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RCII - Q4 2012 Rent-A-Center Earnings Conference Call

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**OVERVIEW:**

RCII reported 4Q12 total revenues of $758.4m, net earnings of $47.5m and diluted EPS of $0.81. Expects 2013 total revenue growth to be 5-8% and diluted EPS to be $3.25-3.40.





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## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

**TJ McConville** *Raymond James & Associates - Analyst*

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## PRESENTATION

**Operator**

Good morning, and thank you for holding. Welcome to Rent-A-Center's fourth-quarter and year-end 2012 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 today, Tuesday, January 29, 2013. Your speakers today are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center; Mr. Mitch Fadel, President and Chief Operating Officer; Mr. Robert Davis, Chief Financial Officer; and Mr. David Carpenter, Vice President of Investor Relations.

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

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

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

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

Finally, I must remind you that some of the statements made in this call such as forecast growth in revenues, earnings, operating margins, cash flow and profitability, and other business or trend information, are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements.

These factors are described in the earnings release issued yesterday, as well as our annual report on Form 10-K for the year ended December 31, 2011; and our quarterly reports on Form 10-Q for the quarters ended March 31, 2012; June 30, 2012; and September 30, 2012.

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?

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

Well, thank you, David. Good morning, everyone, and thank you for joining us for a review of our fourth-quarter 2012 and year-end results. Let me begin by saying that I am generally pleased with our overall results for the year, with total revenue growing 7%, exceeding $3 billion in annual revenue for the first time in our history; and an over 6% increase in earnings per share, to $3.09. Mitch will provide more detail on the quarter itself, but total revenues grew 2.8%, with the RAC Acceptance segment growing 51%, and our International segment more than doubling.

Speaking of the growth initiatives, I remain very excited. I'm very pleased with the continuing execution and excellent results from our RAC Acceptance business. As I mentioned, revenues were up 51% in the quarter from a year ago to $95 million, and up over 77% for the year to $343 million.

Likewise, operating profits continued to grow, and were $11 million in the quarter and $28 million for the year; a strong performance for both the quarter and the year, and still plenty of opportunity for additional expansion in the future. In fact, as was noted in our guidance in 2013, given the current pipeline for demand we are now expecting to open approximately 425 additional kiosks, expecting revenues to approximate $540 million or a 57% increase year-over-year.

This new rent-to-own touch point is proving to be very beneficial to our domestic US rent-to-own business. When combining the Core US and RAC Acceptance business together, revenues grew 6.2% for the year, while our operating profits also increased 6%. And we expect that type of growth to continue, even with more leverage on the operating profits as the RACA stores continue to mature.

Regarding our International, we remain very excited about Mexico and the long-term opportunities that that country can provide for us. For that reason, we are focusing our resources there. And as noted in a January 2 press release, we have sold half of our Canadian stores as part of a trade for the US operations of the buyer, Easyhome Canada. We will continue to operate the remaining stores while also exploring other long-term options. At the end of the day, we believe that the opportunities there were limited, and that our resources and efforts are better served focusing on Mexico and beyond.

We have also updated our new store economics with what we have learned over this past year, and those now are available on our website. The core rent-to-own and RAC Acceptance models remain essentially the same. While we have seen solid demand from our customers in Mexico on the whole, the revenue ramp is little less in the first year or so. And we have made those adjustments to the model, including some additional adjustments to our expenses and a lower up-front investment, the return on the business is now actually higher than before.

I believe that we are well-positioned, and I remain excited about the opportunities that we have there.

For 2013, we expect another good year, and to grow our revenues between 5% and 8% and our EPS between 5% and 10%. This still includes approximate $0.25 earnings drag from our international initiatives as we continue to invest for the future. I do want to thank all of our coworkers for their continued hard work and contribution this past year. And as always, we appreciate your support and interest as well.

With that, let me ask Mitch to provide you a little more color around the quarter itself. Mitch?

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

Thanks, Mark, and good morning, everyone. As Mark mentioned, overall we are pleased with our 7% revenue growth for the year, and our 6%-plus earnings growth in 2012. Our fourth-quarter same-store sales decline of 0.2% was the continuation of revenue being pulled forward in our Core

US segment. With the revenue pulled forward earlier in the year by larger-than-historical use of our early purchase options, the Core segment was minus 3.3% for the quarter. Although, for the year, they had 1% revenue growth and a positive 0.1% comp.

That revenue pull-forward into early 2012 we believe will continue to keep the core in negative territory for the first quarter of 2013. However, with the trends we are currently seeing, we still expect the quarter to be flat for the year, with our 5% to 8% revenue growth coming from our growth initiatives, namely our expansion into RAC Acceptance and Mexico.

Speaking of trends in the Core segment, demand in the fourth quarter itself was solid. In fact, when compared to 2011, in terms of agreement growth, it was the best comparable quarter of 2012. We didn't make up for the pulled forward revenue in the earlier quarters, but from a growth standpoint the trend was very positive. That is what gives us confidence that we get the court even in 2013 despite, the first quarter being a negative revenue quarter for the segment.

In addition to the favorable demand trend in Q4, we've hired a new Chief Marketing Officer. Rita Bargerhuff has joined us after long-standing stints at 7-11 and Greyhound, and we're very excited about adding this additional dimension to our growth plans.

From a collection standpoint, our core metrics remain in line. In fact, our average weekly collections number in 2012 was the lowest it's been in three years.

Our core customer losses came in at 2.4%, down from 2.5% last year; so positive collections results both in Q4 and for the year in the Core segment. And the inventory in the core year is in great shape also, with our held-for-rent ratio in line with our goals, and down approximately 350 basis points from last quarter.

As Mark was talking about, we're very pleased with the financial performance of RAC Acceptance. The previously mentioned revenue of $343 million for the year exceeded our expectations, as did the $28 million in profit. This segment had over a 34% comp in the quarter, while positively impacting our overall same-store sales by 2.9%. And we opened over 100 more kiosks in the quarter -- 325 for the year. And the demand, as Mark was talking about, remains high, as we intend to open 425 in 2013.

We're in the process of adding hhgregg and Bob's Furniture to our stable of top partners like Ashley, Value City Furniture, Rooms To Go and [Kahns]. Delinquency metrics and customer keep rates continue to perform at our expectation in this segment, and we remain very excited about this current and future growth vehicle.

On the international growth front, we remain excited about Mexico and our Mexico expansion. We ended our second year there with 90 stores. And as you read, we plan to open an additional 60 in 2013. This segment had over a 50% comp in Q4, and it's already positively impacting our overall comp by 20 basis points. Operationally, we are happy with the progress in Mexico, and we believe that we'll achieve four-wall breakeven by the end of 2013. Overall, a very good year for us, as our 7% revenue growth is the most growth we've had in many, many years, to go along with the highest EPS we've ever recorded.

The investments we are making in growth are paying off. And we thank our 20,000 plus coworkers for their efforts in making this happen.

And with that, I'll turn it over to our CFO, Robert Davis.

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

Thank you, Mitch. I will spend a few moments updating everyone on our financial highlights during the quarter, and recap our annual guidance for 2013, as outlined in our press release; after which, we will open the call for questions.

I would like to mention that most of the information that I do provide, whether it's historical results or forecasted results, will be presented on a recurring and comparable basis. As outlined in the press release, total revenues were $758.4 million during the fourth quarter of 2012, an increase of approximately $21 million or 2.8% as compared to the fourth quarter of last year. This increase was primarily the result of an increase in revenues from our growth initiatives, RAC Acceptance and international expansion, partially offset by a reduction in our core RTO revenue.

Given our largest and most mature segment is the core RTO, our same-store sales declined 0.2% in the quarter. Net earnings were $47.5 million, while diluted earnings per share equated to $0.81, which included approximately $0.07 in dilution from our International segment due to our continued investment in growth there.

For the year, we achieved record revenues and record diluted earnings per share of approximately $3.1 billion and $3.09, respectively. Our record revenue, in which we exceeded $3 billion for the first time, was supported by growth in all segments for a total topline growth of 7%, our largest increase in five years, and the second consecutive year with revenue growth in excess of 5%.

Our fourth-quarter EBITDA came in at $98.5 million, which equated to a margin of 13% in the period. For the year, EBITDA increased over $10 million, to $397.7 million. We ended the year with nearly $218 million in operating cash flow. As such, for the year, we have returned value to shareholders by paying out approximately $100 million, between dividends and share repurchases, while reducing indebtedness by over $53 million. And we ended the year with $61 million in cash on hand, and a leverage ratio of just 1.64 times.

Needless to say, we believe we have had a very successful year overall; one in which, during continued challenging macroeconomic conditions, we achieved our annual revenue and earnings guidance. We have strategically diversified our revenue and earnings stream in multiple markets and multiple channels. We have recorded record revenues and record earnings per share. We have returned $100 million in cash to shareholders. We have reduced our risk, with lower indebtedness. We announced an increase to our dividend of over 30%, all while we continue to invest for growth in the business for the long term, whereby it we expect to continue to post record revenues and net earnings each year.

As such, we intend to continue on a similar path in how we look to utilize our cash.

Turning to guidance for a moment -- and as a reminder, this will be the second year the Company offers annual guidance only. So for 2013, we currently expect total revenues to increase between 5% and 8%. We expect our same-store sales for 2013 to range between a positive 2% and positive 4%. And, as mentioned in the press release, we are changing our methodology in how we calculate this metric, to more closely align with other major retailers.

Overall diluted earnings per share for 2013 are expected to be in the range of $3.25 and $3.40, which includes an approximate $0.25 drag on EPS related to our international growth initiatives. As a result of the continued growth of and ramp up of RAC Acceptance, we expect our gross profit margin to decrease approximately 50 basis points on a consolidated basis in 2013, although we expect total gross profit dollars to be up approximately 7% as compared to 2012.

We expect both our operating and EBITDA margins to remain relatively flat for the year, with total EBITDA expected to range between $415 million and $435 million. Now, as always, this current guidance excludes any potential benefits associated with potential stock repurchases; changes in our outstanding indebtedness; or acquisitions, dispositions or store closures that may be completed or occur after the date of the release.

With that update, I'd now like to open the call to questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Brad Thomas, KeyBanc Capital Markets.

**Jason Campbell** - *KeyBanc Capital Markets - Analyst*

This is Jason Campbell, actually, standing in for Brad today. How are you doing? I realize it's still early, but what impact have you seen from the expiration of the payroll tax credit thus far in January?

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

Nothing noticeable on our end; we haven't seen anything different in trends in our business at all in January, based on that.

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**Jason Campbell** - *KeyBanc Capital Markets - Analyst*

So, ticket and everything is still -- you haven't seen anybody trading down, or more delinquencies, or anything like that come in your business?

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

Now, we have not. Nothing.

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**Jason Campbell** - *KeyBanc Capital Markets - Analyst*

Okay. And then secondly, I believe this is the time that we are coming up on the REIT fund anticipation checks. I was wondering if you guys can remind us how that played out last year, and then what you're expecting the impact to be this year?

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

Well, the tax refunds are a little bit delayed this year, but they should start -- I think people can start filing tomorrow. I think it's the 30th; the IRS was about a week later than last year. It's not so much anymore refund anticipation loans as it is our customer get their refunds pretty quickly, because they'll file it as early as tomorrow and have their refunds very quickly. There is some refund anticipation loans out there, although the laws around those have changed and there's not as many as there used to be. But they will have their tax refund money, a lot of them, in February, and certainly by March.

So, we see a lot of people in the first quarter exercise early purchase option. Our job is to re-rent for them and get them something else. Last year we saw a record number from a historical standpoint. And that's what pulled the revenue forward last year and made the future quarters -- especially as they ran high all year until the fourth quarter -- made it tough in the fourth quarter because we lost a lot of that recurring revenue.

As you saw in our guidance, we don't expect to have as many this year. And we expect it to be a negative comp territory in the core business in the first quarter. But, of course, if you don't have as many of them, then the recurring revenue is going to get better as the year goes on. And we still expect it to be flat for the year. So, we'll see the early purchase options come in the next two months. We don't anticipate having as many as last year, based on the current trends, and the trends we saw in the fourth quarter; and based on promotional activity over the last 18 months.

When you are trying to gauge that stuff, Jason, you got to go back and think about your promotional activity really over the last two years -- what you rented; for how much; when. And everything we are seeing trend-wise, we feel like we're going to see a few less than the historically high numbers last year; which, though that will make for a negative first quarter, that will help us be flat for the year, that trend.

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**Jason Campbell** - *KeyBanc Capital Markets - Analyst*

Okay (multiple speakers). And then to clarify, you said there is some timing shift -- timing shift within the quarter, so it's nothing that we'll see results shift between quarters or anything. That's just internally you guys will see that, correct?

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

That is correct.

**Jason Campbell** - *KeyBanc Capital Markets - Analyst*

All right. Thank you very much.

**Operator**

Arvind Bhatia, Sterne, Agee.

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

Okay, thank you. Good morning, everyone. Couple questions for you guys. One question that I get a lot -- and I think this would be a good opportunity to maybe address this -- when people look at your core business and they see the strength in the RAC Acceptance business, the natural question that I get a lot is, is there any kind of cannibalization going on? And, Mitch, you explained how the core business recently has seen some good trends. But, conceptually, can you talk about, in more detail, why you don't believe there is any cannibalization going on? Then I have a couple other questions.

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

Well certainly, Arvind -- this is Mitch, good morning -- certainly when we know who the customers are in each store, and we know the RAC Acceptance customer by name and Social Security number -- so we know if they've done business with us before. And there is certainly some overlap, but it's very, very small.

Although small meaning in the 1% range, when the core business -- when 2%is good for the core business, then I guess you could call 1% a lot of cannibalization. But, really, it's pretty de minimis. We are attracting a different customer in the RAC Acceptance business.

Although you are right in looking at the two as -- as Mark mentioned in his prepared comments -- in looking at the two together last year, the United States business grew 6.2%. So, we look at it both ways. We watch the cannibalization. It's not a dramatically high number, in that 1% range, when we look at customer names.

Of course you are losing some opportunity cost, too, when someone rents at RAC Acceptance we don't know that they wouldn't have walked out of there and then went to a Rent-A-Center across the street. We're not overly concerned with that because the margins, the overall margins at RAC Acceptance are -- the bottom-line margin, even though the gross profit margin is not as good as Rent-A-Center -- the overall margin is higher.

So, we don't mind if they are in RAC Acceptance instead of Rent-A-Center. So we're not seeing a lot of name overlap. It's in the 1% range. But, certainly, there's some opportunity lost in the core business. Because we don't know how many of them -- those hundreds of thousands of customers we have in RAC Acceptance -- would have went to Rent-A-Center.

And that's why it is appropriate to look at how well the United States is growing, rather than just one or the other segment. Obviously we look at both. But we do feel good about what's happening in the United States, with 6.2% growth for the year.

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

And just as a reminder, we break out them separately for segment reporting based on the accounting rules. So, to some extent, the segment data and segment detail is driven by accounting literature, moreso than evaluating the overall rent-to-own business in the United States.

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

The other thing I was thinking is that the RAC Acceptance customer is more a monthly customer, and your rent-to-own customer tends to be more weekly. But what percentage of your core business is done on a monthly basis? Because that's probably where the overlap is. Can you update those numbers?

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

It's still running right around 15%. I don't have the exact number in front of me. But it hasn't changed in years, and it's in that 15% range.

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

(multiple speakers) look at the segment or the overlap. We have not gotten that granular to see if it was -- when they were a previous customer; in the other business, were they weekly or monthly, I think is your follow-on question. And the fact is, we don't have that information. You can surmise, I suppose, that more likely than not they may have been. But we don't know that, factually.

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

A couple of further small ones. On the early purchase option front, one question I've been getting is, is there any change in pricing in early purchase options? Meaning, is it less attractive now? Have you done anything there on the pricing front that makes it less attractive for customers to exercise the early purchase option and, therefore, continue to rent? Is there any push from your side? Or are you just -- or whatever happens, happens? Just wondering how that's going.

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

That's a good question, Arvind. We're constantly looking at all the different levers. As you know, there's a weekly payment amount, a monthly payment amount, and then there is a term that becomes the total rent-to-own amount, so those are different levers that become a total. Then you have a 90 days same-as-cash price; that's a lever. Then you have -- if they don't pay out within 90 days, what discount are you going to give them, if any, to pay out going forward?

So there's a lot of different levers. And we look at them differently by product category, too; whether it's in electronics or furniture or appliance. So we're always looking at all those levers. And then, what has your promotional activity been? Because the lower the price on a promotion, that might drive earlier payouts rather than later, depending on how aggressive we were from a promotional standpoint.

The good news is, over the last four months now, we are seeing products stay in our system a little longer before they pay out. And I think, as you know, it has been trending down for years because of deflation. And we're seeing it go the other way, now, for about four months. And those are very positive things for us.

We certainly want the consumer to take ownership. But if it's in our system a little longer before someone does, that's a good trend for us. It's hard to your answer to your question specifically, because there are so many levers we look at constantly. We do it by product category. On one product, yes, we've made the payout longer before you get there; but on another one, shorter. But the overall trends are positive in that direction, Arvind.

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

One last one for me. You mentioned hhgregg. They have more than 200 locations. In the 425, can you give us some sense of what you're thinking in terms of the expansion with that chain?

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

Yes, I don't have those numbers in front of me, Arvind; but it's not half of that, but it's close; on the hhgregg -- how much of the 425 is hhgregg? I don't have that in front of me. And it's probably in that 200 range out of the 425. That's ballpark.

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

Great. Very helpful. Thank you, guys.

**Operator**

Budd Bugatch, Raymond James.

**TJ McConville** - *Raymond James & Associates - Analyst*

Good morning, Mark. Good morning, Mitch, Robert, David. This is actually TJ filling in for Budd this morning. Thank you for taking my questions. The first question I have goes to the guidance. I'm trying to get my head around the 5% to 8% total growth, and see where you are thinking the wider ranges might be. If we assume you get to the RAC Acceptance level that you get to, I think that gives you just about 6.5 points of growth right there. And if the core business is flat and international grows even modestly, should we be building a little bit bigger range, maybe, around that core business revenue? Is it more around the RAC business? Can you help me square that, if you wouldn't mind?

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

Well, I think you got the numbers right. If that's about 6.5, and we forecasted that core is flat, and call it 1% or something in Mexico. But then you got 1% either way on either one of those. Not so much Mexico, because it's pretty small. But if the core is minus 1% to plus 1% -- if RAC Acceptance is 5% to 7% instead of 6.5% -- that's how we end up in that range of 5% to 8%.

**TJ McConville** - *Raymond James & Associates - Analyst*

Okay, so it was evenly -- I just didn't know if you had a better feeling one way or the other on one of the segments. Obviously the growth in RAC Acceptance would lead you to believe there might be a bigger range around core. But it sounds like it's more balanced.

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

That's correct, that's correct. You're getting to the numbers the right way, the way you just added them up.

**TJ McConville** - *Raymond James & Associates - Analyst*

That's good, Mitch. Thank you very much (laughter). A lot of times I don't do that very well. And the second question I had goes to the Mexico segment. Now, I've gone through the new store slides on the site, and thank you for those. It still looks like the four-wall and the EBITDA per average store is below some of these even year-one targets, from what we saw in 2012. And maybe this goes to your point earlier, Robert, about the accounting issues. But what is it that gives you the confidence to reaccelerate that growth back up to 60 this year, that were performing to the plan that you laid out here?

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

Yes, so, as you indicated -- and Mark in his prepared comments -- the new store models are up on the website. And what he was alluding to in regards to the changes we made, they do ramp a little slower than our original expectation. However, from a customer and BOR standpoint, still ramp faster than a core US store; but, as you know, the revenues per contract is less in Mexico.

What we've seen, now, with 90-plus stores, and some in the system for two-plus years or more, is we are seeing overall success in some of our earlier stores in the way they are trending. So that's what gave us the directional forecast in terms of years three, four and five.

At the end of the day, Mark indicated the returns are higher, primarily due to the lower working capital investment on the front end; as it's ramping a little bit slower, you have less inventory to buy. But ultimately as you get out in the years four and five, and some of the expenses that we've also changed, we are seeing actually higher margins; and we are projecting higher margins in years four and five. So that's what's driving the change in the returns.

But, ultimately, what we've seen in the fourth quarter -- Mexico had its best quarter as the people are starting to gel, and you're getting some tenure. The operation is really coming around. So we're excited about that. I don't know if, Mitch, you want to add some more?

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

Yes, I do. TJ, one of the reasons that the ramp up is a little longer than the US store -- that you can ramp up longer before you level off, and you can get more growth in year three than you might see in the core business -- is a couple of reasons. One, Robert mentioned the ramp up is faster as far as customers. But it's a much smaller ticket, because of what the consumer can afford down there.

Of course you have a smaller ticket -- think about our other lever is the term -- so did get our returns on the product, we have longer term down there than in the US. So, it's on a rent longer, and we're seeing a higher keep rate; people keeping it for a longer period of time and not returning it. The runway is just a lot longer, from a growth standpoint, because we start off with a longer term and have a higher keep rate. That's what's making the runway longer. Because, again, with a low monthly payment, based on how many pesos they can afford, we have a longer term down there so the runway gets a little longer.

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**TJ McConville** - *Raymond James & Associates - Analyst*

Okay. That's really helpful, guys. Thank you. Last one for me -- 325 net new RAC Acceptance kiosks gets you right into that 1300-plus level. And I know we've talked about 1400 as being the market size, but that was furniture stores. So, any numbers that you'd like to provide, or that you can offer, as to what you're thinking is as to the total size of the potential RAC market at this time?

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

No, TJ, you're right. When we've talked about 1400, that's been furniture stores only. Of course there's a lot of electronic stores in there now. We could mention TigerDirect, Computer City stores, are also in there. It's much more than 1400. We're working on it internally to try to come up with a more definitive number. But we will be nowhere near done at 1300 at the end of this year.

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**TJ McConville** - *Raymond James & Associates - Analyst*

Okay. Those are my questions, gentlemen. Thank you again and best of luck in 2013.

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**Operator**

Laura Champine, Canaccord.

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**Laura Champine** - *Canaccord Genuity - Analyst*

Good morning, everyone. Looking over the new store economic slides, the core economics changed more than we would expect for what is really mature chain. The revenue and the margin numbers are much lower. What's the source data for the new store economic slides? And why are we seeing that deterioration in the core business?

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

The source data is, obviously, our stores that we've opened ourselves, and more along the lines of stores we've opened more recently over the last two or three years. And as you think back to 10 years ago and before, with a much smaller store base and less presence in all the markets around the country -- we talk about, in our Ks and Qs -- as we open more stores in the US, we do cannibalize ourselves. But we want to grow the overall market.

So, to some extent, you are seeing the effects of -- on a unit level basis, some cannibalization, or the impact of more stores in the market but growing the overall market.

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**Laura Champine** - *Canaccord Genuity - Analyst*

What's surprising to me is that the last slides were from April. These are just a few months later, and the numbers are so much lower. Does that just mean that the most recent class of new core stores -- which would be small -- that you opened, are not doing as well as the year before? Or is there something there that I'm not aware of?

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

No, there's nothing there that you are not aware of. I'm not sure that we updated the core stores slides in April. They may have been legacy data. But to your point, our most recent store openings are what this is based off of.

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**Laura Champine** - *Canaccord Genuity - Analyst*

Okay. Thank you.

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**Operator**

John Baugh, Stifel Nicolaus.

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**John Baugh** - *Stifel Nicolaus - Analyst*

Thank you. Good morning. Could you elaborate -- I'm traveling; I don't have all the numbers in front of me, I apologize -- but talk about customer agreements; the trends there through 2012; the average price per agreement. Just some metrics on the core business. Thanks.

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

Sure, John. As I mentioned, the fourth quarter -- when we look at agreement growth and customer growth, relative to the year before -- relative to 2011, it was the best quarter of the year. So the trends are very positive. Our ticket for the year was up slightly; again, positive. And that mostly has come, John, because our units per agreement, or per customer -- actually per agreement with the renting -- the units continues to trend up.

In fact, it's at the highest level it's been in years. So that's helped the ticket. The add-on unit part of it has gone very well. We've done promotions around adding on units, and made it easier for people to add on units, and it's worked. So our packaging, if you will, has worked. And that drove ticket up a little bit, even in this era of deflation on electronics.

So, the trends in the fourth quarter were very good from an agreement standpoint. The trends all year, really, has been good on the units per customer. As I mentioned earlier, we think we'll still be negative in the fourth quarter, because we haven't made up for the really historically high level of early purchase options through the first three quarters of 2012. But as we forecast going forward, based on prior promotions and so forth, we think after that one negative quarter we flatten out in the second quarter and then get flat for the year, with obviously some plus numbers in the third and fourth quarter.

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**John Baugh** - *Stifel Nicolaus - Analyst*

And, Mitch, on which -- the product mix for the year - -- I guess it will be in the K. Will there be any notable change? And how do you think about that influencing your business this coming year?

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

No, you won't see any recognizable change in the core business. And we're always looking at new products. Certainly, on the television side, LED and connected TVs are kind of taking over. Appliances continue to grow for us pretty steadily, as does furniture. Computers -- they're getting smaller and thinner, in the ultra-thins and the ultra-lights and all that kind of stuff. So it's certainly the latest and greatest technology, but there's not anything in there. There's not like a new product in there that's going to take over, or any big shifts by product category that we're seeing.

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**John Baugh** - *Stifel Nicolaus - Analyst*

I think you mentioned that you hoped that the four-wall breakeven in Mexico by the end of the year. What does that mean as we enter 2014? In other words, you described a $0.25 drag still here in 2013. If we are on that trend by the end of this year, what does that imply for a drag? And you can range it pretty wide if you want, but I'd assume we narrow that gap meaningfully in 2014.

And then, also, if you could just discuss what specific expenses you found in Mexico that have allowed you to make it more profitable? Thank you.

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

In regards to four-wall breakeven, what that means is on a monthly basis by the end of the year we will achieve four-wall breakeven; which excludes overhead, middle and senior management, things of that nature. So at the store unit level, breaking even on a monthly basis by the end of the year.

Now, that trend is obviously is a positive one. How it impacts 2014 and beyond in large part is a byproduct of how many stores we expect to open in 2014, 2015, 2016 and so forth. And so if we stopped opening stores at the end of 2013, yes, there would be a meaningful shift in the dilution going into 2013 -- or, going into 2014. However, we expect to ramp our growth beyond the 60 that we're forecasting in 2013, when you get into 2014 and beyond.

And so there is not a meaningful shift. There is still some dilution, but less than what we're forecasting for 2013, as you get beyond 2014 and 2015. (Multiple speakers).

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**John Baugh** - *Stifel Nicolaus - Analyst*

If you were to open the same number of stores -- 60 in 2014 -- would the EPS loss be cut to $0.10? I hear you. I hear you saying it's going to go up again, which is fine, and then your losses continue. But any kind of feel for the leverage and rate of gain and profitability there?

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

Yes, I think if we were to open the same amount, John, it would be at least $0.05 of earnings, and maybe as much as $0.10. It would be in that range between $0.05 to $0.10, if we open the 60 again in 2014.

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**John Baugh** - *Stifel Nicolaus - Analyst*

And what if you found down there in expenses that you have been able to pull back on?

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

Well, it's primarily labor. If you think about the ramp being a little slower, that means less customers to serve and less BOR on the front end. And, therefore, less coworkers needed to manage the portfolio, so that's one area. We have also -- similar to what we have been doing here in the US -- looking at consolidating some of our buying across all stores, to get better rates and terms from our vendors, as we've ramped up the purchasing down there -- whether it's store supplies, furniture and fixtures, things of that nature. So it's really across the domain in terms of the operating costs.

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**John Baugh** - *Stifel Nicolaus - Analyst*

Okay, thank you.

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**Operator**

James Ellman, Ascend Capital.

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**James Ellman** - *Ascend Capital - Analyst*

Yes, hello. Thanks for taking my question. If we could start with -- do you expect there to be any impact from the military shutdown from the sequester and/or them letting go of, at least temporarily, lots of their contract workers? And are you changing your underwriting for military workers at this time?

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

No, we don't anticipate any impact there, nor are we changing any of our -- any systems in the way we approve anyone, for that matter. Certainly the military -- no, we're not changing any of our processes there.

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**James Ellman** - *Ascend Capital - Analyst*

Okay. And you had mentioned that you have not seen any impact from the 2% drop in payroll for your customers yet. Do you expect that you will over the course of the year?

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

No, we don't. That's certainly money out of the pockets of people who can afford it the least. At the same time, gas prices are lower than they were a year ago. So, no, we are not anticipating that to be an issue. We didn't see it be a positive when we did it two or three years ago, how many years we had that in this country. But we certainly don't see it being a negative going forward, again. Because there's a lot of things at play there. It's not just that 2%. Gas prices are at play, and obviously the consumer is under pressure. Make no mistake about that. We just don't see that 2% putting them at --

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

(multiple speakers) be meaningful.

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

That it will be any meaningfully different than it has been.

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**James Ellman** - *Ascend Capital - Analyst*

All right. And on the late tax refunds, we've also heard that -- I believe it came out today that up to 3 million Americans won't be able to file their returns until March, due to the IRS not being ready to prepare for their returns if they were taking a student loan credit. And also we've heard that the IRS might be a little slower in tax refunds this year, due to all the identity theft last year. And they want to be more careful this year.

If tax refunds are a bit slower, what sort of impact does that have on your business? And do you get all that business back in the second quarter if you lose some in the first quarter?

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

Well, any delay from our standpoint we would see as a positive, because it does translate to a lot of people exercising early purchase option. So, if items stand around longer before that is exercised, that is a positive thing for us. We don't see that piece about those 3 million consumers affecting our customer a whole lot. The majority of our customers are short form filers.

We'll certainly have some. But the majority of our customers will be able to file, I think, tomorrow or whenever they want to, starting tomorrow. That won't have as big impact on our customers; maybe a customer as you move up the scale a little bit.

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**James Ellman** - *Ascend Capital - Analyst*

All right. And finally with Mr. Cordray at the Consumer Financial Protection Bureau potentially getting thrown out by the courts, and the CFPB not being able to engage in enforcement actions for much of this year -- do you see that as reducing any regulatory risk on your business? Is there anything you can do differently if they are not in the picture?

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

Now, we don't view what's going on currently any differently than what has taken place over the last couple of years. And, again, as a reminder, our belief, when you look at the description, the CFPB and financial instruments and so forth, we are carved out, we believe -- and there's the parenthetical that alludes to that -- and whatever changes may take place in terms of the administrator, we don't view that as having any implications on us either at this point. So, no; no difference.

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**James Ellman** - *Ascend Capital - Analyst*

Okay. And, finally, could you help us understand -- I didn't quite catch why you had the pull-forward into 2012 of business from core out of 2013. And what caused that, and will it continue?

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

James, the higher level of early purchase options coming in the first two to three quarters, really, in the core business pulled the revenue forward. If you go back you'll see a 7.1% same-store sales number; a comp in the first quarter. And then it waned as the year went on, and that's overall, but the core went the same way.

And then you've got to build those agreements back up. And when we look at our current trends, it's going to take one more quarter to build those agreement levels back to when you're looking year over year, that you're on flat ground.

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

James, a quick way to track that is look at the on-rent inventory by segment. And we ended the year, in the RTO core business, with on-rent inventory of $598 million. That's the highest level it had been all year. That on-rent inventory is the portfolio that's generating the revenue. That was the highest it had been all year. But we ended 2011 with $619 million of on-rent inventory. So, our inventory levels, in terms of what is on-rent and generating revenue, are less at 2012 and 2011. And that's indicative of all the early payouts that we experienced in the first quarter.

So, we were fighting all year long to get back up to that level. So when we talk about revenue softness in the first quarter of 2013, we're still trying to get back that revenue that was pulled forward in 2012.

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

And then once you've comped over that, you're back to flat ground as well, right? Once you get back to past the first quarter.

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

I think the other way that shows, Robert, is if you looked at the income statement, sale of rental merchandise in the first quarter last year. As I recall, in the first quarter of 2012, it was $20 million or $30 million higher than historical years in the first quarter. Which speaks to, again, all of these additional early purchase options. So that speaks to the revenue that dissipated because they paid out. But then it also speaks to the number we've got to comp over in the first quarter.

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

Right.

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

And I think Mitch's comment earlier -- if we have lower payouts, that's actually a good thing for us in the future quarters. But in the first quarter, it's going to show considerably less cash sale, or sale of rental merchandise, which is going to have an adverse impact on the comp. But we're going to actually view it positively, because we're going to have agreements on rent longer, paying in future periods.

**James Ellman** - *Ascend Capital - Analyst*

All right, very good. Thanks so much for the time.

**Operator**

Arvind Bhatia, Sterne, Agee.

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

Couple of small ones here. One, I think, Mitch, you mentioned that your charge-offs were in pretty good shape. I think you said 2.4%. Is there anything to talk about among the different segments and the trends for charge-offs, whether it's RAC Acceptance or core versus international? And I didn't hear you guys say anything on Sandy. I wonder if you could talk about that, if that had any impact on the quarter. And then, lastly, on the accelerated depreciation you'll be able to get now in this year, what impact that could have on free cash flow and if that impacts how you are thinking about buybacks at all. Thank you.

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

Thanks, Arvind. I'll take the first couple of those. As I mentioned, on the core, 2.4% better than last year. It was 2.5% in 2011. And the actual weekly collections average for the 52 weeks was the lowest it's been in three years; so real positive stuff in collections.

RAC Acceptance and Mexico, we are not reporting those individually because, as the stores grow, the numbers aren't as meaningful until they get to a certain size. But no surprises at all in any of their metrics, whether we're talking about RAC Acceptance or Mexico. So, collections performance has been solid.

Hurricane Sandy, we didn't talk about. When you look at revenue loss and some customer losses on the damage waiver -- where we have to write out the products if they had that damage waiver coverage with us -- when you add everything together it was almost $1 million, or about $1 million in total. So we didn't call that out, but it did cost us about $0.01 in the quarter, so if you wanted to add $0.01 back into the quarter we would appreciate that.

All kidding aside, it was an impact. $1 million is still a lot of money. And we feel -- were more concerned for the people that lost what they lost up there than our $1 million, to be honest about it. And as far as the depreciation, I'll let Robert talk about that.

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

I'm --

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

The accelerated depreciation.

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

All right. Okay. I was going to talk about cash flow, and part of that being the impact of the fiscal cliff legislation that was signed into law on January 2, I believe. We will benefit from that in 2013. I think everyone knows we were expecting a large turn in our deferred tax liability in 2013. That's now been extended out another year to 2014.

In terms of free cash flow for 2013, this year, instead of it being negative because of the tax liability turning, we're now expecting it to be positive, in the $50 million to $60 million range. And that compares to roughly $100 million free cash in 2012. So it's down slightly, primarily due to our expected investment in working capital; increase in inventory purchases. We're continuing to grow and add more revenue to the top line.

So that impacts our view on stock repurchases going forward. As I indicated in my prepared comments, we expect to continue on a similar path as we've experienced the last year plus. And with leverage being where it is, we don't view temporary changes in our free cash flow -- we don't view that as a barrier to us being in the open market. We are opportunistic share repurchasers. We know, as we look at out two, three, four years from now, our cash flow will be back to normalized levels, around $200 million plus. So we're not going to be afraid to be in the market if necessary.

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

That's great, guys. Thank you.

**Operator**

John Barrett, Columbia Management.

**John Barrett** - *Columbia Management - Analyst*

Yes, thanks, guys. Good morning. Going back to the question on cannibalization from RAC Acceptance, I understand that you're looking at a database and maybe the names don't match up. But of course there is a big potential of those customers that would normally walk into your core stores are just going to RAC Acceptance, never going to the stores. What is your willingness to close more of your core stores as RAC Acceptance grows?

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

Well, if we have unprofitable stores, brick-and-mortar stores, when their leases come up, we look at consolidating them. We're not tied to a number. The RAC Acceptance returns on investments are as good or actually a little better than the core business, so that -- wherever we get the business. That's why Mark was talking about looking at it together with 6.2% revenue growth last year. That's quite a bit of growth for the United States -- 6.2% -- no matter how you look at that consumer. However we get there, and we continue to get 5% to 8% revenue growth every year, we are not married to any one way of getting it.

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

Yes, (technical difficulty) that. In fact, I know when we got in into this business initially a few years ago, we viewed it as an opportunity to expand the reach of the market we serve; to get in front of a customer we hadn't seen before, either because of stigma or psychographics or physical location. And obviously that's very [now] -- now, Mitch said, there's not a lot of cannibalization today.

You could argue there may be lost opportunity today that we might have gotten otherwise. We don't believe that to be the case, based on, again, what we're seeing, although there is some. You've got to assume there is some implication of a customer that might have walked in otherwise.

But to your point, if five years from now we were doing $4 billion in the US as opposed to $3 billion, does it matter how we get there, I guess is the question -- i.e., 3000 brick-and-mortars and maybe then 2000 RAC Acceptance. Or is it 3000 RAC Acceptance and 2000 brick and mortar? I'm not suggesting either one. I don't think we have the answer to that.

But on the other hand, when we look at investing our money and how we can get a return on that money and expand and grow the market we're serving, that's how we're approaching this. And so we are very open to it. And we'll make what we think is best, again, in terms of return on investment and reaching the most customers and things of that nature.

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**John Barrett** - *Columbia Management - Analyst*

Okay. I would add, investors focus on inflection points. And the hard-line retail world has been littered with retailers like Barnes & Noble and OfficeMax and Best Buy, et cetera, that talk of current four-wall contribution profitability. But the market looks at inflection points looking out 3 to 5 years. And current four-wall profitability isn't necessarily the best metric. It's the incremental change. You're not going to get a lot of credit until the core improves. I'm just going to throw that out there.

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

That's fair, that's fair. I think we are mindful of that. And, again, we believe we can do some things, and are doing things, that will improve and enhance the core. At the same time, we're looking at how we expand the overall market and (multiple speakers) we can hopefully do that.

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**John Barrett** - *Columbia Management - Analyst*

The CapEx jump -- I think it's $102 million to $120 million. Is that incremental growth? Did you just touch on that?

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

Yes, it's primarily related to continued investment in IT systems and platforms that we're looking to roll out in the near future, primarily related to a POS system that we are rewriting right now.

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**John Barrett** - *Columbia Management - Analyst*

Okay. And when does that get rolled out or implemented?

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

It will take place over the course of the next couple of years. It won't start until later this year, but --

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

Pilot later this year; and then based on pilot and all of that kind of stuff, we'll start ramping late in the year or sometime next year, more likely.

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**John Barrett** - *Columbia Management - Analyst*

Okay. And if things -- let me just -- you guys have very excellent gross margins. Your OpEx -- gross to operating profit is a big differential. I understand there's a lot of cost to running your core business. But say payment options continue to be a headwind and there are some potentially macro headwinds; maybe even possibly an improving economy that could be of macro headwind to your core.

Is there any contingency on operating costs where you could react this year if the core sequentially continues to get worse as it did in Q4 versus Q3, on a cost standpoint?

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

It's pretty difficult in the core.

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

Yes, not overall. We have obviously over the last several years as the market -- the macro economy in general had in 2008 and 2009 -- over the last several years, starting then and up through now, we've been very diligent in how we've managed our costs, putting in more of a focus on the way we procure our goods and services. And you're seeing some of that benefit over the last several years.

Meaningful, large-ticket items, to Mark's point, at the store level, there's really not a lot of cost that can be removed. And we've talked about that in terms of the leverage -- as incremental revenue grows, the flow-through on that revenue, just given the cost structure, but there reverse is true, too. As if revenue declines there's some deleveraging.

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**John Barrett** - *Columbia Management - Analyst*

Okay.

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

A the biggest expense at the store level, you've got on average five coworkers. And so you go back to this past year that we have a slight negative comp with 1%. You're talking essentially one delivery a week. You don't have the ability to take 20% of your workforce, i.e., one coworker, out of it, without it having a much more adverse impact.

Now you can get into the whole thing about hours and scheduling, which we have addressed over the last couple of years and always tried to address, given those kinds of circumstances. But the low-hanging fruit has been frankly captured over the last couple of years.

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

And we'll remain -- to Robert's point -- we'll stay diligent on our expenses whether we are -- no matter what's going on with the revenue side, we'll stay as diligent as we have been the last few years. Absolutely.

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**John Barrett** - *Columbia Management - Analyst*

Okay. And last month -- and thanks for the time -- when you, looking at your presentations over the last year and a half, you are targeting 6% to 7% long-term EBITDA growth. And coming off of 2012 versus 2011, it was 2.7%. And I understand there was a lot going on with Mexico, RAC, et cetera, and some headwinds in the core.

But is that growth through 2014 a CAGR growth? So is it safe to assume given the investments in RAC and in Mexico, that EBITDA growth of 6% to 7% target is going to be a 2014, 2015 thing when you look at some of the headwinds you are facing this year? And that's okay if it is 2% to 5% in years one and two, and you are back-end loading it a little bit. Just given the maturation of the investments, that makes sense. But is that a good way to look at it?

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

Absolutely. I think you are seeing -- you will see some acceleration in that growth when you get to 2014, 2015. Obviously the last couple of years it's been muted a little bit given the ramp up in our growth in terms of Mexico, RAC Acceptance, but as those -- that base matures and solidifies, you have a lot larger base to take on some of that dilution. So you'll see it accelerate in 2014 and 2015 for sure.

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

And, John, I think the other way I'd ask everyone to think about that, and you raise a good point, by way of example. So what you are referring to is an outlook that we gave a couple of years ago for five years. And there were some underlying assumptions hat with that. By way of example, RAC Acceptance, I seem to recall that we said between 200 and 250. So, RAC Acceptance each year over that five-year look.

Now in 2013 our expectation is to open about 425 of those. And you can store go to the new store economic slide, it's posted, and you'll see there's a significant -- and I say significant, it's more working inventory -- but there is certainly dilution as you open up more stores and they ramp up. So what is the impact and implications of that on 2013's EPS guidance? Certainly we're getting the benefit, from a revenue standpoint, that there is a cost for an implication of doing it. And I think that's what you are alluding to.

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**John Barrett** - *Columbia Management - Analyst*

Yes.

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

It still ramping up, Mark, from 2012.

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

(multiple speakers) That's right. All the ones we did in 2012 are -- and now we're adding even more in 2013. Obviously, we believe it's the right thing to do from a long-term. And I think that's, again, what you are alluding is, how does this play out when you get forward years? What is the impact of it in the near term?

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

And 2012 is the low point on that CAGR that you are talking about, John. 2012 was the low point.

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**John Barrett** - *Columbia Management - Analyst*

Okay. Great. Thank you very much, guys.

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**Operator**

Budd Bugatch, Raymond James.

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**TJ McConville** - *Raymond James & Associates - Analyst*

I apologize. Arvind got to my question, guys. Maybe if I've got you here, you might address -- one of the points John just brought up about the improving economy maybe being a headwind for you this year. Can you talk about that a little bit more, and what the latest thoughts are as far as economic improvement versus credit market improvement, things like that? And that will be it for me. I apologize again.

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

Sure, TJ. I'll talk about that. I don't see that as a headwind for us. I think as consumer confidence goes up, that'll be a positive thing for us. I think the -- a big competitor of ours, if you go back to the mid-2000, 2005 and 2006, was Easy Credit. I don't see, even in an improving economy with higher consumer confidence, that the banks will take the risk they did in 2005 and 2006.

And we still had growth in 2005 and 2006, by the way. But I think an improvement in consumer confidence with a remaining relatively tight consumer credit market will actually be more positive for us than where we are today. Because people, first of all, have to have confidence, so I see that as a positive, not a headwind.

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

Well, you've got to a believe that an improving economy suggests a lowering unemployment. And we know that much of the unemployed today, our customer base if you will, that we did in fact serve in the past or could likely serve in the future -- which, again, goes into the confidence. But if they are now employed and/or their earnings are going up, clearly that's going to be opportunistic for us. And I would advocate that a lot of that unemployed or underemployed today are customer opportunities for us tomorrow.

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**TJ McConville** - *Raymond James & Associates - Analyst*

Very good, guys. Thank you again.

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**Operator**

We have no further questions in queue. I'll turn that call back over to Mr. Mark Speese for any closing comments.

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

Ladies and gentlemen, thank you again for joining us today. We do appreciate your support and interest in the Company. We've got some headwinds that we're continuing to deal with in the core business. But we feel that we're in a good place with regards to the core and how they year looks for us.

Certainly, we're very excited about the emerging businesses and the opportunities that they create for us. We're looking forward to being able to report back to you next quarter with our near-term results. and look forward to a great year ahead. Thanks again, and we'll speak you next quarter.

**Operator**

Ladies and gentlemen, thank you for your participation in today's teleconference. You may now disconnect.