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Event Transcript

RCII - Q1 2004 Rent-A-Center Earnings Conference Call

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OVERVIEW

RCII reported record earnings of \$0.63, which was \$0.01 over the Street estimate. Total revenues increased during 1Q04 by \$19m to \$585.4m, a 3.3% increase vs. 1Q03. The co. anticipates 2Q04 total revenues to be in the range of \$564-569m. Q&A Focus: Prices, EPS growth, Rainbow, stores, payouts, markets, and inventory.

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RCII - Q1 2004 Rent-A-Center Earnings Conference Call

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Dennis Telzrow

Stephens Inc - Analyst

John Emmerich

Icolo Capital - Analyst

John Baugh

Wachovia Securities - Analyst

Brian McCauley

ACRI Capital - Analyst

PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's first quarter 2004 earnings release conference call. [OPERATOR INSTRUCTIONS]

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

David Carpenter - Rent-A-Center - Director of Investor Relations

Thank you, Geena. Good morning, everyone and thank you for joining us. You have should have received a copy of the earnings release distributed yesterday that outlines our operational and financial results that we made in the first quarter of 2004. If for some reason you did not receive a copy of the release, you can download it from our Web site at investor.rentacenter.com. In addition, certain financial and statistical information will be

discussed during the conference call will also be provided on same web site. Also in accordance with SEC rules concerning non-GAAP financial measures is, the reconciliation of EBITDA is provided in our earnings press release under the statement of earnings highlights.

I also ask for your patience today during the call as we are in two locations today. Mark Speese and Robert Davis are in New York City while Mitch Fadel and I are here at the home office in Plano, Texas. Finally, I must remind that you 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, Form 10KA, for the year ended December 31, 2003 and our quarterly report form 10QC.. 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 - Chairman and CEIO

Thank you, David. Good morning, everyone. As always, we appreciate your time and interest in joining us. Let me say overall, I am pleased with our results for the first quarter. We have enjoyed record earnings of 63 cents, which was a penny over the street estimate. We had record cash flow from operations of \$157 million in the quarter, and we have seen positive trends with regards to our pay outs over the last couple of months. In fact, for the last two months, the pay outs have trended at or below last year's numbers on a personal basis and appear to be doing so again in the month of April. Now all the while, the demand for our product remains consistent with last year, and so as we look out over the next several months, we see positive comps returning in the fourth quarter of this year.

In terms of square footage growth, let me just briefly -- you noticed in the press release that we have entered the Canadian market with the acquisition of five stores last quarter. We are currently building the infrastructure to allow us to continue at the expansion up in Canada, and believe over time, albeit over the next several years, that we have could have couple of hundred stores in the Canadian market. That, of course, of course, is in addition to the store growth in the U.S. market. I remind that you we expected this year to open between 80 and

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120 stores, and remain competent of our ability to be able to do that. Also, with regard to the previously announced Rainbow requisition, as you know, their shareholders will be voting to approve that transaction on May 12. Approximately two weeks from now.

We expect them to approve this transaction, and we would close the deal shortly thereafter. Let me remind you again that was 125 stores. This transaction will be in the neighborhood of approximately \$100 million, and that will be funded entirely from cash on hand. As we also mentioned in the press release, and I'm sure that you saw, we ended the first quarter with approximately \$273 million of available cash. Overall, the fundamentals of our business remain in tact.

The demand for services and products remains consistent. We continue to generate very strong margins and significant cash flow, and will continue to expand our business through store openings, acquisitions as well as the exploration of our products or services that will enhance shareholder value. We have a tremendous infrastructure in place and a very solid management team from which I know we can continue to grow on. With that, let me go ahead and turn it over to Mitch. He's going to provide you with a little more insight into the overall operations. Mitch.

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

Thanks a lot, Mark. Good morning, everyone. Well, as we have discussed and as Mark was discussing, our comp store revenues continue to be affected by the unusually high number of pay outs, last year as well as by our planned cannibalization. Our negative 1.3% first quarter comp shows that although we have re-rented or replaced many paid out customer, we obviously have not covered them all. We do expect our comps to be about the same in the second quarter due to this lingering effected from last year, but as Mark said, we do expect to be back to positive comp numbers by the fourth quarter.

Now, from a customer metrics standpoint, our sequential customer count in the first quarter was down 1.5% from the fourth quarter. As most of you know, income tax season for us causes a lot of pay outs as many customers use their tax refunds to purchase their rental merchandise. Now, we re-rent additional products, to a high percentage of customers, but there still is always some sequential drop in the first quarter. In fact, this year was slightly better than last year's first quarter customer comp when we net out the rent way acquisition of last year.

So no surprises this year, and in fact as Mark mentioned, our customer pay out numbers have decelerated on a year over year basis in the last two months. That's great news on a go-forward basis. As Mark was discussing, our growth initiatives remain on track with our new store opening plan continuing to bring results way ahead of our model. Obviously, our acquisition program remains strong with the Rainbow deal expected to close in May.

As I talked about last quarter, with that new store opening plan and our ongoing acquisition strategies both in terms of store acquisitions and account buys as well as using our strong cash flows to bring shareholder value, we believe we can grow our EPS by about 10% even with our current comp numbers. And when those comp numbers do turn back positive as we expect to late they're year, that type of EPS growth can only get better - Obviously, our very strong cash flows of \$157 million in the quarter alone provides tremendous opportunity for us to do many things to bring additional share holder value.

Few other update on the first quarter, our credit remains very strong, and in line with our tight weekly standard. In regards to some of the partnerships we have formed last year, first the McDonald's discount program continues to give us a couple of hundred of rentals a month. Not a material increase, a couple hundred rentals, but a solid partnership and one that we open to continue to grow.

Our attempt at having Jackson Hewitt doing tax refunds in our stores, this past tax season, had sporadic results. It drove traffic in some cases but not as much as we were expecting. There wasn't any downside for us in this 250-store test so overall, it was still OK. We're working with the Jackson Hewitt people to figure out if that's a way to make it more successful in the future.

The advertising multivariable testing continues. So far, we have learned a few very interesting things about our advertising efficiencies and final results will be coming in this summer as those tests continue. In summary, a great quarter as Mark mentioned in terms of earnings and cash flow, and as we continue to provide value to our 15,000-plus coworkers and shareholder shareholders. With that, I'll turn it over to Robert Davis for some more color on the financial numbers.

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

Thanks a lot Mitch. I'm going to spend a few moments on financial data pertaining to income statements, balance sheet

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and cash flow statements after which we'll open the call to any questions that you might have. As it relates to our income statement, total revenues increased during the quarter, the first quarter of 2004, by \$19 million to \$585.4 million. A 3.3% increase when compared to the first quarter of 2003. As the press release outlined, this revenue growth was primarily a result of revenues from new stores, acquired stores and account buys. Speaking of square footage growth as it relates to our store base for the first quarter we opened 22 new stores, acquired 23 new locations including five stores in Canada that mark alluded to earlier, and had account buys from 20 additional locations.

For the last 12-month period ending March 31, 2004, we had opened 103 new stores, acquired 63, and have had 62 account buys while consolidating 37 stores into existing locations for a growth in square footage of 5%. Now, once the Rainbow transaction is closed and integrated, our square footage growth will approach 10% over the last 12 months. The high side of our growth strategy of increasing square footage 5-10% of the year with the remainder of the year still out there for the possibility of further upside from the square footage.

As a result of the revenue growth, the re-capitalization that we concluded in last spring of last year, as well as the lower effective tax rate associated with our restructuring and completed on December 31, 2002, on a recurring basis our diluted earnings per share increased 10.5% over the first quarter of the prior year. EBITDA for the quarter totaled \$106.4 million, an increase of approximately three million in the fourth quarter of 2003, and on approximately \$423 million in EBITDA for the last 12-month period ending 3/31/04 for margin of 18.8%. As it relates to the balance sheet and cash flows, I think Mark and Mitch highlighted the strength in the cash flows and the fact that we ended the quarter with over \$270 million of cash on hand.

Other items on the balance sheet, from an inventory onramp perspective, we ended the quarter with a net book value on rent of approximately \$557 million, that's an increase of nearly \$15 million from the fourth quarter of 2003. During the quarter we also had capital expenditures of about \$13.4 million, and our leverage per credit agreement, which again only allows \$50 million in cash to be included in the net debt calculation, was 1.53 times for the quarter. Otherwise, given the full benefit of the \$270 million cash on hand at the end of the quarter, the leverage was only one turn.

Meanwhile, our interest coverage ratio increased to improve to approximately 6.73 times for the same period, March 31, 2004, and debt to book cap at the end of the quarter, improved 160 basis points from the end of the fourth quarter by 45.2%. The

current outstanding indices at the quarter end was \$697 million at 397 million of senior term debt with minimal amortization and \$300 million of 7.5% of senior subordinated notes. We're very comfortable with the capital structure and believe that the leverage only continues to improve the balance sheet and cash flows continue to be a strength of the company, providing us tremendous amount of flexibility in managing our business.

Again, whether we're opening new stores or making acquisitions, servicing debt, or making opportunistic share repurchase, we feel our current capital structure affords us these opportunities without increasing our indebtedness. In terms of guidance of the outline in the press release, which does not -- excuse me, which does include the impact of the Rainbow acquisition including in mid to late may, we anticipate for the second quarter of 2004 total revenues to be in the range of \$564 million and \$569 million and diluted earnings per share between 60 and 62 cents. For the full fiscal year ending 12/31 of 2004, we expect total revenues to be in the range of \$2.345 billion, and \$2.375 billion, and diluted earnings per share between 262 and 270. With this update, I would now like to open the call to questions. Tina, if you could fill the roster.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]. Your first question comes from Arvind Bhatia with Southwest Securities.

Arvind Bhatia - *Southwest Securities - Analyst*

OK. Good morning, guys.

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

Good morning Arvind.

Arvind Bhatia - *Southwest Securities - Analyst*

Couple of questions. First one, I wanted to see if you guys can quantify what sort of impact the rising fuel prices gas prices, might be having on your business, because I -- of course, we know that you do run a lot of -- you have a big fleet. Then my second question is your target of 10% EPS growth going forward, for example, let's say for 2005, would that be with or

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without the benefit of the Rainbow accretion. Then I have a couple of follow-ups.

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

With regard to - Arvind, Mark, your question with regards to fuel costs and your right -- you're right, we have an extremely large fleet of trucks in the neighborhood of 6,000-plus vehicles. As everybody knows, fuel cost has continued to rise and is expected to continue to rise throughout the summer. We have obviously made conversations for that. At the current pace, from a year ago, we are up about 10, maybe 15% in fuel costs at the store level. Again, we expect that everything that you hear and read indicate it's going to continue to go higher. We are making assumptions on that front as well. But currently, I would say 10-15%. Your second question, I'm sorry, I was -- you were questioning whether rainbow, if you would repeat that again?

Arvind Bhatia - *Southwest Securities - Analyst*

The 10% EPS growth that Mitch was allowing to go forward. If you were just to think about 2005 for a second, you are committing to 10% growth in EPS from -

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

Right.

Arvind Bhatia - *Southwest Securities - Analyst*

From this year and then top of that will have the accretion of Rainbow, is that a good way to look at it?

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

Rainbow has got some weight in that assumption that he is making. You will recall, I guess last quarter when we talked after we announced the definitive agreement to buy Rainbow, the expectation this year that it wouldn't have any impact, we would go through the transition period, and before we were able to start realizing synergies, economies of scale and so forth, but next year, we would be at a go-forward one rate, realizing about \$17 million in store profit.

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

Yeah. Arvind.

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

I'm sorry. This is Mitch. When we talk about our new store plan and our store buys and account buys, even at our current comp rate being able to grow our EPS by 10%, that doesn't include a large acquisition like a Rainbow. It includes our day-to-day more normalized acquisition program.

Arvind Bhatia - *Southwest Securities - Analyst*

Got it. So, Rainbow is over and above everything?

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

Right, right.

Arvind Bhatia - *Southwest Securities - Analyst*

Got it. I want to understand the dilution that new stores might be having. I asked the question last time because I think the sense I got was new stores were performing above expectations. And you know, I wanted to get a sense of what the impact might have been because of the new stores in terms of one, the dilution and if I look at the operating income being down \$3.5 million, is that -- does that get me in the ballpark in terms of the dilution that new stores might be having on your EPS, and the flip side, as you can tell, as, you know, these stores are running ahead of plan and what, you know -- where they are.

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

Let me start with the last part first, on the -- they are running as plan, and in fact, you will -- you may recall in our model that in the first year our models show it's an \$85,000 loss from an EBITDA standpoint. The stores -- the entire group of stores, you know, we started this program back late 2000. They're averaging about half of that from an EBITDA loss in the first year. And in the second year, our model is an \$80,000 profit of EBITDA and they're running \$50,000 ahead of that. The third year the model is \$140,000 and we have 50 stores have already hit the third year in the program and then their third year, they're about 175, so about \$35,000 ahead of that. In all cases, well ahead of the model.

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

I think it's fairly -- fair to add to that, Mitch, part of that speaks, we talked about this planned cannibalization and when a new store is opening in an existing market it, is giving lift. So, it's kind of offsetting the other, but it's not only that, by any stretch. But it does speak to the cannibalization side, I guess.

Arvind Bhatia - *Southwest Securities - Analyst*

If you could look at the group of stores that you have, I think last quarter, you brought out a metric, I think, 1,450 stores which didn't have a Rent-A-Center -- a new Rent-A-Center open in the last year or so, we were performing -- we're getting much better traffic trends, is there something that you can share with us this quarter?

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

I think, you know, last quarter, we talked about the customer comp, and so forth, and we said that going forward, we would only talk about the sequential numbers on these calls, trying to -- There's a lot of confusion about the way we were reporting and talking about customer accounts. So, to simplify things, we said last quarter, we would only be talking about sequential going forward.

Arvind Bhatia - *Southwest Securities - Analyst*

Final question, and as you think about the fourth quarter, and your confidence that comps will start to turn positive, what's built into that assumption? Is there any benefit off the Rent way acquisition? Is that giving you confidence? Are you expect that the pay out trends that you saw in the last two months and as you extrapolate it out to the fourth quarter, does that play a bigger role in this?

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

Yeah. Arvind, this is Robert. I'm going to ask the question and go back to the new store dilution question that you asked earlier. As it relates to the fourth quarter and why we expect positive comps, first and foremost, you recall the third quarter of last year, we had a tremendous number of pay outs that as we enter the thirty of this year, what we -- we will begin to comp over that. The fourth quarter of last year, was the lowest comp in any quarter last year. And so, as we look at the model and project

out, we are not --we are not forecasting better than expected pay outs than the current run rate. Nor are we giving ourselves any benefit for special promotions or advertising campaigns that could provide, you know, benefit that regard, so, as always, we are being conservative in that forecast and not trying to build any up-side that we cannot bank on, so to speak.

So, we just believe that as we get through the anniversary of all of the pay outs that we experienced last year, it's going to turn and turn in a positive light, and provide up-side to the business in that regard. In regards to your new store dilution question from earlier, in any given year, when we add you know, new stores to the model, about 100 stores, let's say, they're going to cost us about 10 cents to 15 cents in earnings in any given year for those store thaws open in that year. Now, I will say that once we begin opening stores in late fall of 2000, when you take the aggregate of all new stores that we have opened since the beginning of that plan, we are in the positive realm of making money.

It's just that the current year, stores that you are opening are going to add about, oh, \$18 million in cost or so when you take \$30 million of operating expenses below the gross margin line and annualize that, that's going to be the run rate for 100 stores in any given year.

Arvind Bhatia - *Southwest Securities - Analyst*

Sounds great. Thank you.

Operator

Your next question comes from Dennis Telzrow with Stephens Inc.

Dennis Telzrow - *Stephens Inc - Analyst*

can you hear me?

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

Good morning, Dennis.

Dennis Telzrow - *Stephens Inc - Analyst*

Why are the pay outs getting better?

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

Well, I think part of it is just timing more than anything. They ran so extremely high. You know, again, and they are running bet person in fact, not only have they been down the last two months. That's the first time in well over a year, nearly two year we have been down over a prior period. You will recall, I think maybe you need to back up in time a little bit before you request come forward to appreciate it. You will recall nearly three years ago we did change the pricing in terms and terms a bit, we raised the rental rate but brought the term down. That's, of course, going to that late the number of pay outs because essentially the products are leaving the system sooner than they did previously. So, the opposite of that is, now once you comp over that, you are normalized to the new run rate, and that's exactly what's happening. It's just, just -- we have gotten beyond, I think you have heard us say the average inventory is in our system 22 months. That change was done 28 months ago.

So, in theory, we have turned all of the inventory, and we're now in this normalized environment and we're chomping over the higher numbers. We expect that 20 frankly continue going forward.

Dennis Telzrow - *Stephens Inc - Analyst*

OK.

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

Does that make sense?

Dennis Telzrow - *Stephens Inc - Analyst*

It does make sense. Going back to Arvind's question earlier, this -- that number that you provided last quarter gave everyone a lot of come comfort that, you know, this cannibalization issue was just what it was, it was self-inflicted cannibalization. It would be really helpful, I think, if you would give us that number going forward, the number meaning those stores that were not self-cannibalized what was the comp in those stores.

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

Well, I don't have it with us because we weren't going to speak to it, so, I guess we would have to go back and revisit it.

Dennis Telzrow - *Stephens Inc - Analyst*

OK. Well, let me just go on. How many shares did you buy back in the first quarter and what is the remaining buy-back program?

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

We bought back 266,000 shares in the quarter for \$8.4 million, and under the board authorized \$100 million threshold hold, we have 65 million remaining that could be utilized.

Dennis Telzrow - *Stephens Inc - Analyst*

OK. Then lastly, Mark, tell us how the Canadian market is different than the U.S. market with respect to weekly, monthly, average unit price, so on and so forth.

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

There is a higher percentage of monthly pay. One thing that's a little unique or I guess used much more frequently up there than here in the states are auto draft payments. The customer goes on an auto draft monthly, and so, there is a much higher number of monthly payments. Now, part of that was also driven by the business model of the individual that, we acquired.

Again, it was a small acquisition of five stores, and I say that in that they were promoting monthly pays. They were really staying away from weekly. And obviously, part of our business model is offering that to the consumer and letting them decide. I think really, we're going to need more time to see were shakes out ultimately. I suspect it will run higher than what we see in the states. But on the same hand, I expect the weekly to increase quite a bit from where it is currently. In terms of pricing, cost of living, rental rates, product offerings, not a whole lot of differences. Obviously, there is the value of the dollar conversion, but you know, in terms of the product offerings, it's really the core products that we have got here.

They did not have near the number of computers and/or big screens that we see in the states in this particular case, but again, part of that gets back to the business model that they're operating under. They had limited product offerings in the two SKU's and obviously, we view that as one that has a pretty good upside for us. Fundamentally in terms of the Canadian market today, there are a few hundred stores up there in total. The number one operator has about 140, and then it falls off quite a bit there.

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And -- but, you know, we spent a lot of time looking at that market, learning customer behavior, market penetration, existing operators and so forth, and frankly, view it as one that has pretty significant upside, albeit it's going to take time to get there again, but I don't see anything materially different than what we do in the states.

Dennis Telzrow - *Stephens Inc - Analyst*

Do you think that it -- as you build that infrastructure as you alluded to, it's going to cost you in the near term?

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

Not materially, because it's -- it's a small base of stores and we're not looking to do anything, big overnight, if you will. It's part of the new store, 80-120.

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

It's already baked in the numbers that you are seeing out there, to some degree, either in the first quarter release or into the -- going forward.

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

That 80-120 this year may end up being pick a number, if it was 106 for the year, maybe you know, 10 of them are up there, and 90 are here and next year, maybe it's 90 here and 25 up there, so to speak.

Dennis Telzrow - *Stephens Inc - Analyst*

Then the last question, I'm not in the office, I don't have any numbers with me. What do you expect your free cash flow to be this year?

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

Well, we projected. Gave you a number in the first quarter of about \$150 in operating cash flow. Now, of course, that is prior to capital expenditures and new stores. Free cash flow, you know, we would expect that to be somewhere in the 220-240 range. Then if you add back cap ex of about \$60 million, you are getting into a \$300 million range of operating cash flow obviously, the first quarter, Dennis, had some benefit in

operating cash flow as it did last year as it relates to income tax payables and so forth not being due until April 15th.

Dennis Telzrow - *Stephens Inc - Analyst*

Right and again going back to the income tax issue, is it this -- will you have to make up any of the benefits that you received the last few years this year?

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

That begins next year, Dennis.

Dennis Telzrow - *Stephens Inc - Analyst*

Next year.

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

And the comes due over a three-year period.

Dennis Telzrow - *Stephens Inc - Analyst*

Thanks.

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

Thank you.

Operator

Your next question comes from John Emmerich (ph) from Icolo (ph) Capital.

John Emmerich - *Icolo Capital - Analyst*

How you are doing?

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

How are you doing, job.

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John Emmerich - *Icolo Capital - Analyst*

Some random questions. I guess, so, it's been asked a couple of different ways, Mark, last time you and I talked nine months ago, you were thinking about it, knowing that you could calculate it, because you track customers so well. Have you shared what same store sales would have been -- or what the cannibalization impact was on same store sales, overall, not breaking out which stores got cannibalized and which didn't, for the company overall, what cannibalization did to same store sales?

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

No, we didn't.

John Emmerich - *Icolo Capital - Analyst*

OK.

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

You mentioned a move or two in the last quarter, it was somewhat confusing, going forward, we weren't going to get into the detail. Mitch, I was trying to remember the comments you made initially. Did you -

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

No, you're right, Mark. We talked in the last call about how we wouldn't be giving the numbers anymore. Just talking about customers from a sequential standpoint. It does confuse people. The growth is coming from so many places, account buys, and store buys.

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

Yep.

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

Cannibalization. The questions we would guess it was obviously it was confusing people and we thought it was obvious we would go to the normal customer count which in the first quarter it was down but better than last year and we just going to stick with that.

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

That's an easily identifiable one. I think everybody can relate to.

John Emmerich - *Icolo Capital - Analyst*

Sure. OK. Inventory. I was scrambling in the last hour to update by model for the last two or three quarters. Inventory per store feels low to me. Am I right about that, and did that impact comps at all?

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

Are you referring to help for rent, on for rent other both? The fact is that both are up? On a percentage basis, you know, it's down 20 basis points at the end of the fourth quarter. The help for rent or idle merchandise available for sale was 20.2%. The end of the first quarter it was 20%. We're comfortable with that number, as we have said in the past, anything in the 18-22% range, we're comfortable, now, when you are talking about 18%, 19%, that might be slowly slightly low, but not material enough to impact the business.

John Emmerich - *Icolo Capital - Analyst*

No. The percentage, as I understand it, that looked fine. I was talking about literally the combined total inventory held in on rent divided by stores in the end of period.

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

I guess it depends on what period you are conferring it to. I say that, because if you go back last year, that dropped down quite a bit. Again, it got back to the term changes that we made two-and-a-half years ago.

John Emmerich - *Icolo Capital - Analyst*

That's right.

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

So, we were speeding up the appreciation.

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John Emmerich - *Icolo Capital - Analyst*

Right, OK.

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

I'm not sure if you are taking that into your comparison.

John Emmerich - *Icolo Capital - Analyst*

You're right. It's up a lot from December anyway.

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

Right.

John Emmerich - *Icolo Capital - Analyst*

Amortization in the quarter is down from what it used to be? It was kind of always the rock steady number. Were you doing fewer runoff purchases of stores or accounts or why is that?

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

You are talking about what I guess would be the good -

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

John, that is the number that obviously fluctuates given the number of acquisitions we're doing, and the quantity of those acquisitions, and what you're seeing is some of that amortization falling off. That number will, in all likelihood given our guidance be in line with what we have provided as it relates to Rainbow as they come into the model.

John Emmerich - *Icolo Capital - Analyst*

Right.

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

So, we amortize our customer contracts in the 18-month period and the non-competes over the appropriate period depending on what deal we cut with the seller. So, essentially, the largest portions are going to be customer contracts. If you go back 18 months ago, that's where whatever is falling off was booked 18 months ago.

John Emmerich - *Icolo Capital - Analyst*

OK. And also the guidance, if I look at the share count guidance, it does not appear as though that includes any more share repurchase, even though as you said, you have got the authorization outstanding? You show the share count growing a couple of million shares the rest of the year, or are there that many options coming that even if you buy those out, your share count is going to grow?

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

It's a mix of both. We're not counting on significant share repurchase, but I wouldn't -

John Emmerich - *Icolo Capital - Analyst*

But a little.

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

The history has proven that, you know, we'll take advantage of our stock price and so, there's some consideration in our guidance, maybe a little bit but not significant number. And that's up being offset by the options rolling in.

John Emmerich - *Icolo Capital - Analyst*

OK. Last question is really just a handful of questions all surrounding Canada, Mark. I have been out of touch for six months with the store since it's new to me. Can you talk a little bit about how the kind of the usury laws and regulations are up there, compared to here, number one, and number two, we had - you had given me numbers as a - at one point in time, I can't remember, I have got three separate, I have a cabinet of Rent-A-Center folders and information that I have had for the last three years. I never find the piece of information I'm looking for.

In my mind, I remember a US market opportunity that was very large relative to the number of stores out there. It was - US market was pretty under penetrate, so I am wondering why now, why with supposedly, I would have thought so much opportunity still south of the border, why suffer the incremental overhead and I don't know, potential regulatory hassles and stuff, and just the things that go along with doing cross-border transactions at this point in time.

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

Let me take that back end question and maybe I will divert the first one to Mitch. In terms of why now, obviously, any time you are going to expand outside of this US market, it's going to take an awful lot of time to do the research, the market studies, get comfortable and put a business model and place and so forth. On that note, we started this process over a year ago, at least exploring what if, when, where, how, et cetera.

John Emmerich - *Icolo Capital - Analyst*

Sure.

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

And so, it wasn't just Canada. The world is a big place and not that it's a high priority today, but we're convinced that this model will work in other places. We're convinced that at some point in time, we're going to want to capitalize on that. You're right, there are significant opportunities in the US, without question. Again, there are about 8,500 stores industry-wide today. We are still convinced that this industry or this market, the US could support 14,000 to 16,000 stores within the industry. We're still convinced that Rent-A-Center specifically could have in excess of 4,000 or 4,500 stores in the market.

On the same hand, we're convinced that, you know, Canada specifically does have some opportunities. If at some point an acquisition presented itself up there, you wouldn't want to be scrambling then not having anything in place.

John Emmerich - *Icolo Capital - Analyst*

Right.

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

So, the fact that it is across the border, it's a way to get our toe in the water, work out structure and currency, work out management, get into the market, close to home, still growing the US market. Not distracting or taking away from what we're doing here but kind of starting to build and have an infrastructure so that if an opportunity presented itself there or somewhere else in the vague sense, we had learning behind us. I think over time, you know, if we continue to add a couple of

hundred stores a year, you know, we're not too far away from being pretty full in the US.

John Emmerich - *Icolo Capital - Analyst*

That is true.

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

And so, to kind of have that foundation there, again, it's not a big commitment of time or money, it's not a big commitment of resources. We have got a couple of key people up there, you know, they're devoting their time only to that and one individual specifically has moved up and is running there for us and has got a lot of experience with us, very capable and it's just kind of putting the things in place so that when and if it makes sense, where to position to capitalize on it. It's not any significant of our belief with the US market whatsoever.

John Emmerich - *Icolo Capital - Analyst*

Is there any difference in the usury laws and regulations up there regarding your business?

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

I will take that, John, this is Mitch. There is no rental law up there as we speak. But there has been rent-to own operating the way we operate for a little over 15 years, probably, 15-20 years. It's operated with no problem. So, we're comfortable with that, there hasn't been a problem in the last 15-20 years. There never has been a problem and it's an industry that's grown in the last 15-20 years up there.

John Emmerich - *Icolo Capital - Analyst*

OK.

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

We did this 20 years ago in the US, and there's no laws. As you know, we have gotten them past, 48 or 49 jurisdictions throughout the US and in Puerto Rico and favorably, we can do the same thing in Canada, but the fact that there was no history of anything negative going on up there, we were comfortable going in.

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John Emmerich - *Icolo Capital - Analyst*

Great. Thank you very much for the update.

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

Thanks, John.

Operator

[OPERATOR INSTRUCTIONS] Next question is from Brian Nelson with Wachovia Securities.

John Baugh - *Wachovia Securities - Analyst*

Actually, it's John Baugh. I joined a little late, but have you touched on any of the initiatives, multivariable testing, the McDonald's employees, and update us there and a comment on Jackson Hewitt and how the program went. Am I mistaken that the RentWay stores that you kept open come into the comps in Q2 and -- will they up a little bit?

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

John, I did talk about those thing, I will go over briefly. The multivariable testing continues. It's not finished until the sum person we have learned interesting things about the advertising efficiencies. The final results also come in this fall. McDonald's, the discount program we're getting a couple hundred rentals a month out of it. Obviously not a big number, but it didn't cost anything to partner with them to give the discounts to employees, and it's a partnership we're glad to be teamed with a company like McDonald's and one we hope will continue to grow.

Jackson Hewitt, we had the tax service in about 250 of our stores, it was sporadic result. Some stores that drove traffic, others it didn't drive much at all. Again it, was a test with no down side to us. Didn't cost us anything. In fact, they paid us some money to do it. In some cases, it worked out well for them and others they didn't get the traffic they were looking for either. We are working with Jackson Hewitt in general to say it's pretty mediocre and we are working with them to figure out how to make it more successful for the future. And from, In the RentWay question, yes. The stores that we have kept open will come into the comps in the second quarter and they are in a favorable comp and that's built into our guidance going forward.

John Baugh - *Wachovia Securities - Analyst*

OK. And on the multivariable testing what when, where would be there expectation of implementing whatever would you to get the benefit from that?

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

Fourth quarter and next year, because the final results will be this summer. There's been a few little things that we can start earlier, but mainly fourth quarter and next year.

John Baugh Thank you.

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

Thanks, John.

Operator

Your next question comes from Brian McCauley with ACRI (ph) Capital.

Brian McCauley - *ACRI Capital - Analyst*

Good morning. Since you're not reporting or breaking out the comp numbers any longer, can you give us the customer growth numbers in square footage growth numbers going back several quarters?

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

We don't have that this morning. I know that the customer growth in the fourth quarter I have here, that was 3.5% in the fourth quarter with a square footage growth of 1.9%, and so, plus 1.9% of square footage and 3.5 in customer growth and then the first quarter, let's see, the square footage growth was --what, Robert, about 0.7.

Brian McCauley - *ACRI Capital - Analyst*

Point seven or .8%?

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

Point eight percent with a growth number of minus 1.5, which as I mentioned earlier, is normal for the first quarter based on the way our customers use their income tax money to purchase their rental NASDAQ. I don't have anything in front of me prior to that.

Brian McCauley - *ACRI Capital - Analyst*

Is that something that we do get at a future date, so we have more historical perspective where you were and where you are going?

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

Well we'll look at that and let us talk about that internally and figure out the best way to handle that.

Brian McCauley - *ACRI Capital - Analyst*

Thank you.

Mitch Fadel Yes.

Operator

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

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

As always, we appreciate everyone's time and interest, again. I would tell you that we're excited about where we are today and feel that we have got momentum moving in our direction. We look forward to speaking to you again next quarter. As always, we are available if there are any follow-up questions. David alluded to, Robert and I are out of here, but he is there so feel free to give us a call. Thanks again.

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