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RCII - Q4 2004 Rent-A-Center Earnings Conference Call

Event Date/Time: Feb. 08. 2005 / 10:45AM ET

Event Duration: 1 hr 8 min

OVERVIEW

RCII reported 4Q04 revenue of \$585.3m, up 4.8% from 4Q03. In 4Q04, RCII opened 25 new store locations and increased store base by 9% for the year. For the quarter, EBITDA was \$91.1m; full-year EBITDA was \$389.3m. Q&A Focus: competition, margins, Rainbow, and share repurchase.

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CORPORATE PARTICIPANTS

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Mitch Fadel
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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Welcome to Rent-A-Center's fourth quarter and year end 2004 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, February 8th, 2005. 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 - VP-IR

Thank you, operator. 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 we made in the fourth quarter as well as the full year 2004. If for some reason did you not receive a copy of the release, you can download it from the our website at investor.RentACenter.com. 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 and 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 our most recent annual report on Form 10-KA for the year ended December 31, 2003, our quarterly reports on Form 10-QA for the three-month period ended March 31, 2004, Form 10-Q for the six-month period ending June 30, 2004, and Form 10-Q for the nine-month period ending September 30, 2004; as filed with the SEC. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements. I'd now like to turn the call over to Robert. Robert.

Robert Davis - Rent-A-Center - CFO

Thank you, David and good morning everyone. Thanks for joining us. I'd like to spend just a few moments on certain detailed financial data pertaining to our income statement, balance sheet and cash flow statement, as well as provide an update regarding our future guidance and expectations; after which I'll turn the call over to Mitch for an update on operations. I'd like to mention that much of the information, whether it is historical results or forecasted results, will be presented on a recurring and comparable basis; which will exclude the impacts of the gain on the sale of the charged-off

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accounts and the litigation settlement in 2004, as well as the write-off of financing fees in both 2003 and 2004. As it relates to the income statement, total revenues increased during the fourth quarter by 26.6 million to 585.3 million, that's a 4.8 percent increase when compared to the prior year's fourth quarter. And, as mentioned in the press release, this revenue growth was primarily the result of revenues that were generated from new and acquired stores, offset by the decline in same-store sales of 3.7 percent.

As it relates to the growth in our store base, for the fourth quarter we opened 25 new locations, acquired 4 stores and had account buyouts from 17 additional locations; while we consolidated 12 stores into existing locations and sold a further 2 stores. So for the last 12 months, ending 12/31/2004, we've added approximately 9 percent to our store base through opening 94 new stores, acquiring 191 storefronts as well as buying accounts from 111 locations, consolidating 49 stores and selling 9 others. Diluted earnings per share declined 11.3 percent from prior year to \$0.55. Obviously, now the impact of that declining same-store sales that I just mentioned has had a negative impact to our earnings this past quarter. As well as the year as a whole in which our diluted earnings per share was \$2.28 on revenue of 2.313 billion, a 3.8 percent increase from the prior year while same-store sales declined 3.6 percent for the entire year. EBITDA for the quarter totaled 91.1 million for a margin of 15.6 percent, an increase of 40 basis points from the third quarter of 2004. And for the last 12 months EBITDA totaled approximately 389.3 million for a margin of roughly 16.8 percent.

As it relates to our balance sheet and cash flows, from a cash flow perspective the Company generated roughly \$47 million in operating cash flow during the quarter; and a total of over 331 million for the full year ended December 31st while ending the year with approximately \$59 million of cash on hand. We would expect operating cash flow in 2005 to come in around 200 million, or \$140 million in free cash flow. Since beginning the year with nearly 144 million in cash on hand, the company has since utilized approximately 72 million in CapEx, over 165 million in the acquisitions of stores and accounts, and nearly 211 million in stock repurchases; a total of roughly 7.7 million shares during 2004. After committing to investing in the current business and its future prospects the Company remains committed to opportunistic share repurchases. We currently have just over \$62 million in remaining authorization from our Board of Directors for share repurchases, while our debt covenants have in excess of \$110 million in availability.

We ended the quarter with a net book value of inventory on rent of approximately 596 million an increase of over \$41 million, or approximately 7.5 percent, in the third quarter 2004. A healthy increase which speaks to the strong growth in the demand during the fourth quarter. Our inventory levels at the end of the year remained in line with management's expectations, healthy levels of idle as it relates to the overall inventory base. At quarter end our consolidated leverage ratio was 1.73 times. Meanwhile, our interest coverage ratio equated to approximately 10.4 times for the period ended December 31, 2004. Debt to book cap at end of the year was 47.1 percent with outstanding indebtedness just over 708 million; 408 million roughly of senior term debt and 300 million of 7.5 percent subordinated notes. Since the end of the year we've repaid approximately \$10 million under our revolving facility and we continue to generate a significant amount of cash and maintain a strong and healthy balance sheet.

Now, in terms of guidance, we anticipate for the first quarter of 2005 total revenues to be in the range of 598 million and 606 million; and diluted earnings per share to be between \$0.55 and \$0.59. For the fiscal-- for the fiscal year ending 12/31/2005, we expect total revenues to be in the range of 2.39 billion and 2.42 billion, an increase from 2004 of roughly 4 to 5 percent with an expectation that same-store sales will range from being flat to down 2 percent; but turning positive later in the year. We do expect diluted earnings per share to be between \$2.30 and \$2.40. And as always, our guidance excludes any benefit associated with the additional stock repurchases or acquisitions completed after the date of the press release. With that financial update I'd now like to turn the call over to Mitch who will provide you with an update on our operations. Mitch.

Mitch Fadel - Rent-A-Center - President and COO

Thank you, Robert. The fourth quarter was a good quarter for us in terms of sequential customer growth and for agreements on rent, as we achieved our internal targets in both those areas. And, as most of you know, we implemented new marketing and advertising initiatives based on what we learned in earlier testing and those changes appear to be helping drive additional consumer traffic. Now we also tested some operational changes in the fourth quarter using the same multi-variable process and completed that test in the fourth quarter. We're now in the process of implementing our learning from that phase of the multi-variable testing. So feel real good about the-- the changes we made, helped drive

consumer traffic and we got a few more operational ones to make off the latest round of testing. Good numbers in sequential growth is what it's going to take to get that comp back into positive territory by the end of the year.

Looking at our comp guidance, and the fact that our annual guidance is much better than the first quarter guidance, you can see that we believe we'll get those numbers back into positive territory later in the year; even though our planned cannibalization continues to affect that comp number between 1 and 1.5 percent on a quarterly basis. Now, speaking of the comps, in Q1 you see our guidance at negative 3.5 to negative 4.5 and I'll remind everyone that part of that, with last year being leap year, this year we've lost a business day; and it's a Friday, which is a big revenue day for us. So in the first quarter, that has a negative effect on our comp of about 1.7 percent. So you take that negative 3.5 to negative 4.5, and 1.7 percent on both sides is because of the difference in the day weight. So without that difference in the day weight, it'd be something like 1.8-- negative 1.8 to negative 2.8.

As far as an update on our pricing test, which is in two states, you'll recall we said when we put in that place last summer it would take about a year's worth of testing to evaluate it. Again, it's not necessarily whether we can grow our customer base, it's whether we can grow it profitably, and for this test to work we have to grow our customer base enough to make up for our lower margin pricing format. While we've now been doing it for two full quarters, we need some additional time to determine the overall effectiveness of this test. Our new stores continue to perform well as they are running slightly ahead of our internal new store model. As stated in the press release we will continue pursuing our long-term strategic initiative of increasing our store base 5 to 10 percent per year via de novo openings and acquisitions as well as continuing to pursue those very accretive competitor account buys.

The summary on our growth is-- at least I'd sum it up as follows: Our acquisition and de novo opening growth leverage remain a strength of this company and meeting our expectations on sequential growth, as we did last quarter, gives us the confidence that we can get our comp into positive territory later in 2005.

On the collections front, those results remain very good and consistent. In fact, our fourth quarter delinquency numbers trended slightly better than last year. And for the year, as you'll see in the K, our customer skip and stolen percentage was 2.4 percent. That's the-- the charge we take on the

product against revenue on the products-- under the customer skip and stolen category. Again, 2.4 percent. Prior years have run between 2.3 and 2.5 percent. So, again, right in line with the way it's been trending. And, again, our collection efforts remain a real strength of this company and very consistent. So from the operations side we feel very good about the last quarter. We believe the changes that have been implemented along with those that are going to be implemented will continue to help us drive additional growth throughout 2005. With that update I'll turn it over to Mark.

Mark Speese - Rent-A-Center - Chairman and CEO

Thank you, Mitch and Robert. Good morning everyone and thanks for joining us. Well, as you just heard, we're very pleased with our recent results as well as the current tone of business. And while we still have ground to make up, we have seen a pickup in demand and an improvement in the key metrics during the last quarter and that trend is continuing into the new year. As Mitch mentioned, we've seen increased demand from the consumers, a continued slowdown in the number of payouts, improved delinquency rates and consistent losses and overall improved store performance. As Mitch also mentioned, our learning from the mvt's is being implemented at the store level and we believe that will continue to improve the results even further. The operations team is very focused on the existing store base, from improving sales, managing costs, implementing the learning from the mvt's, ensuring training and customer satisfaction and, in some cases, consolidating underperforming stores.

We noted that we consolidated a handful in the fourth quarter. That, of course, is on the heels of the acquisitions that we did of Rainbow and Rent-Rite throughout the summer. We've got a few more we anticipate doing in this quarter and, where there not meeting the expectations, we're consolidating those stores. The outlook remains positive. And as you've already heard, we believe our comps will turn positive later in the year and, in doing so, we'll be able to improve our margins further; albeit already the industry best. As Robert mentioned, we continue to generate very strong EBITDA margins and cash flow and we look to enhance shareholder value by investing this cash flow in the current stores, our new stores, acquisitions, and through our ongoing opportunistic share repurchase program. Our expectation this year is we'll open approximately 70 to 80 new stores and, as Mitch mentioned, we'll continue pursuing opportunistic acquisitions where they make sense. We do believe there's significant growth opportunity remaining.

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We've also made significant investments in our stores and business this past year. From our training department, information technology, human resource, loss prevention; to name a few, and we expect improved performance efficiencies, and returns from those. As I've also mentioned in the past, from a strategic perspective, we continue to research and evaluate other ways of leveraging our existing customer base with new products and services as well as analyzing other businesses that serve our target market. Again, I believe that opportunity exists in these areas as well and as we move forward we'll keep you abreast of any of those developments.

As you know, we also recently mentioned the settlement of the Griego matter in California. Again, the courts have granted preliminary approval of that settlement and we do expect final settlement and payment in the next few months. As we also noted in the press release, the Company recently sold some of its previously written-off skip and stolen accounts having received \$7.9 million for that sale. Again, these are accounts that have been written-off in the ordinary course of business, skipped and stolens, that have dated from one to five years in age and were sold to a third-party agency that'll attempt to collect them, and while there's no assurance, we do believe that there may be additional opportunities in the future in that same light; and we'll continue to pursue and work that as we go forward. Of course, the focus, as you've heard, it has been and is on the business at hand. We believe we're on the right track. We still have a lot of work to do. We're closely watching our consumer or customer disposable income needs. But we're seeing improvements and we're excited about the future.

I very much appreciate the hard work of all of our coworkers these past several months, your support as well. And with that we'd now like to go ahead and open the call up for questions.

QUESTIONS AND ANSWERS

Operator

[Operator Instructions] Dennis Van Zelfden, SunTrust Robinson Humphrey.

Dennis Van Zelfden - SunTrust Robinson Humphrey - Analyst

Mark, the amount of new stores that you expect to open this year, 70 to 80, is that not a little bit less than prior comments, maybe 100, 125?

Mark Speese - Rent-A-Center - Chairman and CEO

Slightly. Some of the guidance we had given previously was 80 to 120. We trimmed that back a little bit in the last quarter after the completion of Rainbow and Rent-Rite, in that we obviously put a fair amount on our plate that we had to address. And, in addition, some of the markets that were originally slated as new store development were filled, vis-a-vis those acquisitions. And as we look out today, again, wanting to put a focus on these business and, as I mentioned, consolidating a few. Completing, I guess, if you will, the Rainbow and Rent-Rite, we trimmed it back slightly, but still feel comfortable with that growth number.

Dennis Van Zelfden - SunTrust Robinson Humphrey - Analyst

Okay. Regarding the Rainbow stores, if I remember correctly when you bought them they had revenues somewhere north of 800,000 a store, I believe. Can you speak to what has happened to that revenue since then?

Mitch Fadel - Rent-A-Center - President and COO

Yeah, they were -- Dennis this is Mitch. They were -- let's see 68,000 a month so, yes, that'd be roughly 800,000. I don't have those numbers in front of me, is the short answer. The Rainbow -- the Rainbow acquisition has performed in line with our expectations. We've looked at that. Again, I don't have them in front of me, but I would say they're about the say. They might have grown a little bit, but we didn't -- yes, those were already pretty good size stores so we wouldn't have had a lot of growth in our model for those. But they've been at expectation so it's not like they've dropped. We, of course, in the ones we consolidated would anticipate a drop but in the ones we've kept open, they've performed up to expectation so they're probably right about same level. I just don't have those in front of me.

Dennis Van Zelfden - SunTrust Robinson Humphrey - Analyst

Last question --.

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Mark Speese - *Rent-A-Center - Chairman and CEO*

Dennis, if I can, and I think you know but I'll remind everybody, the Rainbow acquisition we viewed-- the opportunity there and, as you know, and Mitch just eluded to, they had a good revenue stream to begin with, and Mitch is right, they're essentially in that same area. The play for us on that one was really from the cost standpoint, that there were economies of scale, synergy to be realized and some costs that could be taken out. And that has certainly performed in line with that expectation as well. I say that, the Rent-Rite, given where they were starting from on a revenue per store as well as the average age of those stores; that one, you know, we know that there's -- and have seen getting some upside on the revenue because they were starting at a lower level as well.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay. Last question. What are some of the operational changes that you made stemming from the multi-variable testing or whatever?

Mitch Fadel - *Rent-A-Center - President and COO*

Well, Dennis, similar to the advertising ones we're not going to get that specific because we're not going to tell our competition what the changes are we're make, similar to the advertising changes we made last fall. There's three or four that came out of testing that we're going to implement, but we're not going to get that specific.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay.

Mark Speese - *Rent-A-Center - Chairman and CEO*

Yes, we've tested-- like the advertise, we've tested a lot of different things. The way the store was laid out, what product went where, and what people said and did, and all those kinds of things. And, again, as Mitch eluded, and I hope you can appreciate, we don't want to give all the details but there were a couple three there anyways that really kind of stood out that had had a positive impact in the test stores and now we're looking to roll that out and, in fact, have been in all the other stores.

Operator

Dennis Telzrow, Stephens Incorporated.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Two quick questions. One, in your test markets exactly what are you looking for more in data points in the next couple quarters? Is it sort of how long these accounts stick or growth parameters? Exactly what are you hoping to see that you haven't seen yet?

Mitch Fadel - *Rent-A-Center - President and COO*

You hit on one very important one, do they stick any longer? Are the stick rate of the accounts any longer? And, you know, we've been doing it six, seven months, but the average stick rate in the four to five-month range. Obviously the fourth quarter, you know, we don't have an average stick rate yet. So the stick rate's part of it. What happens to the margin, because the way -- the way depreciation works in our business, you don't see the affect on the margin necessarily day one like you would a retailer. We've got to-- we've got to monitor the gross margin over a period of time and see what happens to that to see if we have enough new business to make up for it. So that takes some time. But the stick rate probably even more so than the margin side. Those are the two main things.

Mark Speese - *Rent-A-Center - Chairman and CEO*

And demand.

Mitch Fadel - *Rent-A-Center - President and COO*

And then just watching demand, sure.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Well, you've obviously seen greater demand, it's just these latter two that you need to analyze, is that a fair assumption?

Mitch Fadel - *Rent-A-Center - President and COO*

Well, whether we've seen enough demand to make up for margins --.

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Dennis Telzrow - *Stephens, Inc. - Analyst*

Right.

Mitch Fadel - *Rent-A-Center - President and COO*

Is what we have to evaluate.

Mark Speese - *Rent-A-Center - Chairman and CEO*

This is lot a fixed cost business, and if the stores -- I'll make up numbers here -- if they gain 15 more than the average that's not enough to offset the cost. Conversely, if they're gaining 100 more than the average and that cost, you know, because as Mitch said, we're going give up gross margin. So you've got to have that much more incremental revenue to offset that same fixed cost as that gross margin deteriorates and so that's a key. And then, of course, that ties back to your comment about on stick rate, are they staying out longer? And that also you look at delinquency rate and what impact it may have on that, et cetera. So there's a couple of key variables, but, yes, the fourth quarter is the best time of year, and we need time to see what happens to those now that they're out there.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Okay. Second question, you sold accounts in the quarter. Will you do that -- previously charged-off accounts. Will you do that every quarter now that you've seen that you can do it, or how do you anticipate handling that in the future?

Mark Speese - *Rent-A-Center - Chairman and CEO*

Well, we hope to be able to get ourselves into a recurring situation. Obviously, like anything, it's really the buyer determines value, not the seller, and we had an opportunity to sell this initial bucket. We've got some other people in the same industry, if you will, that seem to have an interest, and so we've got some ongoing conversation with others. And then, of course, the hopes that this initial buyer will come back again. We can't say it with certainty, but the -- and whether it's every quarter or not, I don't know but, you know, our hope at least is that there'll be an opportunity on some type of a recurring basis, whatever that may be, where we can be selling off some of the previously written-off accounts and getting some value for it.

Mitch Fadel - *Rent-A-Center - President and COO*

We'll be-- and because of the uncertainty, I think you mentioned earlier, Mark, it's not in our guidance at this point so anything we do will be incremental.

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

And certainly if it does become recurring the likelihood is that the dollar amount would not be as high as this original --.

Mark Speese - *Rent-A-Center - Chairman and CEO*

That's right. We'd be selling off smaller amounts but on a more regular basis.

Operator

Arvind Bhatia, Southwest Securities.

Arvind Bhatia - *Southwest Securities - Analyst*

My first question is on the March quarter kind of the impact that you might be seeing of the tax refund season, is it normal? High utility bills, you know, what that, in your opinion, might be-- how that might be impacting the disposable income of your customers. And my second question is with regard to the Canadian market, is there an update of kind of where you are in terms of store expansion and future opportunity, et cetera?

Mark Speese - *Rent-A-Center - Chairman and CEO*

I'm sorry, that last question, with what market did you say?

Arvind Bhatia - *Southwest Securities - Analyst*

The Canadian market.

Mark Speese - *Rent-A-Center - Chairman and CEO*

Canadian market, okay. On the tax refunds, of course, it's just now really starting to hit, this past week or ten days is when we've seen the, I guess the spike, which is expected, and as we go through this time every year. On the same hand, as I eluded to, the payouts have been for the last several months and even thus far, continue to be down from where they were

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a year ago. But we are seeing the normal lift. You know, I guess two or three weeks from now we'll have a better sense. My sense as I sit here today is that, albeit they're going to go up as we expect, my sense is that they'll continue to be below what we experienced a year or so ago. We are having pretty good success in -- again, albeit a very short time frame here, but the demand remains strong in terms of getting those into the payout for one, get them into another unit because our demand is up from last year as well, which is encouraging.

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

Indirectly speaking, impact of utility bills on our customer--

Mark Speese - *Rent-A-Center - Chairman and CEO*

Yeah, that's -- as I made the comment earlier, we remain cautious. I mean, watching our customers' disposable income and their needs and what they're applying against it. But the fact is, as we've mentioned, over the last several months the overall demand is up, and so we are seeing an increase in activity, the number of rentals and so forth. You know, I've got some concerns, you know, the dead of winter and heating bills and what impact that may have, but I can only tell you at this point, yeah, so far, you know, they're coming in.

Mitch Fadel - *Rent-A-Center - President and COO*

So far it hasn't -- we're not seeing a negative effect on demand based on those higher utility bills. So far no real surprises in the normal first quarter spike in payouts.

Mark Speese - *Rent-A-Center - Chairman and CEO*

Yeah, it's certainly not up from the historical level so-- and we don't, again, as I sit here, I don't think it will go up past last year, either. So all-in-all, it feels pretty good at this point. The Canadian market, again, we entered I guess about nine months ago, eight or nine months ago, the small acquisition, the five stores which we continue to operate. We are anticipating opening a couple of stores up there this year. We've got, in fact, one lease that's being done and getting ready to build out and that'll be opened up here the next month or two. I guess March, Mitch is saying, the latter part. And we've got a couple others we're working in that area as well. And, again, we, I think, mentioned initially we wanted to take some time to, you know, learn the market, make sure we had everything right, the culture, the differences, shipment

of products. And we feel pretty good about where we are so we are going to start opening some stores.

Mitch Fadel - *Rent-A-Center - President and COO*

Then we'll start working--

Mark Speese - *Rent-A-Center - Chairman and CEO*

Looking at other opportunities--

Mitch Fadel - *Rent-A-Center - President and COO*

We know how the acquired stores have performed now for nine months compared to what acquired stores do historically for us. Now it's a matter of seeing what a de novo opening-- how does that track compared to our model in the states and how does the de novo opening track and our first one will be in the next 60 days.

Mitch Fadel - *Rent-A-Center - President and COO*

We haven't seen anything that tells us we can't do business in Canada. Seems to be all right. But we'll have to see how these new store openings do from the ground up and then decide what we do after that.

Arvind Bhatia - *Southwest Securities - Analyst*

Are there other opportunities outside of the one big player that you've got? Are there smaller acquisitions that you see out there?

Mitch Fadel - *Rent-A-Center - President and COO*

There's the one big player, then there's only a few other companies up there that are, you know, like the one we bought, five or six stores. So there's really nothing in between the five or six-store level, and I don't know what that bigger company-- 120 or something. There's really nothing in between that.

Mark Speese - *Rent-A-Center - Chairman and CEO*

But some of those smaller, we haven't frankly gone looking at them, either, because we wanted to spend time working what we had. But I suspect there are some other

opportunities, two, five stores, et cetera, here and there; but we'll work on these new stores next and then we'll go back and look at the whole thing and how we go forward.

Arvind Bhatia - *Southwest Securities - Analyst*

One more question on the competitive front. Wanted to see what your thoughts are at this point of time. We talked a little bit about that last quarter, but are you seeing anything that would suggest the competitive landscape has changed, you know, meaningfully for you or is it just, you know, the market's evolving and there's all this competition and-- how are you looking at the market today, competitive landscape in particular?

Mark Speese - *Rent-A-Center - Chairman and CEO*

Yeah, I don't think it -- well, it continues to evolve. It continues to consolidate. I think we all know there are three bigger players, us, Aaron's, and Rentway, and then from there it really drops off significantly and you are literally down to regional and or state players, if you will. I guess the fourth largest today has only 69 stores. You know, be it those two are growing. I mean, it's really no different than what we've seen over the last 20 years. This industry has grown consistently over the last 10 or 15 years. It continues to do so today.

And whether that was a mix of 10 or 12 different operators or now what might be two or three different operators, you know, we -- From a competitive standpoint, you know, we think we offer a lot of unique things in our business model that others don't; the relationships that we have with the customer, the product offerings that we bring to them. And certainly what we've seen here over the last several months, makes us feel good about that demand and our ability to fill it and so forth, so I don't know, Mitch, you got any views?

Mitch Fadel - *Rent-A-Center - President and COO*

No, I mean, there continues to be lots of opportunity from a consolidation standpoint. There's still lots of small companies out there. As Mark mentioned, it falls off pretty dramatically after the first three companies; but we still see, from an acquisition standpoint, being able to do some consolidation of smaller companies and get a lot of growth that way. Effect on our business from our competition, you know, that's-- that's why we test different things. That pricing test does that, does that cover -- can you do enough more new business to

cover the lower margins? Aaron's-- Aaron's has-- has lower margins than us. We're not interested in those kind of margins unless-- unless you can do that much more business. The biggest difference when you talk about competition, yeah, I don't think it's a secret, Aaron's runs on lower margins, but our weekly pricing and some other things we have in our program keeps customers -- keeps the demand up at Rent-A-Center also. It's not just all about the actual overall price. Weekly pricing has an impact, different early purchase option programs have an impact and so forth. So we have our array of things to sell against any competitor even though those that charge less and you're probably referring to the fact Rentway has had some positive comps. They're starting at a lot smaller revenue per store base, and it's good for them that they're having positive comps. I'm glad they are and we'll get back to positive comps later in the year as well.

Arvind Bhatia - *Southwest Securities - Analyst*

One last question on the charge-offs, recovering some amount there, 7.9 million. What is that as a percentage of what was charged off? What kind of discount did you have to give them?

Mark Speese - *Rent-A-Center - Chairman and CEO*

Well, I guess I'd probably answer as a percentage of the potential receivable. When we sell the paper to them what they're looking at is if this customer had gone term what was the revenue associated potentially and/or if they exercise the purchase option, what potentially might they collect? And it was pretty low as you might imagine, and partly for a couple reasons. It was aged. I said one to five years. Most of it was towards the back end of that. One of the other things we're looking at is are there some things that we can put in place that may enhance the value as we go forward. When I say enhance the value, capturing electronic signatures is one example that could drive that value up quite a bit. But the amount we sold off, what we got for it, was as you would expect, pennies on the dollar.

Operator

John Baugh, Legg Mason.

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John Baugh - *Legg Mason - Analyst*

Few things here. First on the depreciation rate, I think it came in at 21.9 percent in the quarter. I looked back, you had guided 21.3 to 21.7. What would have caused that shift?

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

John this is Robert. The increase in the margin was primarily predicated on a couple things. One, the growth in the fourth quarter. There was some promotional activity around that--surrounding that, as well as a couple of new inventory items that we brought in from a, I guess, specials perspective in terms of the price offering to the consumer. We do expect that margin to come back down and, in fact, through January already, we're seeing that depreciation come back down in line with the guidance that we've provided.

Mark Speese - *Rent-A-Center - Chairman and CEO*

I think it went up in the second or third quarter initially off the heels of the Rainbow and Rent-Rite acquisition because of their pricing initially.

John Baugh - *Legg Mason - Analyst*

Do computers -- I know you straight-line that and it's faster. Did that have any impact, and how is that computer program going with Dell?

Mitch Fadel - *Rent-A-Center - President and COO*

Well, straight-lined the older, idle computers. That's been pretty flat, that amount of depreciation. So that wouldn't be the increase. As Robert mentioned John, it'd be some of the promotions we ran in the fourth quarter, some of the promotional items. And-- they worked, gave up a little margin and now we expect to get that margin back in the first quarter, as Robert mentioned.

I think you asked about Dell also. We are testing a program with Dell where we get -- where they turn over turn-downs, if you will, for lack of a better term, turn-downs to our call center and talk to someone about Rent-A-Center. We really-- we really just have gotten that started. We've gotten a couple thousand turn-downs. We're going to test-- continue to test that. We've only got a couple thousand so far. We're going to test 5,000 so just to see what ratio we can convert to a rental agreement and then decide what the long-term

benefits are of that program and we're only about halfway through the test. So probably by the end of the first quarter we'll be through the test and then make some evaluations after that.

John Baugh - *Legg Mason - Analyst*

Okay. Then the percentage of inventory held for rent as a percentage of total, I've noticed it's gone up, every year, three straight years in a row. You started out 18.5 percent average in '01, and 18.9 in '02, 20.6 in '03, around, just under 22 this past year. Is there something within your company or within the industry that's driving that, or do the acquisitions have a bearing? And is that number going to stay up here? Come down? Go up further? What's your sense?

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

John, this is Robert. In the fourth quarter, that percentage of idle was 21.4 percent. That's down from 23 percent in the second quarter, 22.6 in the third. There was a spike this year in '04 primarily related to the acquisitions of Rainbow and Rent-Rite. When you're merging those locations into existing stores, there's additional inventory held for sale. We've always talked about being comfortable with the range of 18 to 22 percent idle compared to the overall mix, and the 21.4, where we ended the year, we feel good about; particularly given the fact that it's below the 22 percent and down from the second and third quarter this year.

Mark Speese - *Rent-A-Center - Chairman and CEO*

And frankly, John, the other part of that, it ties back to a negative comp. I think you've heard me say, and I know I have on more than one occasion, from an operator's perspective we look at it as a piece count. We try to maintain, ideally, 160, 165 pieces of idle inventory. That gives us the proper mix, quantity, et cetera. Well, with a negative comp if you've got-- obviously you've got a few less units on rent. We don't have any more in idle. We're still at that 160 or so, but it just inadvertently comes to a little bit higher percentage of the held for rent.

Mitch Fadel - *Rent-A-Center - President and COO*

Your idle doesn't go down equivalent with if you've got ten less agreements on rent you don't have ten less in idle, so the percentage goes up.

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John Baugh - Legg Mason - Analyst

Correct.

Mark Speese - Rent-A-Center - Chairman and CEO

And to Robert's point, it has come down the last several quarters, we're comfortable with the level when you look at it from a piece count perspective and it's within that 18 to 22 that we've always tried to manage.

John Baugh - Legg Mason - Analyst

And then on inventory, in dollars, I think you ended close to 760 million total, and I think last year was 681. How much of that was acquisition-related? I'm trying to get a sense for what inventory did excluding acquisitions. Was it flat? Was it up? Was it down?

Robert Davis - Rent-A-Center - CFO

John, we don't have that specific information in front of us. You can call us back and we can get that detailed information for you.

John Baugh - Legg Mason - Analyst

Okay. The litigation payment, is that included in your 2005 free cash flow estimate of 140 million?

Robert Davis - Rent-A-Center - CFO

No, sir. That-- it would be -- that 47 million litigation payment we expect to be sometime in the early second quarter, and the numbers I gave you was before any non-recurring items such as that.

John Baugh - Legg Mason - Analyst

So --.

Robert Davis - Rent-A-Center - CFO

So operating cash, I said 200 million, it's more like 150, 155.

Mark Speese - Rent-A-Center - Chairman and CEO

After the payment.

Robert Davis - Rent-A-Center - CFO

After the payment.

John Baugh - Legg Mason - Analyst

Okay. So you'll have 140, 150 to play with, 200 less the payment? Okay. And then any-- any meat you can put on the bone on the comment of sequential growth in customers or delinquencies are better, payouts are down? You made a lot of qualitative comments. I'm just wondering, what stats, one or two or three numbers, can you throw at us that shows you that the business is turning up?

Mitch Fadel - Rent-A-Center - President and COO

Well we, you know, we set internal targets for the fourth quarter on the customer growth and agreements on rent growth and we beat those by a little bit in the fourth quarter so that's -- Obviously, you're going to have some sequential growth in the fourth quarter, so just to sit here and say we have sequential growth, big-- you could say big deal. If we gained one customer per store in the fourth quarter that wouldn't be a very good quarter. But we set some internal targets that were not one per store, they're a little more aggressive than that for our operations team and we exceeded it.

Mark Speese - Rent-A-Center - Chairman and CEO

I think even, Robert, when you look at the inventory on rents it went up 7.5 percent in the fourth quarter?

Robert Davis - Rent-A-Center - CFO

That's correct.

Mark Speese - Rent-A-Center - Chairman and CEO

And that's up quite a bit, if you look at the fourth quarter of '03--

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

Right.

Mark Speese - *Rent-A-Center - Chairman and CEO*

-- over the third quarter. While it went up, it didn't go up at that rate, so that tells you fourth quarter this year was even better than the '03 fourth quarter.

Mitch Fadel - *Rent-A-Center - President and COO*

Yeah, it was, definitely. It was better than last year, John.

John Baugh - *Legg Mason - Analyst*

Okay. Then my last question is just on the-- what is the restraint -- you mentioned on the covenants, I think, on the debt, 100 something million you could buy back stock what. What is the constraint, or what's the number in terms of share buyback in dollars that you can do right now without getting anything changed?

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

From the board's perspective just over 62 million. But that can change, you know, going back to the board and getting additional approval. From the bank covenants, be it either the senior credit agreement or our bond debenture, both of those are right around 110 million.

John Baugh - *Legg Mason - Analyst*

Okay. And that's over the next -- I mean, that's just a ceiling amount, 110 million?

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

That's a snapshot at 12/31. And that number will change as we move forward.

John Baugh - *Legg Mason - Analyst*

It will grow as your equity base grows and your earnings grow?

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

That's correct.

Operator

Alan Rifkin, Lehman Brothers.

Alan Rifkin - *Lehman Brothers - Analyst*

Couple of questions if I may. Robert, can you just remind us, how much, you know, in last year's quarter did the Jackson Hewitt add campaign add to both sales and earnings? In terms of the traffic that it generated, incremental dollars from there.

Mitch Fadel - *Rent-A-Center - President and COO*

Last year, in 2004, in the first quarter, -- two different ways to look at Jackson Hewitt deal. The real bigger part of our partnership with Jackson Hewitt is that when people do a tax return in any of their -- I think they have 5,000 sites, or something like that. When they do their tax return they get a coupon that's -- there's probably like four different companies on it. We're one of the four. And it's a free week to try something at Rent-A-Center. So it's a coupon, and they're doing that in all their stores, and that sends them into Rent-A-Center. So that's hard to evaluate how much that drove last year but they're doing the same thing this year. In terms of them actually doing the tax returns in our stores, the income off that last year was, oh, gosh, de minimus.

Mitch Fadel - *Rent-A-Center - President and COO*

\$100,000 or something. And they're doing it also this year but, again, the numbers of stores that they're doing the tax returns on, that's really a de minimus number. Now, and our numbers won't change based on what's going on with Jackson Hewitt.

Alan Rifkin - *Lehman Brothers - Analyst*

Okay. That was a difficult question to try to answer. Second question, you know, in looking at your guidance on the salary line for Q1 you're guiding to de-leverage on that line anywhere from 250 to 400 basis points. And, obviously, with guidance, you know, on the comp line being negative, certainly some de-leverage would certainly be expected on the salary line. But knowing what you know today, and in

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trying to be, you know, proactive in terms of measuring payroll, why are we still kind of seeing such a significant decline forecasted there in the salary line?

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

When you talk about in 2004 the salary and others as it relates to just store revenue, was about 56.4 percent for the year. And in 2005, we're in that similar range given the guidance that we've given, and certainly with a flat to negative 2 percent comp, as well as opening 70 to 80 new stores, you would expect that margin to stay flat or, you know, not improve significantly from where we ended the year at. So, now, if the comps turn positive in the back half of the year I would expect that margin to get better, you know, in the fourth quarter and so forth. So it's primarily predicated on, you know, the same-store sales basis and the fact that comps are not in a positive territory.

Alan Rifkin - *Lehman Brothers - Analyst*

Okay.

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

Don't forget your operating costs are keeping up with inflation, 1 to 3 percent on the operating cost line. So, without positive comps, I wouldn't expect that margin to materially get better.

Alan Rifkin - *Lehman Brothers - Analyst*

Okay. Last question, Mitch, I realize your reluctance to certainly get into some of the specific marketing and advertising initiatives from a competitive standpoint, but I know that you said that some of the initiatives recently undertaken have certainly been beneficial in driving traffic. Can you maybe just provide a little bit more color as to exactly, you know, what benefits you're seeing even in terms of quantifying traffic improvements, just so that we can kind of model things going forward?

Mitch Fadel - *Rent-A-Center - President and COO*

Well, the demand was really strong in the fourth quarter, and so far in the first quarter as we've said. And so we're seeing more traffic. Some of the things that are driving that, without getting specific, I mean, we changed the way we buy

television, we changed the way we send our flyers out. Ad those are the kinds of things we tested and they appear to be-- they appear to be working because the traffic is stronger than it was before that.

Mark Speese - *Rent-A-Center - Chairman and CEO*

There's really -- there's two take-aways, in my mind. One, the advertising that Mitch just eluded to. Are you driving more foot traffic into the store? And we've seen that. And then the second significant piece of it is, are you taking advantage of that increased traffic and converting it into sales? Right? Are we getting more rentals? And that -- the answer is yes. And as we went through that testing in those stores and how they were performing relative to their historical results, and relative to the control groups, those that weren't in it, there was that lift. And that's one of the first things you go look at is, how many more sales are you making, units you putting on rent, et cetera. And, yes, it was -- there was some noticeable lift in some of those, so we're trying to, again, implement that learning in those other stores as well.

Alan Rifkin - *Lehman Brothers - Analyst*

Okay. So as a percent of your planned revenues do you anticipate advertising dollars going up versus '04?

Mitch Fadel - *Rent-A-Center - President and COO*

No. No, it's just doing some things different within that budget but, no, as a percent we wouldn't anticipate that's changed materially.

Operator

Ryan Renteria, Bellgasnie Asset Management.

Ryan Renteria - *Bellgasnie Asset Management - Analyst*

I've got a question on cash flow. The 200 million in operating cash flow guidance for this year, is it accurate that about-- you're taking a \$75 million hit on the deferred tax line?

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

There's no question that there will be some reversal in our deferred tax liabilities. I don't know if it's that significant. It's

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50 to 60 million, not quite 75. We had previously mentioned the hit in cash taxes might be a little higher than what we're saying now, and that's based on, you know, ending the year and getting a better handle on the exact impact of that now that the quarter's over and the year's over, and finishing our year-end audit.

Ryan Renteria - *Bellgasnie Asset Management - Analyst*

What does that hit look like in '06?

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

Not as material. The cash taxes that we expect to pay this year of 130 million, I would expect in '06 to be in a similar range, give or take 10 million on either side.

Ryan Renteria - *Bellgasnie Asset Management - Analyst*

So we should be returning in '06 to, you know, a 200 to 225 million type of run rate on the cash flows?

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

I think that's fair.

Ryan Renteria - *Bellgasnie Asset Management - Analyst*

Second question was you talked about Rainbow being on plan. How would you characterize the Rent-Rite acquisition? Is that on plan as well or below or above?

Mitch Fadel - *Rent-A-Center - President and COO*

Slightly behind. The fourth quarter got -- was pretty good in those stores, but slightly behind where we modeled them. Not materially, I'd say, but slightly behind and the Rainbow one's been right on-- right on target.

Operator

Robert Straus, IRG Research.

Robert Straus - *IRG Research - Analyst*

Could you give us a little bit more color, if you can, what you're doing at the store level regarding possibly bringing in new products and or new services?

Mitch Fadel - *Rent-A-Center - President and COO*

Well, new products, you know, with what's going on in the consumer electronics side, we're -- doing some of that. We've got an LCD projection TV in the lineup now that's done well. We're going to start testing around with plasmas in some of the latest and greatest in electronics.

You know, you run -- in this business you can run a little bit -- you don't have to have the latest and greatest as fast as a retailer does, because the rental consumer, our consumer, you know, we're not really competing with those stores that already have the latest and greatest. So as the price-- prices come down, that's when we have to find our entry point into some of them, and it's getting there on things like LCD and plasma TVs and so forth. So we're going to be doing some testing with those products. Like I said, we have an LCD projection set, actually two of them now in the lineup that are doing well. And we're going to start testing in 2005 in that plasma range. So actually on the electronics side it's pretty exciting the opportunity forthcoming with the whole HD revolution and so forth. And as people have to have HDTVs over the next couple of years obviously that's a great opportunity for the rental business. So we see that as a great opportunity for us.

On the appliance side, we do little things like bringing in stainless steel and so forth. Furniture, we're always, you know, looking at the latest and greatest what's hot in retail and so forth. But I'd say, as far as new product lineups, things like the iPod we put in the fourth quarter, did well. The games, as you probably know, they were hot everywhere; but our game systems did well in the fourth quarter. We just couldn't get enough of them, just like the other retailers that -- their whole business is based on games. Fortunately for us it's a small part of our business. So that didn't hurt us a lot not being able to get more of those games in the fourth quarter. But I think when you talk about new products, the things-- as far as rental products, the things that excite us is the whole HD revolution, flat-panel TVs and so forth; because that's going to become mainstream over the next few years and that creates a great opportunity for us.

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As far as other products and services, you know, there's -- we put in our stores prepaid phone services both land lines, home phone service, prepaid, and wireless prepaid products. And we're continuing to work on growing that business. We're testing some debit card programs, prepaid debit cards where people come in and put money on the card and then have a credit card. So prepaid debit cards is something we're testing now. And, as we've mentioned before, when you look at this -- all the services that -- of our customer, we're looking at all those with our customer, besides just prepaid products, that-- we've mentioned it before, the payday loan industry and those kind of industries that really our customer is a part of.

Robert Straus - IRG Research - Analyst

On the international front, I know that you talked a little bit earlier about Canada. Are there any other countries that may be you're doing testing or surveying that you might be able to give us some color on?

Mitch Fadel - Rent-A-Center - President and COO

No, at this point, we are-- we are just working on Canada. We did some research on some other countries. We're still waiting on some research back for some legal research on some other countries. So there's a little bit of activity going on in some other countries from a legal research standpoint but mainly right now it's just Canada.

Robert Straus - IRG Research - Analyst

Just the last question. Regarding the skip and stolen accounts that were sold off to a third party, had you done that before-- previously, either, you know, in the last couple of years, at least?

Mark Speese - Rent-A-Center - Chairman and CEO

No, we have not. Years and years ago we looked at, you know, trying to partner with maybe a third party agency that would attempt to work it after we had to see if they would have success. And, you know, not surprisingly, didn't have a whole lot, and so nothing further came out of it, and then this opportunity we've been working here. About a year or so ago, maybe a little longer, we did improve our in-house collection department.

Again, all of this is handled at the store level. They handle the day-to-day activity, contact the accounts and so forth. After those are written off, we have been collecting that data here at corporate, have put a couple people to look at ways of trying to improve that, you know, get some learning about what we're doing on the front end that may improve the back end; from an operation perspective. And then part of that also was now that we have this, is there a way to do something with that asset to get some additional value; and that's what led to this sale, which was a first time event, but hopefully may reoccur again as we go forward.

Operator

Brian Roman, Weiss, Peck, and Greer.

Brian Roman - Weiss, Peck and Greer - Analyst

Couple of questions. On share repurchase and balance sheet -- You authorized for \$62 million right now and you did 211 last year and cash is down the better part of \$100 million year-over-year, and you've got 140 million of free cash flow. If you go through the 62 million this year, you will start to build cash again, and I see that CapEx and store expansion, what you do with the cash if you -- [inaudible]

Mark Speese - Rent-A-Center - Chairman and CEO

You broke up at the end, but I think we got the gist of your question.

Brian Roman - Weiss, Peck and Greer - Analyst

If you didn't re authorize a share repurchase beyond the 62 million what would you do with it?

Robert Davis - Rent-A-Center - CFO

I think the short answer is to the extent a number of acquisitions did not present themselves, we would go back to the board most likely given where shares are currently trading to increase that authorization and continue to have an opportunistic share repurchase program as you've seen in the past. That's kind of the short answer.

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Mark Speese - *Rent-A-Center - Chairman and CEO*

We've obviously done that on a couple of occasions in the past with the board and wouldn't expect a problem being able to increase it again if the need arose.

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

Amortization on our debt is de minimus for the next couple of years. So it's not as though we have significant debt obligations in the current years and given our current cost of debt, we believe opportunistic share repurchase provides greater value.

Operator

Patrick Slaven, Slaven, Lake & Company.

Patrick Slaven - *Slaven, Lake & Company - Analyst*

Can you help us, Mark, with the long-term plan for this company? The marketplace is valuing it at-- essentially as a junk bond. It's selling at ten times earnings. You generate a lot of cash. The industry has basically been consolidated. Where do we go from here? Would it not make sense, vis-a-vis the last question, if, you know, value attribution or value return in the interim is an issue, to take half of that free cash flow and create a dollar per share dividend and present some yield as long as you're going to be valued like a junk bond?

Mark Speese - *Rent-A-Center - Chairman and CEO*

Well, the dividend side of things is something that has been discussed and contemplated in the past. And, candidly, we always-- what is the best way to return shareholder value and the best use of that cash. And, you know, you're right, the industry is consolidated, are there as many acquisition opportunities going forward, and can we deploy that cash? While I can't say with certainty, I do have a pretty good belief that there are still a lot of acquisition opportunities, albeit smaller deals and sizes. And so, you know, first and foremost as we've done we'll always look at investing in the business and whether that is through the new stores and or acquisitions, possibly these other products or services that we've talked about. Again, we continue to analyze other opportunities and, you know, how can we leverage this customer base and the infrastructure and so forth, and increase, you know, value that way to the extent it makes sense.

Absent that, as we've done in the past, we'll continue to look at share repurchases as a way of enhancing value, and we'll continue to evaluate the possibility of a dividend. And at some point that very well may make sense in terms of the cash and enhancing that value. But, you know, as you know, once you start it, you always do it, and there's nothing wrong with that. On the same hand, I'm personally of the opinion as we sit here today and look out and think about the future I think we can invest that cash in other ways that will bring, I think, a greater return to the shareholders and over a longer period of time.

Mitch Fadel - *Rent-A-Center - President and COO*

And the share repurchases has been a better return to our shareholders.

Mark Speese - *Rent-A-Center - Chairman and CEO*

Certainly over this past year and a half, yeah. But, you know, and then how the market receives it, you know, I don't -- of course, I think we're all -- all of our interests are aligned in that regard. Growing the top line and growing the bottom line, and that's where our focus is and we look to-- do that on a lot of different fronts. And then at the end of the day I guess it'll do what it's going to do, and if it -- obviously as you saw last year, 200 million in stock repurchase we'll look at those opportunities as we go forward as well.

Patrick Slaven - *Slaven, Lake & Company - Analyst*

Okay. Well, I don't want to beat a dead horse, but the -- the \$200 million in stock repurchases, the stock at present's down 8 percent from there.

Mark Speese - *Rent-A-Center - Chairman and CEO*

Yes.

Patrick Slaven - *Slaven, Lake & Company - Analyst*

You've got an EBITDA -- an enterprise value to EBITDA of 6.7 times which means that you are a value, in other words, you would, you know, one would be interested in buying the whole company at that price. So in terms of returning value efficiently stock repurchases you bought almost 10 percent of the share base last year. Wouldn't it be more efficient to just pass it along?

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Mark Speese - *Rent-A-Center - Chairman and CEO*

In the form of a dividend? Is your point? I guess.

Patrick Slaven - *Slaven, Lake & Company - Analyst*

Yes.

Mark Speese - *Rent-A-Center - Chairman and CEO*

And gain, you make a valid point, I understand your argument. Again, I think what we have to do is look at what other opportunities may there be to invest the cash and, to your point, maybe even absent the share repurchase. And if it gets to a point where, given the amount of cash that we generate and how we redeploy that through openings and if there is smaller acquisitions or the other products and services, I think a dividend would come into more play. Again, as we said last year and as we sit here today, candidly, I'm not there and I don't think that's the best use yet. I think we can look for other ways at least as we sit here today that'll enhance that return better. And should that change, then we'll come back and revisit the dividend.

Operator

Bill Baldwin, Baldwin Anthony.

Bill Baldwin - *Baldwin Anthony - Analyst*

-- attempt to give some quantification or some order of magnitude as to how much you think overall your business was helped in 2003 from the child tax credits and tax refunds appearing for the first time. How much you think in 2004 your business overall was negatively impacted by the higher fuel costs and items of that nature that affected the customer? Have you made any attempt to try to put your arms around how much overall business was impacted, both positive and negative by those two --.

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

Hey, Bill, we can barely hear you, but I think your question was in 2003, on an overall basis, how do we believe the child tax credits impacted our business, and then in 2004 how do we believe the higher fuel prices impacted our business.

Bill Baldwin - *Baldwin Anthony - Analyst*

Right. Trying to get some idea how much the positives were in 2003 and how much the negatives were in 2004 on items that were obviously external to your company.

Mitch Fadel - *Rent-A-Center - President and COO*

Yes, the positives of the tax credit, the extra money we got that particular month, although it had a lingering negative effect because then we didn't have the residual income from those accounts, which really in 2003 that was a positive; but it hurt us in 2004 and I think that's Bill's point. Obviously we didn't have the residual income in 2004 from those payouts in August and September of 2003. He's quantifying it, you know, we look at that on the payouts, you know, how many payouts we had in that third quarter of '03. Gosh, Mark, we haven't recently taken a look back at the summer of 2003, so-- It was our worst quarter ever, so from a residual standpoint obviously in 2004 it had -- and that's why you see in the negative comps. Lost the accounts late in 2003, then you're going to have negative comps in 2004. Quantifying exactly how much of the negative comp is due to that, we could probably do some work on that a while ago, but just to give you a number on this call, quite honestly we don't have.

Mark Speese - *Rent-A-Center - Chairman and CEO*

It's hard to quantify.

Mitch Fadel - *Rent-A-Center - President and COO*

Specific to that. We know how many we lost that quarter, when the tax credits were out there and what the lingering effect in 2004 was, but to quantify that is -- if it can be done it's not something we're prepared to do at this point. As far as the fuel prices, again, how do you quantify how much demand was down. Demand was down in 2004, we think. We believe a good part of it was because of the fuel prices, but to quantify how many people didn't come in because of the fuel prices, we don't have any way-- just like any retailer, don't have any way of quantifying that other than it's our--. We hear that from our current customers that the fuel is biting into their disposable income, the fuel costs are biting into their disposable income but, again, to quantify how many didn't come in --.

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

I think the point is over the last three or four months we've seen very good strong customer demand. So I think that's more the point of today as opposed to what happened in '03 and '04.

Mark Speese - *Rent-A-Center - Chairman and CEO*

Still have ground to make up, but, yes, I don't know that you can quantify it.

Mitch Fadel - *Rent-A-Center - President and COO*

I know I didn't answer your questions, Bill.

Bill Baldwin - *Baldwin Anthony - Analyst*

I know it's hard to quantify, but I was just trying to get handle, I mean, you had a couple of external events, obviously, that's affected your business. I think as you said all along, Mark, the business model's not broken. You're trying to tweak it now with various initiatives, but you've been impacted from external events in a fairly dramatic way would be my guess here in the last year or so.

Mark Speese - *Rent-A-Center - Chairman and CEO*

I think that's a fair statement, absolutely. And it is what it is and what we have to do is come up with solutions and alternatives and ways to improve it. And I think we've got some of that going on, some of this mvt we've talked about, some of the things we're implementing, some of the results that we've seen over the last several months certainly speak to an improvement, so that's all encouraging and exciting. But, you're right, it's had an impact and, you know, we just--we got to make it better.

Bill Baldwin - *Baldwin Anthony - Analyst*

It's just hard to quantify.

Mark Speese - *Rent-A-Center - Chairman and CEO*

It is.

Operator

At this time, there are no further questions. Mr. Speese, are there any closing remarks?

Mark Speese - *Rent-A-Center - Chairman and CEO*

Thank you, operator, and thank you to all of you. As always, we appreciate your time and interest in joining us this morning. Again, we recognize that we've got work to do. I'll tell you I'm very pleased with where we are as we sit here today, the improvements we've made over the last several months. Our heart felt thanks to all the employees and their hard work. I know they've been really dedicated on implementing these programs that we've talked about and enhancing the results. We're excited about the prospects and we look forward to updating you the next time we visit. Again, we appreciate it. Have a great day.

Operator

Thank you. This concludes today's Rent-A-Center fourth quarter and year end 2004 earnings release conference call. You may now disconnect.

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