increasing number of consumers needing or wanting high-quality brand-name merchandise are attracted to our value proposition.

Our core business performed well in this very challenging economic environment. Our collections remain solid on a weekly basis and our customer losses in our core business came in at just 2.5% for the quarter and for the year. Our inventory held for rent came in at just 19.6% as that metric continues to be driven down a by the RAC Acceptance business model that holds the line. And speaking of RAC Acceptance, that business contributed over $190 million in revenue for the year and is already almost 7% of our total revenue. And as you saw in our 2012 guidance, we are expecting over $300 million out of that business segment in 2012. On the international front, we ended the year with over 50 stores in Mexico, and expect to add approximately 60 more there in 2012. Our in country field support center will be opening late in the first quarter in Monterey, and that should help us further drive results by having the infrastructure and resources on the ground in country.

In Canada, we ended the year with 28 stores and also expect our growth to continue there in 2012 with approximately 10 more. So our performance in our international unit is good and we believe it will provide significant growth for us for many years to come. Overall, all of our business units continue to perform well. Our demand is good. Our collections are consistent. Our inventory is in great shape, and I'd like to thank our close to 20,000 coworkers for their solid performance, their commitment to our growth plan, and for all they do for our great Company every day. And with that, I will now turn the call over to Robert.

Robert Davis - *Rent-A-Center Inc - CFO*

Thank you, Mitch. I'm going to spend just a few moments updating everyone on our financial highlights during the quarter and provide updated annual guidance for 2012, and after my comments we'll then open the call to questions. As always, I'd like to mention that much of the information that I provide, whether it's historical results or forecasted results, will be presented on a recurring and comparable basis. So as outlined in the press release, total revenues were $737.5 million during the fourth quarter of 2011, an increase of over $60 million or approximately 9% as compared to the fourth quarter of last year. This increase was primarily the result of an increase in revenue from our RAC Acceptance initiative, offset by a reduction in revenue from the divestiture of our financial services business. And that revenue increase helped us to post a positive same-store sales increase of 2.7%. Net earnings were $50.5 million, while diluted earnings per share equated to $0.85. Which includes approximately $0.08 in dilution from our growth initiatives.

Our fourth quarter EBITDA came in at $101.9 million, which equated to a margin of 13.8% in the period. We generated over $20 million in operating cash during the fourth quarter, and we ended the year with over $286 million in operating cash flow generation. Now since the end of the prior year, we've repurchased approximately 5.9 million shares of our common stock for roughly $164 million. We've made dividend payments in excess of $26 million, and all the while having maintained our leverage ratio well below 2 times. While ending the period at 12/31 with over $88 million in cash on hand. In fact, at year end our leverage ratio was 1.7 times whereas our covenant requirement is it to be less than 3.25 times. So we believe we currently have significant coverage. This provides us tremendous flexibility in our cash utilization. We intend to continue to utilize our cash prudently and return to value to shareholders. First, through investing in future profitable growth initiatives such as RAC Acceptance in our international expansion. As well as future dividends and opportunistic share repurchases.

Turning to guidance for a moment. You will no doubt note that we've altered our approach to how we will provide guidance going forward given the significance of our growth initiatives, the added investment for these initiatives, and our belief in the long-term impact of our growth strategies. We believe the most appropriate approach for our long-term shareholders is to provide annual guidance with quarterly updates to our annual guidance. And we will do so going forward after the completion of the fourth quarter results. We will therefore no longer be giving quarterly guidance. This change, along with the added transparency and disclosure of segment reporting in our quarterly and annual filings along with additional information that is provided on the Investor Relations portion of our website, we believe will provide more detail and relevant information and data on each component of our business. Our goal is to be completely transparent about our expectations and results, while also providing management with the opportunity to focus on the long-term growth and profitability of the Company. As such, and based on how we ended the fourth quarter, both operationally and financially, we are revising our guidance for 2012 and currently expect total revenues to exceed $3 billion for the first time in our history by increasing between 7% and 10%.

With this projected increase in the top line, we expect our same-store sales for 2012 to range between a positive 2.5% and 4.5%. Overall, diluted earnings-per-share for 2012 are expected to be in the range of $3.00 and $3.20. Which again includes an approximate net $0.20 drag on EPS which of course primarily relates to our international growth initiatives as RAC Acceptance overall will be a positive net contributor next year. Speaking of RAC Acceptance, you may have also noticed that we have introduced a new metric in our guidance and that is gross profits. This has also resulted in a slight alteration to the face of our income statement to allow for the financial reporting on this metric. And is no doubt the result of our growth in RAC Acceptance. Which as many of you know, has a different pricing model and therefore gross margin expectation than the core RTO business. So as a result of the continued growth and ramp up of RAC Acceptance, we would expect our gross profit margin to decrease approximately 100 basis points on a consolidated basis in 2012. Although we expect gross margin profit dollars -- excuse me, gross profit dollars to be up between 7% and 9% as compared to 2011.

We expect both our operating and EBITDA margins to decline approximately 50 basis points, while they continue to invest for growth in the long term. Yet we are expecting the dollars in both of those categories will increase as well. More specifically, in terms of EBITDA and free cash flow, the Company expects EBITDA to range between $400 million and $420 million. With free cash flow expected to be in the range between $80 million and $100 million in 2012. As always, the current guidance excludes any potential benefits associated with potential stock repurchases, changes in outstanding indebtedness, or acquisitions, dispositions, or store closures that may be completed or occur after the date of this press release. So with this update, Matthew we'd now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

Certainly. (Operator Instructions) David Burtzlaff, Stephens.

David Burtzlaff - *Stephens Inc. - Analyst*

Good morning, guys. First, on the comp in the fourth quarter, I think, Mitch, you said it was about half from core and the other half from RAC Acceptance. How did that come in relative to what your original expectations were? Was it all kind of a little bit lower from the core, and RAC Acceptance performed as you thought, or a little lower on RAC Acceptance, too?

Robert Davis - *Rent-A-Center Inc - CFO*

That was all in the core.

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

The core did end up a little more than half of that $2.7 million, but it was still lower than we expected when we originally gave guidance for the quarter. So it was all in the core; RAC Acceptance revenue was right where we thought it would be.

And as I mentioned, David, we didn't end up with lower agreements on rent than we anticipated, but it was just at a lower ticket, which flows into next year. Our portfolio of agreements has a certain value to it, and that lower ticket that we ended the year with flows into next year, even though we have the agreements. That flows into next year and brought next year's revenue down slightly also.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. So the guidance for 2012, lowering it by 1% is all the core and the make-up of the portfolio?

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

Correct.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. And then, Robert, on the -- just looking at the gross margin on merchandise sales, it looks like it came in at about 11% just on the specific line item. Is that -- can you give any sort of color on what's causing that? Is that RAC Acceptance, and are there early pay-outs on RAC Acceptance that flow through in there?

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

David, this is Mitch. There are early payouts on the RAC Acceptance business, and that's been part of it -- that overall number going up. But also in the core business it's -- the gross profit margins are down a little compared to where we thought they'd be from -- basically from being more promotional over the course of the year than we anticipated being. And driving more business we ended up at a little lower profit percent there just by -- if we give the customer a better deal, when they pay out it affects that margin on the pay-out side more than anywhere. So that's more the core business being more promotional than anything else.

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David Burtzlaff - *Stephens Inc. - Analyst*

Okay. And then on the RAC Acceptance, are the losses -- the loss rates any different than the core business has been in that 2% to 3%?

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

That's a good question. No, they won't end up any different. They actually -- when you have a new business, though sometimes because when you do lose an account everything is pretty new and you run a little higher percentage on the front end of the business, whether it's a Rent-To-Own store or a RAC Acceptance store or an international store, it doesn't matter. Earlier on, because the revenue is low, and you still -- if you lose one or two pieces, you're going to have a higher percentage. But once they hit maturity, they'll run the same percent as the core business.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay, but you haven't had any problems with getting items from customers then, that are behind in payments?

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

No. I mean, certainly there has been some, but nothing that we wouldn't expect.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. And then finally, Robert, I know you're not giving quarterly guidance anymore, but can you kind of give maybe some just expectations on how you may think the quarters shape up in terms of spread? I mean, is it going to be more back-end loaded than front-end loaded in terms of the earnings growth? Or is it kind of even throughout the year?

Robert Davis - *Rent-A-Center Inc - CFO*

Yes, David. Thanks for the question. And I kind of alluded to it, although it was not 100% clear in my opening comments that in addition to the segment reporting as well as other information we're going to provide on our Investor Relations portion of our website, we'll provide some additional transparency. We are going to be posting on our website just the way we have performed over the last several years by quarter, so that investors and others can get a sense of how earnings generally break down quarter-to-quarter. And we don't see there being that big of a disparity going forward in how we would expect earnings to come in, in the future.

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

And I think it's already on there.

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

It's posted on the website.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. All right. Thanks, guys.

Operator

Budd Bugatch, Raymond James.

TJ McConville - *Raymond James & Associates - Analyst*

Good morning, Mark, Robert, Mitch, Dave, this is TJ McConville filling in for Budd. Thanks for taking my question. Thanks for all the detail on the comp, Mitch. How about the $0.08 drag from the growth initiatives, Robert? Is that a net number? Can you break that apart between what the contribution of RAC Acceptance was versus what the drag of the international players were?

Robert Davis - *Rent-A-Center Inc - CFO*

Well, in the quarter, as you know, Mexico is still net negative just given the relative newness in the quarter -- or in the overall results. They were about a $0.04 drag in the fourth quarter. Canada and RAC Acceptance were both $0.02 each. RAC Acceptance specifically, because of TRS, there was some contribution from TRS in the quarter, so it's not 100% dilutive in the quarter. In fact, I don't have the specific number in front of me, but we can get that and follow up with you on that, TJ.

TJ McConville - *Raymond James & Associates - Analyst*

Okay. That's fair enough. Just wanted to see what the keys were. And then, on the tax rate in the quarter, it was pretty noticeably lower than we might have been expecting or than you might have guided to. Any items in there you want to call out, or any reason for that lower rate there?

Robert Davis - *Rent-A-Center Inc - CFO*

No. I'd just suffice it to say, taxes are very complicated, and with us going more international there, it creates a little bit, additional things to take into consideration. The primary result was our view in long-term profitability in Mexico. Mitch alluded to the fact that we are opening a Field Support Center in Monterrey in the first quarter. So in the fourth quarter, the determination was made that the net operating losses that we were seeing in Mexico, that we would be able to recover those in time. And ultimately realized a deferred tax asset. So, it's really a reversal of valuation allowance posted against our deferred tax assets that, given the progress we've made in Mexico, we view that as recoverable in the future. And that valuation allowance was no longer necessary.

TJ McConville - *Raymond James & Associates - Analyst*

Okay, so in the $3 to $3.20, the new guidance is normalized, is the 37% or so rate assumed?

Robert Davis - *Rent-A-Center Inc - CFO*

That's correct.

TJ McConville - *Raymond James & Associates - Analyst*

Okay. And then if I could, maybe back to the core business, Mitch. I know last year we had the issues with the marketing schedule in the first quarter on the -- with the elimination of the refund anticipation loans. Has that been addressed this year? Are we expecting a more normal pace of business in the core business in the first quarter?

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

Well, we -- the flow of the first quarter is going to be similar to last year because those refund anticipation loans are still not there, so the pay-outs come a little later in the quarter. The early purchase options come a little later in the quarter because the money is coming a little later from the IRS when you can't get those refund anticipation loans. So, I think the flow of purchase options will be the same as last year.

We feel like we have a much better plan this year in offsetting those with new business. We've worked hard. We know the first quarter was a real Achilles' heel for us last year, especially February. We ended up talking about it all year, what February did to us. So, we have a plan together that really kicked off yesterday from a promotional standpoint to not have that happen to us again.

TJ McConville - *Raymond James & Associates - Analyst*

Thanks. That's helpful. Last one for me guys is a little bigger picture question. We've gotten now a couple of months of at least a little better economic data. Wondering if you're seeing any change in customer behavior. I know we talked about the pullback in the number of units rented, but did that change throughout the quarter as it's getting better? Are any of the customers feeling a little better, and maybe starting to give you an inkling that they're willing to open back up? Or has it just been steady-state throughout?

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

We certainly, TJ, have some mixed signals there. One, the demand being strong. So, 2% more deliveries than we did the year before. So we're happy with that. But the trade down factor inside the store when they came in, whether it's trade down on the initial unit or not doing as many add-ons, that was down for the whole quarter. So we didn't -- it's not like by December that went back up. So we got mixed signals. There's more traffic than a year ago, but the trade down factor is there. So I'd have to call it mixed as far as how the consumer's [reacting].

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

Probably the only follow-on to that is we -- I think we've shared that we track customer demographics, if you will, and we have not seen any change to speak of at all in the demographic profile, if you will, of our customer really over the last couple years. We saw a little bit of a shift three-plus years ago when the economy first went upside down, and that went on for several quarters, but it has been somewhat flat-lined, if you will, since then. And that is true with the information we got on our most recent update a couple weeks ago.

TJ McConville - *Raymond James & Associates - Analyst*

Very helpful, guys. Thank you again for answering my questions. Best of luck in 2012.

Operator

Arvind Bhatia, Sterne Agee.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Okay. Thank you. A few questions from me. First one guys is on the salaries and other expense line. It came in below where we were modeling. Was there anything going on there from a cost savings standpoint, or is it just mainly a function of slightly lower revenue?

And then second question is on the RAC Acceptance side of things. Can you talk to us about maybe any new partnerships that you may be looking at, anything that you can -- you know, on the electronics side or otherwise that you can mention?

Robert Davis - *Rent-A-Center Inc - CFO*

Yes, Arvind. This is Robert, I will take the first one, salaries and other. Generally speaking, seasonally adjusted for some items. For example, Summertime is a little hotter, more electricity in the Summer. In the Winter, not the case. Gas prices were slightly down in the quarter from where it was running earlier in the year, so there was some impact from that. But generally speaking, there's some variable costs, but across the board no specific initiatives.

As you know, we are always driving costs out of the business when and where we can, and suffice it to say that effort continues and is ongoing and will continue in the future. So, it's more seasonally adjusted than anything else, specifically in the quarter.

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

I think on the RAC Acceptance partnerships, Arvind, nothing really major to talk about. We did have a bankruptcy of a furniture company. So we ended up closing a few of those locations, which really also speaks back to the beauty of the business model of closing a location, taking the accounts and either putting them in a RAC Acceptance location nearby or a Rent-A-Center store if there's not a RAC Acceptance location nearby, and having very little, I think it's like $10,000 or something, our CapEx requirements going in. Very little cost to leave a location if our partner is either closing or in a bankruptcy where they're not getting any new merchandise. If they're not getting the traffic, we're not getting any traffic, and we move out of there. So there was one of those. And of course, on some of the other partnerships, we're testing with a few of them, but nothing new to report on those.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Okay. Then I want to go back to the $0.20 drag from the new initiatives in 2012. Is that a change at all from where you were guiding before, or is that exactly what you had contemplated in the last guidance? That's one. And second, I wanted to understand the trajectory of that by quarter. Is it fair to assume that there will be higher losses in the first half, and then things will improve as you generate more revenue internationally? So, if you can provide some color on the $0.20 drag in 2012?

Robert Davis - *Rent-A-Center Inc - CFO*

Yes, Arvind. That $0.20 drag that we're projecting is similar to what we projected last quarter. And as we mentioned last quarter, I believe, it's spread evenly throughout the year as well. So it's not heavily weighted on the front end or the back end. It's generally spread evenly, $0.05 or so a quarter throughout the entire year.

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

And it is all international. RAC Acceptance is net positive next year, but it's all international. And yet, more revenue is being generated in Mexico, but we ended the year with 50 stores. We'll open 60 next year, and they're spread out evenly over the year as far as openings, so that's why the dilution would be pretty awesome.

Robert Davis - *Rent-A-Center Inc - CFO*

Right, if they'd opened all 60 in the first quarter, it would be different. But we're projecting to open those 60 throughout the course of the year.

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

Same with Canada -- those 10 are spread out pretty much throughout the year.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Yes, then two questions on the core business. One is on the ticket side. Can you tell us what a ticket is right now versus maybe what it was a quarter or two ago? And then also, in terms of categories, was there any particular category that caused less demand, was it, or also lower ticket, was it electronics in any way responsible for this? If you can talk to that, please?

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

Sure. Interesting question on ticket. I don't have the exact numbers in front of me, Arvind, but it was higher in the fourth quarter than the last couple quarters, just not as high as we had forecasted. So when we say we missed our -- that's how you can end up with missing revenue guidance, but also saying at the same time it was our best same-store sales numbers since 2002. So, those obviously can be conflicting with one another if you don't understand the detail of it, which is ticket was up over the year, it just -- in the fourth quarter, we didn't get the growth we anticipated, so we missed our own guidance basically. But it is up over the year.

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

I'm sorry, Mitch. I think it's important to note your comment you made earlier, the packaging had been going up every quarter, and we expected that to continue in the fourth and it didn't. So even though the APU was up less than our expectation, because we didn't get the packaging that we thought we were going to get.

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

And that leads to your next question, Arvind, on category. The biggest drops we saw in the fourth quarter, without getting into all that on agreements were in some of the electronics, the games and home theater systems that get added to TVs. I think probably the games were affected a little bit this year, and maybe we didn't anticipate it well enough, or affected this year by there not being any new technology compared to last year, where the PS3 and the Xbox were brand new with Kinect and the move with the PS3.

So, there was no new technology on hardware this year, and that was the biggest drop as far as adding on the agreements, as well as the home theater in a box. So it was those add-ons. But not in the core units, whether it's televisions, furniture, appliances or computers, they were pretty consistent.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

And the final question is on the Consumer Financial Protection Bureau. Mark, you addressed that I think in the past. Any updates there from your standpoint now that they have a Director?

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

No, nothing has really changed at this point. We continue to monitor, if you will, and albeit the Director has been appointed, really doesn't have any authority still at this point, and nothing has changed in terms of the context of the bill or anything specifically as it relates to us. And just as a reminder, in its current draft form, I think one of the things that it gives us comfort, again, the parenthetical that states that if the initial lease is for less than 90 days, this shall not apply, which clearly we are. And so again, not to say that couldn't, but that's our starting point. And nothing has developed or changed from when we spoke last.

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Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Okay, I appreciate it, guys. And good luck.

Operator

Brad Thomas, KeyBanc Capital Markets.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Thanks. Good morning. I think most of my questions have been answered, but just a follow-up on RAC Acceptance. Seems like the results for the quarter came in pretty much in line with what you were looking for. Was just wondering if there was any update to how you're looking at the unit economics, and the outlook for growth as you close the books here on 2011?

Robert Davis - *Rent-A-Center Inc - CFO*

In terms of unit level economics, there have been no changes in our expectations since we updated it last time, which I think was last quarter. So, no changes based on the last 90 days of operations or results, and as we look back, obviously it's been a successful year for us. We opened a lot of stores well above our expectation, 445 stores, so a significant year of growth. We're forecasting to not open as many this year. That's not because the demand in the pipeline isn't there. It's just because we want to make sure that we can pause and operate as up to our expectations and our results that we're forecasting.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Great. As you look at some of the customers that you're getting through RAC Acceptance, are you finding anything new versus what you're seeing out of your core Rent-A-Center customers? And any new overlap or customer switch-over than what you had thought before?

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

We're still not seeing much overlap at all. It is a higher demographic customer both in credit score and income levels. And I'm seeing very, very little overlap, Brad.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Great. And then, just lastly, in terms of your decision to no longer give quarterly guidance, and I think you've clearly pointed to the growth initiatives, is it really just around that aspect of the changing dynamics of your business, or is there anything more in the core business that's maybe making it less easy to forecast or less predictable?

Robert Davis - *Rent-A-Center Inc - CFO*

No. In fact, the core business we've been in for 20-plus years, 25 years, it's pretty easy to predict I would say. I think it's the complications when you go international and have several different initiatives going on at one time in terms of predicting timing, number of openings, and opportunities. RAC Acceptance, we could have a partner approach us and we make the decision to either grow faster or not grow faster. So, there's a lot of dynamics that go on within the guidance process.

And the core business is steady as she goes, so to speak. And it's just, from our perspective we want to make sure that we're looking out longer-term, managing the business the right way for the long-term prospects of the shareholder. And to get caught up in a 90-day window, we just don't feel like it is judicious as we think about managing for the long haul.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Got it. Appreciate the color, and best of luck in 2012.

Operator

Laura Champine with Collins Stewart.

Laura Champine - *Collins Stewart - Analyst*

Good morning, guys. My question is also a follow-up on the kiosk business. Could you comment on your losses there? The charge-offs overall at 2.5% is great, but how is that metric tracking in RAC Acceptance? And is that hitting your expectations?

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

It is hitting our expectations, Laura, as I mentioned earlier. With the stores being new, the percentage is going to run a little higher until the stores hit two years old. Because they have less revenue, and then the cost of the product is really high when you lose one on the front end. So, that's going to be a little higher.

Probably overall when we add in RAC Acceptance, it'll be in the K -- we'll be in the higher 2%s as far as overall. It's at 2.5% in the core business. It'll be under 3%, but it'll be in the higher 2%s once we have RAC Acceptance. And international factored in because the same thing happens there. The newer the store, the higher the percentage is going to be until they mature.

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

You kind of grow down to 2.5%. You don't grow up to it.

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

But certainly not seeing anything outside of our expectations.

Laura Champine - *Collins Stewart - Analyst*

Okay. And then just to clarify, I think you've been pretty clear on this point already, but the guide down, it looks like the comp it comes all from the core business. On the expense side, is it all on the core business, too? Or is the profitability different than you had originally expected in RAC Acceptance?

Robert Davis - *Rent-A-Center Inc - CFO*

It's really -- Laura, you hit on it in the first part of your question. The 1% guide down in the revenue does translate down to earnings. And it is all from the core, as Mitch alluded to, and described that it was the average ticket and the mix of the categories that were in the portfolios we ended the year that flows through all of next year.

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

And I said earlier, it did go up in the fourth quarter. It just didn't go up as high as we thought, which is one of the problems with giving annual guidance for 2012 back in October, before we had our -- like any retailer, the biggest quarter of the year, as far as adding on a lot of new agreements. And you have to guess at what the rate per agreement is going to be. And had we not given guidance for 8% to 11% growth back in October, 7% to 10% today would sound a lot better than.

Robert Davis - *Rent-A-Center Inc - CFO*

And that's really the unfortunate part, and another factor in our consideration of how we changed guidance. And going back to, being -- for lack of a better phrase, a mono-line business where we had the RTO core, it was pretty predictable and we could forecast very easily. However, with international and RAC Acceptance, and then the fourth quarter calendar, we really realize that we need to start giving guidance after the fourth quarter, the most important time of the year. And had we done that, we wouldn't be lowering guidance because this will be the first time you have seen guidance.

Laura Champine - *Collins Stewart - Analyst*

But just as a follow-on to the units per agreement issue that we've been expecting to bottom out and improve for a while now, and it's not doing so. I heard your comments on the technology didn't help. But is there a change in the macro environment or in feedback you're getting from customers that's preventing them from bundling up on contracts?

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

I don't think so. I think the -- no, we haven't heard anything like that. And our units per agreement had trended up for the last year, up until September, and October was the first month we saw it trend down. So, we had been going pretty good there. And then we had a little bit of a drop in the fourth quarter, and we anticipate it will continue to go up. So, that's where you get off by 1%.

Laura Champine - *Collins Stewart - Analyst*

Got it.

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

With a little drop, yet we are anticipating it to continue to trend up, and it didn't.

Laura Champine - *Collins Stewart - Analyst*

Okay, thank you.

Operator

John Rowan, Sidoti & Co.

John Rowan - *Sidoti & Company - Analyst*

Good morning, guys. Just one quick question on Mexico. Is it kind of trending as you had anticipated? I know some of the other -- or some credit providers at least along the northern Mexico border have said there is some pressure in those markets due to violence. Just want to know how your experience has been in Mexico so far and how it's tracking relative to your expectations?

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

John, this is Mark, and I would say overall it is very much in line with our expectations. Certainly we've got stores along the border and in some isolated cases there have been some instances that are disruptive for a day or two. But we're well in country now, well beyond the border; I think we are in six or actually seven different markets now including Monterrey and we'll be going into Guadalajara here shortly. And in those cases, I mean, it may vary a little bit store by store, but no, the overall performance whether it's along the border or even in country again, has generally been in line with all of our expectations.

And the most encouraging part for me, as I said in my visit just down there, the transaction is being understood and well received, if you will, by the consumer. The delinquencies are in line with our expectations. The product mix, no big surprises. We've been able to flow the product successfully into the stores through the channels that we have, and we've been able to recruit successfully. So all in all, again, long term I feel good about where we are and what the outlook is for the future.

John Rowan - *Sidoti & Company - Analyst*

Good. Thank you.

Operator

(Operator Instructions) Deforest Hinman with Walthausen and Co.

Deforest Hinman - *Walthausen and Co. - Analyst*

Hello, I had a couple questions. I found it interesting, the commentary regarding the operating margins for 2012 going down. When I think about your store level economics slides that you had given, you talk about the kind of drag in the initial year, and then it improves, and then taking a step back, the RAC Acceptance business, I think you're trying to say in these slides, has a higher operating profit margin as those stores mature. So, it's a little bit surprising that you are guiding operating margins down as we're getting some more of those stores maturing. So first, can you explain that, and then beyond that, can you talk about how you think operating margins perform beyond that even?

Robert Davis - *Rent-A-Center Inc - CFO*

Yes, great question, Deforest. And this is really a byproduct of segment reporting. And there's going to be some alterations as to how operating profit looks on our income statement. You probably saw it in the press release, the operating profit is now after general administrative expenses and other costs, which is after overhead, which would include multi-unit management as well as the corporate office. Whereas the unit level economics in the slides on our investor presentation, store operating income or operating profit is before those costs. And so, we probably need to sync those up more appropriately as we get into this segment reporting that we're going to be adopting here at the end of February. But suffice it to say that before allocations, the unit level economics have not changed.

When I'm describing gross profit being down or operating profit being down, it's really taking into consideration all costs, EBIT if you will before taxes and interest. So, that's part of the explanation, and then the other explanation is just the fact that we're still opening and growing. That's going to have a drag on margins.

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

RAC Acceptance, they're not coming into the year at maturity even though we've got 750 of them. Most of them are still in that curve where they're not making the margin that you make once they're mature. So, it's really where we are in the growth cycle. So, to the latter part of your question, Deforest, you would anticipate as those stores mature for that to get better and come back up.

Deforest Hinman - *Walthausen and Co. - Analyst*

So, I mean, should we be thinking about 2012 as more of a trough year in terms of the operating margins, and then beyond that we should be looking for some amount of operating margin improvement?

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

Assuming the forward years have similar or less new store growth, the answer is yes.

Robert Davis - *Rent-A-Center Inc - CFO*

Correct.

Deforest Hinman - *Walthausen and Co. - Analyst*

Okay, that's helpful. And you talked about your cash flow expectations for 2012, which is helpful, and I know we're getting a little bit of a drag from the tax end of things, and we're also investing in the international business, but how -- has the outlook for share repurchases changed at all?

Robert Davis - *Rent-A-Center Inc - CFO*

The -- couple parts of that question, the cash flow expectation as I mentioned in my opening comments are expected to be $80 million to $100 million in 2012. And that's consistent with last quarter's guidance as well for the year. And there is a turn in deferred taxes, as you mentioned, or at least we've benefited this year from not having the cash tax obligation that we're going to have next year.

So, $80 million to $100 million in free cash flow, and as you think about the share repurchases, right now, or this past year we purchased 6 million shares, our baskets between the board and our indenture are roughly equal around $80 million. Our view is with cash and where stock is trading, that's always taken into consideration. When you look back at our history and how things are managed going forward is really, as I mentioned in my opening comments, investing for the long-term first, be it RAC Acceptance or Mexico.

So to the extent we have opportunities to grow faster than we've already talked about, that will be the first utilization of cash. But we've also got a dividend that we're going to pay, and this past year that was $26 million or so, we expect to have that continue as well. So that will be a factor out of the $80 million to $100 million of free cash.

Deforest Hinman - *Walthausen and Co. - Analyst*

Is there any buyback authorization remaining at this time?

Robert Davis - *Rent-A-Center Inc - CFO*

Yes. About $80 million.

Deforest Hinman - *Walthausen and Co. - Analyst*

Okay, thank you.

Operator

There are no further questions at this time. I would now like to turn the call over to Mr. Mark Speese.

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

Ladies and gentlemen, thank you again very much for joining us today. As always we appreciate your interest and support of the Company. Again, as I stated in my opening comments, I am pleased with our overall performance for 2011, and I am excited about our outlook in 2012. Again, believe the Company is well-positioned, and we always appreciate your support in helping us achieve that. We look forward to talking to you next quarter. Hope you have a great day.

Operator

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