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EDITED TRANSCRIPT

RCII - Q1 2014 Rent-A-Center Earnings Conference Call

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OVERVIEW:

RCII reported 1Q14 total revenues of $833.7m, net earnings of $30.1m and diluted EPS of $0.57. Expects 2014 total revenue growth to be 3-6% and diluted EPS to be $2.30-2.50.

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PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's first-quarter 2014 earnings release conference call. (Operator Instructions) As a reminder, this conference is being recorded Tuesday, April 22, 2014.

Your speakers today are Mr. Robert Davis, Chief Executive Officer of Rent-A-Center; Mr. Mitch Fadel, President and Chief Operating Officer; Mike Wilding, Senior Vice President, Accounting and Global Controller and Interim Chief Financial Officer; and Mr. David Carpenter, Vice President of Investor Relations.

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

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

Thank you, Jay. 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 first quarter. If for some reason you did not receive a copy of the release, you can download it from our website at investor.rentacenter.com.

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

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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, 2013. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements.

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

Robert Davis - *Rent-A-Center, Inc. - CEO*

Thank you, David. Good morning, everyone, and thank you for joining us. Suffice it to say, it has been a very busy first quarter here for us. Our first quarter after the retirement of our former CEO, Mark Speese, has found us generally pleased with our results.

First-quarter adjusted earnings per diluted share of $0.57 are ahead of consensus expectations and sets the stage for 2014 to be the transformational year for our Company. Let me provide a high-level update on our primary business segments and some updates on our strategic initiatives laid out at our February Investor Day; then Mitch and Mike will dive a little deeper with their updates.

In our core segment, during the quarter we have focused primarily on the quality of our portfolio, the health of our inventory levels, and ensuring a steadfast focus on our expenses. As such, we have change in our promotional tactics which has resulted in an increased average ticket in our core.

Further, we have lowered the level of idle in-store inventory, which unlocked some cash flow during the quarter, enabling us to lower our leverage by reducing indebtedness by over $41 million. We do believe these were initial necessary steps to begin to stabilize the core.

And finally, to ensure we remain focused on providing total returns to our shareholders and the long-term health of the Company, as announced in the press release, we do intend to finalize the execution of a store optimization plan during the second quarter by consolidating approximately 150 locations with existing core RAC stores.

In our Acceptance Now segment we continued to perform quite well. A segment that contributes over 20% of our total revenues and continues to excite, our average kiosk in Acceptance Now is producing revenues well over $40,000 per month, which we believe is well ahead of any competitors in this space. And as outlined at Investor Day in New York, I am pleased to announce that we are up and running with our virtual platform for this exciting growth channel.

In regards to our international segment, and more specifically, Mexico, things are progressing as expected, and in particular within the first dozen locations that we have just opened in Q1 within Mexico City. Although it is very early, the dozen locations are ahead of our initial expectations from a demand perspective.

So all in all, a nice start to the year for us. Not overwhelming, but some encouraging elements to build upon, for sure.

And speaking of building, and while I have alluded to a couple of the strategic initiatives we discussed at Investor Day, let me provide a couple of additional high-level updates regarding our ambitious multiyear strategic plan.

From a market planning perspective, we have taken a data-driven approach to developing a more predictive market growth and optimization model. As such, we have developed new tools and capabilities that have informed us in regards to the store optimization work currently in play. And we believe these new tools and capabilities will help us longer-term at identifying future potential markets for growth.

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I mentioned the successful deployment of our virtual Acceptance Now platform, and our plans are to open 50 new locations by year end and convert approximately 100 current manned locations, which will be more profitable under the virtual model. The pipeline for this channel is robust. Our pricing work is delivering insights we have not experienced before, and this data-driven and customer-centric approach to pricing is promising.

We have determined our overarching pricing strategy that has provided us with approximately 26 different pricing tactics for our arsenal. And as you might imagine, some are quicker and easier to implement than others. Thus, we are on the verge of beginning to test a couple of different elements within our pricing strategy. We are optimistic about this analytical approach to our pricing and delivering a customer-focused, value-based offering.

Our customer segmentation work -- a discrete step within our brand positioning effort -- has been completed. We have identified four unique, high-priority customer segments which we can utilize as a mechanism to aid in activating our most promising customers. And we expect to begin implementing elements of this work in the back half of this year.

We are completing the strategy phase of our work on sourcing and distribution. And while our ultimate supply chain design has not been determined, I am pleased to confirm for you our original hypothesis that we can become much more efficient and recognize significant savings in our cost of goods sold.

So as you can see, we have many new and exciting initiatives underway at various stages of development and implementation. It has not been easy work, but is paramount to our ability to stabilize and grow the core US segment and deliver upon our long-term strategy.

Before I turn the call over to Mitch to provide more detail in the quarter, I'd like to sincerely thank all of our hard-working coworkers for their passion and dedication in support of our mission. Mitch?

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

Thanks, Robert, and good morning, everyone. As Robert mentioned, we are generally pleased with how the first quarter ended. In the core segment, we have altered our promotional tactics that we use and now have our average ticket up on a sequential basis. We ended last year with too much inventory after a disappointing December, but we now have our inventory in line and set up the way we want it going forward -- all while driving enough traffic to improve our sequential rental and fee counts in the core by approximately 30 basis points. And we expect this sequential improvement to continue throughout the course of the year.

On the collection side, our weekly performance metrics remain generally on target with our goals, and our skip and stolen losses came in at 2.8% for the quarter, a 10 basis point improvement from last quarter. As I mentioned a moment ago, we did a very good job managing our inventory back in line in the quarter, as the core's held for rent percentage at the end of the quarter came in at 24.2%, 210 basis points better than the same time last year.

Regarding Acceptance Now, we remain pleased about the growth and the profitability of that segment. With 60 more locations opened in the quarter and a 26.1% comp, things look very good here. Our collections metrics and our customer keep rate metrics also remained steady and where we expect them.

As Robert mentioned, we are very excited about the development of our virtual technology that will allow even more profitable expansion in this segment. Acceptance Now continues to help us grow the overall US rent-to-own market, which for most retailers is not an easy thing to do right now.

In fact, when you add the US core and Acceptance Now together, our revenue in the US is up about 1.2% for the quarter. So we are growing our US market share, and Acceptance Now has been and will continue to be a very successful growth vehicle for us.

In Mexico, revenues grew over 67% in the quarter. We opened 22 more locations and had a comp of over 20%. With our growth of new stores this year being frontloaded, 22 out of the 30 coming in the first quarter, so is the dilution. That frontloading of openings, or the timing, if you will, is

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why we are slightly more dilutive this year in the first quarter than we were last year. But we remain on track to lower our dilution from this growth vehicle for the year by about $0.05 year over year.

As was mentioned, Mexico City is off to a good start. And in general we remain pleased with this growth initiative today and with what it can do for us over the next several years.

Overall a pretty good quarter, with numerous improvements being made, and numerous initiatives as outlined at Investor Day starting to come to fruition. We remain excited about our opportunities, both in stabilizing the core and in our growth initiatives.

For that I'd like to thank our 20,000-plus coworkers for all they do to make this happen. With that, I will turn it over to Mike.

Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

Thanks, Mitch. I will walk you through our financial results for the quarter and review our 2014 annual guidance, after which we will open the call for questions. I'd like to mention that much of the information I provide, whether it is historical results or forecasted results, will be presented on a recurring and comparable basis and therefore exclude a $0.03 charge related to our senior credit facility refinancing.

As outlined in the press release, our total revenues were $833.7 million during the first quarter of 2014, an increase of $14.4 million or 1.8% as compared to the first quarter of last year. Our net earnings in the quarter were $30.1 million. Diluted earnings per share equated to $0.57, ahead of Street consensus.

These results include dilution related to our Mexico growth initiative of approximately $0.07 per share. Both operating and EBITDA margins declined 240 basis points in the quarter. This was expected, as we began to invest in our strategic growth initiatives in order to improve the profitability of the core US segment, which initiatives were outlined back in February in our Investor Day, and as Robert has updated you on just a few moments ago.

We generated positive net cash provided by operating activities in the quarter of $120 million, which was an increase compared to last year of $6.6 million, primarily due to our lower merchandise purchases and focus on renting existing merchandise.

During the quarter the Company completed the refinancing of a new $900 million senior credit facility, consisting of a $225 million term loan and a $675 million revolving credit facility. We believe the increased liquidity provided by the larger revolving credit facility and moderation of mandatory principal payments over the next seven years will further enhance our financial flexibility as we continue to execute on our strategic growth initiatives.

In addition to the $0.03 one-time financing charge in the quarter relating to the write-off of unamortized financing costs from the Company's previous credit agreement, we expect increased interest costs to impact diluted earnings per share for 2014 by approximately $0.05.

Dividends continue to play a vital role in our total shareholder return, and we will make our 16th consecutive quarterly cash dividend payment this Thursday. We believe we have taken a fair and balanced approach to total shareholder return.

We ended the quarter with roughly $81 million in cash on hand. And our consolidated total and consolidated senior secured leverage ratios at the end of the first quarter were 2.59 and 0.85, respectively, well below the floor on our new covenant requirements of 4.5 and 2.75 times, respectively.

We continue to believe our balance sheet remains strong. And as such, we believe we remain well positioned to continue to execute on our strategic growth initiatives.

In terms of guidance, for 2014 we currently expect total revenues to increase between 3% and 6%. We confirm our previously reported guidance for same-store sales for 2014 to range between a positive 3% and 5.5%; diluted earnings per share for the year to be in the range of $2.30 and $2.50,

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which includes an approximate $0.25 drag on EPS related to our Mexico growth initiative; and EBITDA to be in the range of $325 million to $345 million.

Free cash flow will approximate negative $65 million in 2014, largely due to a cash burden to be paid, stemming from both tax and the reversal of a significant deferred tax liability. The 2014 guidance does not include the potential impact of any repurchases of common stock the Company may make; changes in future dividends; material changes to outstanding indebtedness; or the potential impact of acquisitions, dispositions, or store closures that may be completed or occur after June 30, 2014.

And going back to our guidance for a moment, you will recall that we provide some data points on our website regarding the historical spread of our annual results by quarter. This is meant to be a guide and not a predictor. However, based on our current forecast, we estimate our second-quarter 2014 EPS as a percentage of the full year EPS guidance will fall below any previous second-quarter results in 2009 to 2013 by at least 3%.

With that, Jay, will you please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brad Thomas, KeyBanc Capital Markets.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

First, just a couple of questions about the store closures. Robert, just thinking about this at a high level, you all are starting to generate such a large percentage of sales and operating income from the virtual side of your business and the kiosk side of your business; and so just stepping back, how do you think about the importance of the retail segments? And could this be the start of, potentially, some more prunings that we see on the retail side?

Robert Davis - *Rent-A-Center, Inc. - CEO*

Well, as you heard in my prepared comments, a couple of things that will play a factor in that question: one is we do have new capabilities and tools, which we've developed over the last 90 days, that did play a role in informing us as to our optimal footprint within the markets we serve today.

On the same hand, I also alluded to the fact that there may be markets that we are not currently serving today that at some point we will want to investigate with these new tools and capabilities. The first step was just ensuring that our current footprint was optimized.

So your question is a good one. I can't sit here and predict today as to the ultimate outcome. However, suffice it to say the expected growth and success of Acceptance Now in the virtual platform will certainly play a role in that ultimate outcome in terms of footprint. We've got to have that channel to help facilitate the growth of those two arenas. So, more to come, so to speak, but certainly are pleased with the tools and capabilities that we now have to make us more scientific and data-driven in our approach to market optimization.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Great. And I know you talked about a number of those initiatives for the retail segment at your Analyst Day. With the first quarter in the bag, what's the outlook now for same-store sales for the back half of the year for the US retail segment?

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Robert Davis - *Rent-A-Center, Inc. - CEO*

Mitch, you talked about that in your comments. You want to --?

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

Well, for the core business, Brad, we certainly see us sequentially getting better every quarter. As I mentioned, the rental and fee piece of it was 30 basis point improvement sequentially from the fourth quarter.

Our exercising of early purchased options for the merchandise sales category was down compared to the year before, which isn't necessarily a bad thing. So that made the comp 6.1%. The retail and the comp was a negative 3.8%. So -- and again, 30 basis points better.

That's going to continue. We should be -- you know, internally we get to flat in our same-store sales in the core business by the fourth quarter. And you see that in our guidance, because that -- starting in the first quarter, negative 0.8% versus ending the year at, what, 3% to --?

Unidentified Company Representative

3.2%, 4.2%, something like that.

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

3% to 5.5%. That's a trajectory where it gets better as the year goes on. Not dramatically, not overnight, but as the year goes on. So, yes, we do expect it to get better as the year goes on in the core business.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Okay. And then just one last question on the closures. What are you assuming in terms of the revenue implications -- you know, in terms of total top-line implications of closing the stores, and what kind of comp impact that could have? And what's the operating income benefit that you could get from the closures?

Robert Davis - *Rent-A-Center, Inc. - CEO*

What we are assuming right now for 2014 -- and that's one of the contributing factors to the current guidance for total revenue, from 4.5% to 7.5%. We are now projecting 3% to 6%. So a portion of that is a byproduct of store consolidations. We are forecasting $12 million-plus in revenue deterioration this year, or revenue that would go away after the mergers for this year.

And then in the operating income, to offset the impact of the interest carry on the refinancing, which is why at this point in the year we were comfortable leaving our EPS guidance alone. And then, obviously, the benefit from an operating income perspective increases next year, but the revenue deterioration also increases, just given the retention curve on stores after they consolidate. So we haven't given guidance for next year, but we believe that the operating income impact could be roughly $10 million to $12 million next year.

Brad Thomas - *KeyBanc Capital Markets - Analyst*

Got you. Good. I'll turn it over to someone else. Best of luck.

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Operator

John Baugh, Stifel.

John Baugh - *Stifel Nicolaus - Analyst*

I wanted to follow up on that last point about the store closures. So could you walk us through -- I know there was some commentary in the release about lease expense. It wasn't clear to me how much was a commentary around a one-time expense -- ongoing lease expense versus cash, timing of lease payments.

But really, what I want to drive at is how you see 2014 and 2015 playing out in terms -- and let's just take 2014 for the moment. You gave us, I think, the same EBITDA guidance, so there's no change there. How will this one action -- closing 150 stores -- impact the core profitability relative to your previous thinking for calendar 2014? Thank you.

Robert Davis - *Rent-A-Center, Inc. - CEO*

Well, relative to our initial thinking, it's going to be beneficial. But as you will note in our first-quarter results, our revenue was a little bit behind expectations. And so there was some impact to profitability overall in core in the first quarter.

Suffice it to say that the range of EBITDA, $325 million to $345 million, is a $20 million range. And the impact that we are referring to is only a portion of that. So we were comfortable leaving the range where it was.

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

And as we said when we talked about EPS, John, it offsets that $0.05 of dilution from the extra interest. So that will give you some guidance on what the positive impact is for this year that's offsetting that higher interest from the refinancing from an EPS standpoint. From an EBITDA standpoint, obviously interest isn't part of that. But it's a $20 million range, so it's just in there.

John Baugh - *Stifel Nicolaus - Analyst*

And, Mitch, how typically -- so if I closed a store on July 1, can you give us some rules of thumb or updates on how you would expect, in a one-store example, the revenue to transfer over the next, I don't know, 12 months -- what expenses would transfer? And I understand every situation is different, so just some kind of range of normal experience.

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

Yes. We've talked about it before. We keep over a year -- on a year trend, about half of the revenue does transfer in. And we end up with normal profitability flow onto that in that 40% to 50% range, John, based on some of the expenses transfer and others not.

It gets more profitable next year as some of the leases drop off. The question you asked earlier -- the one-time charges for fixed assets -- I think that's $4 million; and then there's $8 million worth of lease exposure. But that gets paid out over the leases, so it's not like that's part of a one-time charge or anything. So that gets paid out over the next couple of years as those leases expire.

Of course, some of them are expiring next month and some of them go a couple of years, but that's the $8 million total. So that's part of the expense. But still, the accretion is better the second year than what we have factored in here for the first year.

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John Baugh - *Stifel Nicolaus - Analyst*

Okay. And then my second question is, just quickly, on Mexico. I know we've got Mexico City opening up. Of course, you mentioned the comp, but the comp gets a lot of help from the opening of these stores, and moving into years two and then three after that.

Are there metrics excluding Mexico City that you could give us on the rest of Mexico? And update us on how that's progressing, and what key metrics you are looking at in terms of the business, excluding the Mexico City ramp?

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

Well, we are on target in general. And I would refer you back to -- every year we update the model, the new store model, on our website based on another year's worth of information. And as you can see, there wasn't much change to it this year relative to the past year as far as the return and so forth coming out of those stores.

So we are on track. So we just updated our new store model in January, I guess -- late January. Like I said, from a return standpoint, it didn't change very much from prior. So with another year's worth of data and looking at all the metrics we look at, we are still on track. That's the best thing for you to look at, is what changes we have made to the new store model every year as we have posted it. What we are seeing different a year later in trends is really built into every time we update that model.

John Baugh - *Stifel Nicolaus - Analyst*

And I believe, Mitch, if I'm not mistaken, that model shows a lot lower year-one revenue than your old model, yet you've been able to more or less keep the returns similar. Could you tell us if that's right, or how that's working?

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

Yes. I think from the very first stores we opened on the border, the ramp was a little faster in the first year. And as we've gone more in-country, it's spread out a little longer.

They are not ramping up quite as fast as those initial stores; that's why there's more in the second year of that model. But the return rates -- I'm not talking about IRR. The return rates by the customer are running better down there, to our benefit. So it gives you a little more elongated growth curve than we originally had planned. So it is a little bit slower to start, but it grows longer before it levels off. And that's what kept the IRR where it was.

John Baugh - *Stifel Nicolaus - Analyst*

Great. Thank you.

Operator

Laura Champine, Canaccord.

Jason Smith - *Canaccord Genuity - Analyst*

Hi, guys. This is Jason Smith on for Laura.

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I just had a couple of questions. First, if you could kind of give us a little bit more color on your expectations for ticket and agreements. Just basically, do you think you guys can hit full-year guidance on ticket alone? Or what kind of ramp-up in agreements do you expect?

Robert Davis - *Rent-A-Center, Inc. - CEO*

Well, certainly not on ticket alone -- although in our forecast, we don't have the demand jumping up or anything like that in our internal forecast. We have continued relatively soft demand going forward, with the ticket continuing to improve; but again, not dramatically in either case.

Demand gets a little better as the year goes on, and the ticket impact just gets a little better as the years go on. So I don't think we are drastic in either one of those cases, Jason.

Jason Smith - *Canaccord Genuity - Analyst*

Okay. And then just a clarification question referring to Q2, the implied guidance that you were speaking on earlier about the historical ratios with full year. Am I reading that correctly or hearing that correctly, that we are looking at 300 basis points below the average from 2009 to 2013, suggesting somewhere in the $0.50 range?

Robert Davis - *Rent-A-Center, Inc. - CEO*

Not below the average. Below the lowest -- the historical one between 2009 and 2013.

Unidentified Company Representative

Correct.

Robert Davis - *Rent-A-Center, Inc. - CEO*

Just to provide a little color on that, given the fact that we provide annual guidance, obviously the Street expectations are set by you folks, and we are just trying to make sure that your quarters are more consistent with our internal expectations, given our guidance is not quarterly. So we try to provide a little bit more information on our website to provide that color for you.

Operator

Budd Bugatch, Raymond James.

David Vargas - *Raymond James & Associates - Analyst*

Good morning, guys, this is David Vargas on for Budd. I was just wondering if you could elaborate on the demand and ticket metrics you talked about earlier. Just wondering what caused the lower demand in the quarter. Was it due to the higher ticket price, or was there another factor that came into play?

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

We don't believe it was related to the higher ticket. Again, it wasn't like it increased dramatically, or we changed prices dramatically. We just promoted a little more on term discounts versus rate discounts.

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And the lower demand we had planned on, based on the way last year ended up. We forecasted -- that's why I said it's as expected. We forecasted the demand, with the customer being under pretty severe pressure, the lower/middle income being under the pressure they are under; we forecasted a little lower demand. And it's about where we expected it to be.

We also ended up last year, as I mentioned, with too much inventory, because it was still soft in December. We had to work through that in the first quarter.

So though that helped cash flow, we had to work through the old inventory. That could have affected demand a little bit. But it wasn't like it was way off where we were expecting. We know the customer is under pressure. We've worked through our inventory, promoted a little more off-term versus rate. And demand was about where we expected it, based on those things.

Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

Which, as we talked about in our opening comments, just focusing on the quality of the portfolio.

David Vargas - *Raymond James & Associates - Analyst*

Okay. Thanks. And a quick question on the store closures. Can you just give a split, about how many took place -- how many stores were closed during Q1 and how many you expect in Q2?

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

Well, out of these 150 that we are talking about, this really was driven by the market planning tool that Robert referred to earlier will all be in the second quarter. There was a few in the first quarter in the press release -- does it say 10?

Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

Yes. 19 merged in the first quarter. 150 will take place during the second quarter.

David Vargas - *Raymond James & Associates - Analyst*

I'm sorry, did you say 150 will take place in the second quarter, or the remaining?

Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

Yes. 150 will take place. Not an additional 150.

David Vargas - *Raymond James & Associates - Analyst*

Okay. Great. Thanks, guys.

Operator

Carla Casella, JPMorgan.

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Carla Casella - *JPMorgan - Analyst*

Hi. I have a couple of housekeeping items. One, you paid down some debt in the quarter. Can you just tell us which debt you paid down?

Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

That would have been debt outstanding under our revolver at year end.

Carla Casella - *JPMorgan - Analyst*

Okay. It also looks, though -- term loan or any of the bonds? Or could you just give us the balance on the new term loans?

Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

I don't have those right in front of me.

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

The term loans are the $225 million. That hasn't changed.

Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

So that $331 million, Carla -- I'm sorry -- $100 million outstanding under the revolver, and $225 million under the term loans. Then the bonds are unchanged.

Carla Casella - *JPMorgan - Analyst*

Perfect. And then how much cash was used to buy rental merchandise in the quarter? Have you disclosed that?

Robert Davis - *Rent-A-Center, Inc. - CEO*

That will be in the queue later this week when we file.

Carla Casella - *JPMorgan - Analyst*

Okay. And then on the -- you have had a lot of questions already on the stores you are closing. Are you currently paying to any dark store rent on previous closings? Can you give us the total amount of dark store rent at this point?

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

There would be a few out there. It wouldn't be a material number, but there would be a few out there, Carla. I would say there's $8 million. Maybe -- it might be 10% higher than that, if you factor in past closings. But not much of a material difference versus that $8 million that is in the press release.

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Robert Davis - *Rent-A-Center, Inc. - CEO*

And the reason for that is because normally, when there's closures, it's at the expiration of the lease.

Unidentified Company Representative

Right.

Carla Casella - *JPMorgan - Analyst*

Right. Okay. That's great. And you said the $8 million rolls off over -- what was the term and the date?

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

Primarily, over two years. I mean, there could be a couple that trickle past two years, but really, we are just about there. Mike, by the end of --

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Mike Wilding - *Rent-A-Center, Inc. - SVP of Accounting, Global Controller, and Interim CFO*

2016, yes.

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

Over the next 24 months is really when the majority -- any longer leases than that are one of the reasons why we wouldn't close that store.

Carla Casella - *JPMorgan - Analyst*

Okay. Great. Thanks a lot.

Operator

Bill Baldwin, Baldwin Anthony Securities.

Bill Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Good morning. Could you kind of refresh my memory as to what is basically the drivers behind the pretty significant increases we are seeing year over year in the G&A expense line?

Robert Davis - *Rent-A-Center, Inc. - CEO*

Well, it's a couple of things. One, it's the byproduct of new store growth in both Mexico and Acceptance Now and infrastructure here.

But it's also being driven by the investments that we laid out at Investor Day. We talked about there being $25 million of investment starting at the end of last year, carrying through 2014, that we are incurring. So that's the primary drivers behind that increase.

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Bill Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

So in 2015, then, we could see a moderation in the G&A category?

Robert Davis - *Rent-A-Center, Inc. - CEO*

We would expect that; yes.

Bill Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Okay. Thank you.

Operator

John Rowan, Sidoti & Company.

John Rowan - *Sidoti & Company - Analyst*

I just wanted to make sure I understand the second-quarter guidance. So you said it was going to be 3 percentage points below the lowest point from 2009 through 2013, as far as second quarter's contribution to the full year.

And that would show -- just going back, it looks like 23% is the lowest over that period. So let's say 20% of the full year. That would imply $0.46 to $0.50 of earnings, which to me looks like it's a somewhat seasonal number, given the decline from the March quarter.

So I'm just curious: does that include any charges from the store closings? And are we seeing greater seasonality in the business than you guys thought? You know, we had kind of in the past talked about business getting less seasonal, with more -- you know, the Acceptance Now kiosks. I just want to make sure I understand it and how it fits with how the seasonality of your business is changing.

Robert Davis - *Rent-A-Center, Inc. - CEO*

I think your comments are spot-on in terms of it looking seasonal relative to prior years. I would tell you that the difference from last year to this year is, to some extent, the seasonality softened a little bit this first quarter compared to last, in that we normally get a lot of EPS and cash from payouts and early purchase option merchandise sales in the first quarter. This year's first quarter was not as significant, and so the delta or change between Q1 and Q2 might be a little bit different than what you've seen in prior years.

John Rowan - *Sidoti & Company - Analyst*

Okay. The implied EPS guidance range -- that doesn't include charges related to store closing, does it? Or is that an operating number?

Robert Davis - *Rent-A-Center, Inc. - CEO*

That's an operating number.

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

That's an operating number, John. And I'll also add to Robert's comment. It's not so much seasonality in the second quarter as it is the way -- within our recurring revenue stream what's happened over the last year is -- drives what looks like seasonality in our business more than anything.

If the second quarter we put on many more agreements or get more on the ticket than we currently forecast, then the third quarter will look better than the second quarter. Not because the third quarter itself is a great seasonal quarter, but because we built up the portfolio more than we anticipated in the second quarter. So a lot of it is just you are just seeing the ebbs and flows of the past 12 months in there, too.

John Rowan - *Sidoti & Company - Analyst*

Okay. Fair enough. And then unrelated to guidance, I just want to understand how you are seeing the early results from the virtual kiosk model. I know it's obviously early stages, but you did mention that your kiosk business -- the manned kiosk business generates $40,000 per month per kiosk in revenue. And one of your peers made an acquisition, and the implied revenue per kiosk for them is way below that kind of virtual model. Where do you think your virtual model falls out as far as revenue per month, per kiosk?

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

Well, somewhere in between the numbers you just mentioned, because we don't think it will be -- an unmanned kiosk can do as much as a manned kiosk. We think it will be better than the unmanned kiosks that are out there now, because it will soon include an unbanked consumer rather than just a banked consumer.

So I think for those reasons, it will be somewhere in between. There's also an application of using the virtual software, John, in a manned kiosk -- a hybrid, if you will, that maybe allows us to take the labor down in the manned kiosk and end up at a hybrid operation, in that you don't need as much labor, because it speeds up the operation so much.

But there may be enough volume -- in most of our kiosks there is enough volume where we would want an employee there, at least during peak times. So I think the clear unmanned will be somewhere in between what you've seen in unmanned numbers out there from others and where we are in the manned. I think the hybrid model could even be better than our manned, just because it makes us more efficient.

John Rowan - *Sidoti & Company - Analyst*

Okay. Do you think that the hybrid model gets better acceptance from retailers? If you are having less people, you are taking up the square footage on the floors. I know that's somewhat of a constraint to growth for you. Do you think you get another leg of growth in Acceptance Now because you are taking up less square footage?

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

I do think that. Yes.

John Rowan - *Sidoti & Company - Analyst*

Okay. All right. Thank you.

Operator

Barry Haimes, Sage Asset Management.

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Barry Haimes - *Sage Asset Management - Analyst*

Thank you, and congrats on all the good strategic moves that you are making. It all makes sense.

The one part I'm just struggling with a little bit is the minus 3.8% comp in the quarter -- even not counting the 2.3% attributable to the merchandise sales. To get from that minus 3.8% to flat, in effect you would have to improve over 125 basis points each quarter to get there.

You talked about sort of a 30 bps sequential improvement fourth quarter to first. It seems like the core customer -- sorry, the core business core. It seems like the core customer has some additional issues in terms of the food stamp change, the long-term unemployment insurance lapsing.

So are you seeing some things in the core customer to give you that confidence that you can continue to see even bigger sequential improvement as we go through the balance of the year? Thanks.

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

Well, certainly, the demand level that we had in the first quarter, while we were raising ticket and while we were reducing our inventory levels from the excess inventory we ended the year at, gives us a lot of confidence. Because when you can work through your old inventory, and raise your ticket, and still see the demand that was coming in before that, it gives us confidence that the rest of the year -- we are going to be able to do what we just said for the rest of the year.

Another thing I throw out there, Barry, is the 150 stores we've closed are not, as you would guess, not our top performers. So they come out of the comp. That's a little bit of help. Nothing dramatic; it's not like that's the number one reason, but that gives us a little help.

Not that the stores giving the accounts are in the comp -- they are not. But the ones that come out are underperforming stores in the first place. So that helps a little bit as we go forward. But the positive things we are seeing and what we could accomplish in the first quarter, even though we are working through older inventory and changing the way we promote, gives us a lot of confidence going forward.

Barry Haimes - *Sage Asset Management - Analyst*

Great. Appreciate that. Thank you.

Operator

Budd Bugatch, Raymond James.

David Vargas - *Raymond James & Associates - Analyst*

Hi, gentlemen. This is David. One more question on your full-year 2014 EPS guidance of $2.30 to $2.50. When you put out the release regarding the refinance of that, you called out a total of $0.08 of impact to earnings for the year. I know $0.03 of that was the one-time charge, and the other $0.05 was interest expense. I'm just wondering if this guidance takes that remaining $0.05 impact into account, or if that is still going to impact the full-year number?

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Robert Davis - *Rent-A-Center, Inc. - CEO*

Yes. I think if we missed it during the conversation earlier, the $2.30/$2.50 will be impacted by $0.05 in interest carry on the refinancing, but will also be benefited by the store consolidation. So those sort of offset each other and give them a $0.20 range. Management felt comfortable continuing with our current EPS guidance of $2.30 to $2.50.

David Vargas - *Raymond James & Associates - Analyst*

Okay. Thanks. That answers my question.

Operator

(Operator Instructions) William Reuter, Bank of America, Merrill Lynch.

William Reuter - *BofA Merrill Lynch - Analyst*

Good morning, guys. I apologize if I missed this, but I didn't hear any commentary regarding the affirmation of your free cash flow guidance of negative $65 million from the first -- I guess the fourth-quarter call. Is that still your expectation?

Robert Davis - *Rent-A-Center, Inc. - CEO*

That is correct, William. We still have the same negative $65 million for free cash flow.

William Reuter - *BofA Merrill Lynch - Analyst*

Okay. And then is working capital a part of -- I guess, how large is the use of cash for working capital in that simple math?

Robert Davis - *Rent-A-Center, Inc. - CEO*

Working capital is a byproduct of that calculation, and we can follow up specifically off-line if need to to give you the breakdown of some components. But yes, working capital is a factor in that.

William Reuter - *BofA Merrill Lynch - Analyst*

Okay. And then just my last question: I can't remember if you guys have historically provided your maintenance CapEx as a portion of this year's $100 million?

Robert Davis - *Rent-A-Center, Inc. - CEO*

I'm not sure we have disclosed that here recently. Historically, however, I will tell you that maintenance CapEx has been the primary component of our CapEx dollars, just given stores up for renewal -- the paint, and carpet, and things of that nature; replacing computers, etc. So we haven't given that breakdown specifically, but historically it's been primarily maintenance CapEx that's driven the number.

William Reuter - *BofA Merrill Lynch - Analyst*

Okay. Thank you for taking the questions. Appreciate it.

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Operator

John Baugh, Stifel.

John Baugh - *Stifel Nicolaus - Analyst*

Just a quick follow-up on the cash flow. You made a comment in the prepared remarks about $120 million of positive net cash in Q1. Is that the same calculation relating to the negative $65 million for the year? Or are we talking about two different numbers?

Robert Davis - *Rent-A-Center, Inc. - CEO*

We are talking about two different numbers. The $120 million is operating; the $65 million is free cash after investing. And giving the investing number is de minimis in terms of making acquisitions during the first quarter. Normally acquisitions or even PP&E investments -- the majority of that number generally falls through to allow you to service your debt.

So that was really the big driver behind us being able to reduce our debt in Q1. However, the full-year forecast of $65 million is after investing, which will take into consideration the CapEx we just referred to.

John Baugh - *Stifel Nicolaus - Analyst*

And I'm sorry, Robert, when will we see the cash flow statement, again?

Robert Davis - *Rent-A-Center, Inc. - CEO*

It will be in the Q on Friday, if you are talking about the first quarter.

John Baugh - *Stifel Nicolaus - Analyst*

Yes. Thank you.

Operator

James Ellman, Ascend Capital.

James Ellman - *Ascend Capital - Analyst*

I was hoping you could comment on the Progressive acquisition by Aaron's. Just looking at their number of stores they are in and the type of stores they are in, could you comment on why is it they are in so many other classes of stores besides furniture versus Acceptance Now? And how have they been able to get into so many more stores than Acceptance Now?

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

Well, I think the virtual platform is easier to get into stores, because it doesn't take up any space. It just is a -- you put it on somebody's computer, and then you call it a location.

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And I think as far as getting into additional types of businesses outside of furniture or electronics, some of them would make sense to us -- some things like mattress stores or phone stores. But there's other stores that we wouldn't want that used product coming back in.

I think Progressive has not been in a position to pick up any used product if people aren't paying. I think when you look at the public numbers that have been put out there in the last week or so, you'll see that in the margins, that -- I think it implies a pretty -- a higher loss rate than what we are having.

So we, rather than have that higher loss rate where the customer ends up keeping the product, we end up picking it up and running it back through our core business. So we have to be a little more careful to only do it with products that we can bring back in our core business.

Having said all that, our virtual application that just started last week and this past week is going to allow us to get into a lot more stores, but probably still staying within the mainstream of our products, whether it's furniture, mattresses, or phones, and things like that.

Robert Davis - *Rent-A-Center, Inc. - CEO*

I think -- just to add, James, a couple of comments here: we are obviously quite complemented by the fact that our number one competitor wants to get into the same space that we are in through our manned kiosks, given our success. We've created value; the market has taken notice; and imitation is the best form of flattery, so to speak.

So we applaud them on that. We are also pleased that Progressive, which had previously been a private company -- now we've got some information at our disposal that we can demonstrate to our potential partners in the future that our manned kiosk model is by far and away the most opportunistic for our retail partners to drive real value in their location. So there will be those that want the virtual platform, which is fine -- which is why we spent a great deal of focus this last quarter on our virtual platform, which we have now launched. So we believe we have the mix of all options for our retail partners and look forward to growing this business in the future.

James Ellman - *Ascend Capital - Analyst*

All right. And Acceptance Now -- just to be clear, is it an installment sale, or is it a rental agreement?

Robert Davis - *Rent-A-Center, Inc. - CEO*

It remains a rental transaction similar to our core business -- it's just a new channel for us to reach a different customer.

James Ellman - *Ascend Capital - Analyst*

Okay. Because when I look over the Acceptance Now website, I see a lot about -- the mention of ownership, but I don't see the word rental anywhere on the website, or any discussion of being able to return the product.

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

I think the contract and the information out there is pretty clear that it's a rental and not a sale. But certainly, it's rent to own, so you can take ownership; and that is important to the customer to be able to own it. But it's clear in the contract and in our materials that it's a rental -- rent to own versus a straight rental.

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James Ellman - *Ascend Capital - Analyst*

Okay. And what about the keep rate? Do you expect to keep rate to be different on Acceptance Now with a manned kiosk versus a virtual presence in the store?

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

We would expect it to be similar or even better. A lot of the virtual business is banked consumers versus unbanked, so if it's a little higher -- again, we will have unbanked, but the majority of it is going to be a banked consumer.

So that improves a little bit, that the income level or the banking ability of the consumer should improve the keep rate even a little better -- at least the same or better than what we get in the manned kiosk now.

James Ellman - *Ascend Capital - Analyst*

All right. Thanks very much for the time.

Operator

If there are no additional questions, I'd like to hand the call back to Mr. Robert Davis for any closing comments.

Robert Davis - *Rent-A-Center, Inc. - CEO*

Thank you, Jay, and thank you all for joining us this morning. As we said on the opening comments, we are generally pleased with the quarter. We have a lot of activity going on, and we are focused on continuing to progress throughout the year and drive value to all of our shareholders and all of our constituents.

So thank you for joining us, and we look forward to reporting back to you next quarter.

Operator

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

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