

# FINAL TRANSCRIPT

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## **RCII - Q3 2010 Rent-A-Center Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**David Carpenter**

*Rent-A-Center - VP IR*

**Mark Speese**

*Rent-A-Center - Chairman, CEO*

**Mitch Fadel**

*Rent-A-Center - President, COO*

**Rob Davis**

*Rent-A-Center - CFO*

## CONFERENCE CALL PARTICIPANTS

**David Burtzloff**

*Stephens Inc - Analyst*

**TJ McConville**

*Raymond James & Associates - Analyst*

**Laura Champine**

*Cowen and Company - Analyst*

**Arvind Bhatia**

*Sterne, Agee & Leach, Inc - Analyst*

**John Rowan**

*Sidoti & Company - Analyst*

**Mike Grondahl**

*Northland Securities - Analyst*

**John Baugh**

*Stifel Nicolaus - Analyst*

**Unidentified Participant**

*- Analyst*

**Chuck Ruff**

*Insight Investments - Analyst*

## PRESENTATION

**Operator**

Good morning. And thank you for holding. Welcome to Rent-A-Center's third quarter 2010 earnings release conference call. At this time all participants are in a listen-only mode. Following today's presentation, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded, Tuesday, October 26, 2010.

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 - VP IR*

Thank you, Shannon. Good morning, everyone. Thank you for joining us. You should have received a copy of the earnings release distributed after the market closed yesterday that outlines our operational and financial results that were made in the third quarter. If for some reason you did not receive a copy of the release, you can download it from our Web site at investor.rentacenter.com. In addition, certain financial and statistical information that will be discussed during the conference call will also be provided on the same Web site. Also, in accordance with SEC rules concerning non-GAAP financial measures, the reconciliation of EBITDA is provided in the 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 most recent quarterly report on Form 10-Q, for the quarter ended June 30, 2010. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements. I would now like to turn the call over to Mark. Mark?

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

Well, thank you, David. Good morning, everyone. And thank you for joining us this morning. I must say, I am quite pleased, not only with our recent results, but also how we are positioned as we go into the fourth quarter and as we prepare for 2011.

As you read in the earnings release, the Company had another strong quarter, as both our revenues and earnings exceeded our expectations. We are also pleased to have returned value to our shareholders, both with the repurchase of 1.9 million shares of our common stock, as well as the declaration of our second quarterly dividend. The demand for our products and services remain strong during the quarter. Our total deliveries continued to outperform the comparable period in 2009. And our returns were lower than the previous year as well. At the same time, we continue our work on controlling costs, having improved our operating profit margin by 80 basis points from a year ago. Robert will expand on that, and provide some additional financial metrics in a few moments, but suffice it to say we are quite pleased with those results.

Also provided in the press release is our 2011 financial guidance for which we are optimistic. The revenue guidance at the midpoint of the range equates to approximately 4% growth, while the EPS at the midpoint equates to 6%. Now, as you know, we have an investor day scheduled to be held on Wednesday, November 10, in New York City where we will spend considerable time sharing with you our detailed plans of our growth initiatives, including financial projections and assumptions of the various initiatives, as well as our capital allocation policy and means of returning and enhancing shareholder value.

With regard to the different business initiatives, first, let me say how excited I am with the grand opening of our first store in Mexico two weeks ago in Reynoso. As you know, we have spent the better part of this year working on and preparing to enter this new and exciting market. And while we are in the early stages, we are very excited about what we are seeing and the feedback we are getting from customers and prospects alike. We expect to open another three or four stores before year end. And as noted in the release, we expect to open between 25 and 75 stores next year in Mexico. We also anticipate adding another 10 to 20 stores in Canada next year as well. And of course, the stores that are scheduled to open in the US market.

The rack acceptance business, this is the kiosks inside of the retail stores, we continue to expand quickly and perform well there, also. We ended the quarter with 151 locations, expect to end the year with approximately 220, and expect to add an additional 100 to 150 locations next year.

And while our financial service business continues to perform well, having grown both revenues and profits in the quarter, in light of our available growth initiatives, we are evaluating strategic alternatives with respect to that business. We have a number of exciting opportunities and we're weighing the value of each of those. Again, we will go into greater detail during our investor



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day in two weeks in New York City. For those of you that will not be able to attend in person, we will provide a video web cast and a link will be provided on our Investor Relations Web site for that.

So again, a strong third quarter. And well positioned for the fourth quarter and 2011. We have a number of exciting opportunities taking place. And all the while, we maintain a strong balance sheet and cash flows that allow us to continue executing our plan. My thanks to all of our co-workers for their hard work and commitment and in making the third quarter another successful one for Rent-A-Center. With that, let me now turn the call over to Mitch with some additional operational highlights.

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

Thanks, Mark. Good morning, everyone. We are pleased with our third quarter results, as we exceeded both our revenue and earnings guidance. Our same store sales were positive 0.3%. Our second quarter in a row of positive same store sales. And we expect that to continue in the fourth quarter. Customer demand remains strong in the third quarter as our deliveries outperformed the comparable 2009 period. Additionally, our number of units per agreement increased in the quarter as that all-important ticket metric, if you will, is now going in a positive direction.

In the quarter, we saw a slight increase in the income level of our new customers, which we believe is a result of tightened consumer credit, a situation that serves our value proposition very well. We are continuing our targeted marketing and advertising focusing on strong values for all consumer, as well as a strong focus on the overall customer experience at Rent-A-Center, all being accomplished at strong and improving margins.

With regard to collections, our weekly delinquency average was a bit higher in the quarter, but not unusual from a seasonal perspective. Our operations team continued to keep our losses in line, as our customer losses came in at 2.6% of revenue. Our second lowest third quarter in the last six years. We continue to successfully refine our centralized inventory purchasing system and our inventory held for rent came down from 26.5% at the end of the second quarter to 24.1% at the end of the third quarter. Suffice it to say, we're very happy with our merchandise mix and our inventory levels.

So, in summary, demand is good. And we will continue driving customer traffic to our value proposition by purchasing high quality products at good price points and targeting our marketing and advertising accordingly. Our merchandise mix and levels are in solid shape as we go into the fourth quarter, and our collections and loss management remains a strength of ours. I would also like to thank our 18,000 co-workers for their excellent execution and with that, I will turn it over to Rob.

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**Rob Davis** - *Rent-A-Center - CFO*

Thank you, Mitch. I am going to spend just a few moments updating everyone on our financial highlights during the quarter and also provide guidance for the fourth quarter of this year, as well as our initial guidance for 2011. Afterwards, we will open the call for questions. I would like to mention that much of the information I provide, whether it is historical or forecasted results will be presented on a recurring and comparable basis.

So, as outlined in the press release, total revenues were \$664.6 million during the third quarter of 2010, that's down \$6.7 million as compared to the third quarter of last year. This decrease was the result of a divestiture in November of 2009 of a subsidiary that contributed \$14.6 million in revenues in the third quarter last year. Otherwise, revenues actually increased 7.9 on a pro forma basis. So, this revenue increase helped drive our positive same store sales comp of 0.3%, as compared to our guidance of a flat comp to the quarter.

Our operating profit margins improved quarter over quarter by 80 basis points to 10.4%. Net earnings came in at \$40.5 million, with diluted earnings per share coming in at \$0.62, an increase of 12.7%. Our third quarter EBITDA came in at \$85.6 million, an increase from the prior year of 5.6%, while the EBITDA margin increased 80 basis points in the period to 12.9%.

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Cash flow generation remains strong. In fact, our operating cash flow was over \$104 million during the third quarter, and now rests at approximately \$193 million year to date through September 30. But as a result of being able to reduce outstanding indebtedness by approximately \$115 million this year, with over \$26 million coming during the quarter, all of that primarily related to mandatory amortization payments. As noted in the press release, also during the quarter, we repurchased approximately 1.9 million shares of our common stock for roughly \$40 million, while ending the period with over \$80 million of cash on hand. So, as a result of the reduction in our debt level, and our improvement in EBITDA, our leverage ratio at the end of the quarter was 1.42 times. Well below the floor on our covenant requirement of 3.25.

We believe our balance sheet is in great shape, and with leverage currently where it is, we believe we are well positioned in this continued period of economic uncertainty, to manage the business for the long term. So, we intend to continue to utilize our cash prudently and we feel comfortable with where we are today, in regards to leverage, and liquidity and cash flow, all of which will allow us to continue to return value to shareholders through investing in future profitable growth initiatives, future dividends, and opportunistic share repurchases.

Turning to guidance for a moment. For the fourth quarter, we anticipate total revenues to range between \$666 million and \$681 million. With same store sales expected to range between flat and a positive 1%. And diluted earnings per share for the quarter to come in the range of \$0.64 to \$0.70. And with this release, we're now initiating our annual 2011 guidance for the first time. As such, we currently expect total revenues to be within a range of \$2.806 billion, and \$2.866 billion. We currently expect our same store sales for 2011 to be in a range of between a positive 1% and a positive 2%. Overall diluted earnings per share for 2011, they are expected to be in a range of \$2.85 and \$3.05. Which includes an approximate \$0.07 to \$0.08 drag related to our growth initiatives.

In terms of EBITDA and free cash flow, the Company expects EBITDA to range between \$390 million and \$410 million, with free cash flow expected to be in the range between \$155 million and \$175 million. As always, this current guidance excludes any potential benefits associated with potential stock repurchases, future dividends, changes in outstanding indebtedness, or acquisitions or dispositions completed after date of this release. With that financial update we would now like to open the call to questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of David Burtzlaff. Your line is now open.

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### David Burtzlaff - Stephens Inc - Analyst

Good morning. And great quarter.

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### Mark Speese - Rent-A-Center - Chairman, CEO

Good morning, David. Thank you.

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### David Burtzlaff - Stephens Inc - Analyst

A couple of questions, Mark. I mean I know you're probably not going to go into too much, but I mean to explore the strategic initiatives for the financial services, is it -- I mean is this just an allocation of resources? Because I mean you've been excited about this product for a long time now. I mean what has kind of changed I guess in your opinion maybe other than the regulatory?



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

Well, as you said, David, I'm not inclined to go into much detail at this point. As I said and as noted in the press release, we obviously have a number of other initiatives that we are looking at and going into, and in light of that, we are simply evaluating the strategic alternatives with regards to that business. Now, what that may mean at the end of the day, I don't know at this point. And frankly, I'm not inclined or intend to disclose developments unless and until the final decision is made.

**David Burtzlaff** - *Stephens Inc - Analyst*

Okay. Was that business profitable this quarter?

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

Yes, it was. As I said, both revenue and profit increased during the quarter. So, it does continue to perform fairly well for us. Certainly relative to where it was.

**David Burtzlaff** - *Stephens Inc - Analyst*

Okay.

**Rob Davis** - *Rent-A-Center - CFO*

David, it was a little over a million dollars for the quarter on the financial --

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

For profit.

**Rob Davis** - *Rent-A-Center - CFO*

For profit.

**David Burtzlaff** - *Stephens Inc - Analyst*

Okay. And then finally, I don't know if you have any -- or can tell this, but did you see back in June when unemployment benefits stopped or were halted for the month, did you see an impact in your business at that time? Considering that the unemployment benefits have to be revisited come November again.

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

David, not so much an impact on the demand side. We saw a little bit of an impact on delinquency where we would have to carry some people, so to speak, a little longer until they got their check. It was pretty slight. Again, not at all on the demand side. And a little bit on the delinquency side, we did see it and hear that from our store folks out there.

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**David Burtzloff** - *Stephens Inc - Analyst*

Okay. And you don't have an idea of how many of your customers are on unemployment benefits? I mean if they were employed when they got the product, you're not asking them if their status has changed in between, right?

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

We do update status pretty consistently and continually in the stores, although I don't have that number for you, I would estimate it is pretty small.

**David Burtzloff** - *Stephens Inc - Analyst*

Okay. All right. Well, thank you very much.

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

Thank you, David.

**Operator**

Your next question comes from the line of Budd Bugatch. Your line is now open.

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

Good morning, Mark. Good morning, Mitch, Robert, David. This is TJ McConville filling in for Budd. Congratulations on the quarter, gentlemen.

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

Thank you. Good morning.

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

Good morning. A couple of quick ones for you. Mark, not to spoil the upcoming analyst day or anything like that, but on the rack acceptance kiosk, can you talk a little bit about whether or not you're seeing increased willingness from new retail partners to maybe get into that side of the business you with? Maybe from just different retailers or different lines of business outside of just furniture?

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

I will say that there appears to be a fair amount of interest from third party, and your follow-on, or the last part of your comment there, as we've said in the past, at this point everything is in the furniture retailers. We have had some early discussions with others beyond furniture, be it appliance or electronics, have not done anything at this point, but they are being explored as we speak. And there is a fair amount of interest across all of those channels.

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

Okay. I look forward to hearing any further updates as they come available. And then Mitch, last quarter, we spent a ton of time trying to figure out what the right percent of vital inventory should be. It looks like the improvements are pretty pronounced this quarter. Was that a change you made in the system or was it demand picking back up? Any further changes we should expect on that line item?

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

Well, demand certainly does help that number, TJ. Although demand wasn't significantly higher than we anticipated. It was good. But we anticipate it to be pretty solid. We were at the high end of our revenue. But it is not like we were way above our revenue, that there was so much more demand than we anticipated. It was more a matter of tweaking a brand new system. And making sure that we get the right products and the right stores when we need them, but not too many. And that really is all it is.

We've brought in a couple of experts to help us with that system, people have done this all their life and they have done a great job working with me and the operations team on making it sure we have the right product, but not too much of it. So, it is really, the short story, TJ, it is a matter of tweaking the new system and getting it right, and we are -- I don't know that I will ever say it is perfect or that we will ever stop tweaking it, but it is darn close. And the folks we've brought in have done a great job with that.

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

Great. Those were my questions. Again, congratulations and best of luck on the quarter and next year.

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

Thank you very much, TJ.

**Operator**

Your next question comes from the line of Laura Champine. Your line is now open.

**Laura Champine** - *Cowen and Company - Analyst*

Good morning. I was wondering if you could talk a little bit about your opportunities in Mexico. I know that is something you're excited about. But do you have to change operations, ramp up security, or is there anything special as you operate in those border towns, that you need to do, that is different from the way you normally operate in the US?

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

No, Laura, it does present a great opportunity for us, and we will certainly be talking more about that on the investor day, but as far as the operation, we're operating -- we've only opened one store and as Mark said, three or four more to open here in the next 60 days. Not operating really any differently than here. Certainly not anything materially different than here. The operations are generally the same as what we're doing here. And the first store, as Mark alluded to, we're pretty excited about how that is working out, and three or four more will be opened over the next 60 days. But no, it is operating just like here.

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**Laura Champine** - Cowen and Company - Analyst

What is the competitive landscape like down there? Do they have moms and pops similar to the US?

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

To our knowledge there is no one doing the rent to own proposition down there. There are some buy here pay here places where they will finance the transaction which would be indirect competition, but nobody doing the rent to own transaction the way we are.

**Laura Champine** - Cowen and Company - Analyst

And then on the rack acceptance program, are you just in furniture stores are there consumer electronics stores? And what does your -- I don't know if you want to name specific partners, but what does that store base look like and how might that change?

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

It is all furniture stores at this point. The 150 or so that we have is all furniture. As Mark mentioned, we have had some conversations with some electronics and appliance folks. We think we can expand it into that business. The forecast right now, like a 70 for the quarter, up to 220, will all be furniture stores, so we do see it working in appliance and electronics stores down the road. And I don't want to get too specific on the companies, but a lot of the Ashley licensees, Ashley Furniture licensees and those types of stores, but really, it is a mix.

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

Regional players, which is more typical in the furniture space than any others.

**Laura Champine** - Cowen and Company - Analyst

Got it. Great. Thank you.

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

Thanks, Laura.

**Operator**

Your next question comes from the line of Arvind Bhatia. Your line is now open.

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

Thank you. And my congratulations, gentlemen.



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

Thanks, Arvind.

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

A couple of things here. One, how should we think about product deflation here? Is that positive or is that negative for you in the coming quarters? And then second, on rack acceptance, is that starting to contribute meaningfully at all to comps? Do you see any of that benefit this quarter?

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

Let me take the first one, on the deflation. We get asked the question a lot, is that good or bad for us, and the answer is it is a little of both. The deflation on the higher end products, when a 60-inch plasma TV and a 73-inch DLP TV gets down to the prices that we can buy them for today, that helps and we can rent those today, where as a year ago, two years ago for sure, we couldn't rent 60-inch plasmas. Our customer would not have been able to afford them. So, the deflation helped there.

As far as what we can carry, where it can hurt you is on the ticket. The average price coming down. Although we, as you know Arvind, we have always done a pretty good job and we are still doing it today where we drop the term and not so much the rate. And that leaves our revenue per agreement per month up there. As I mentioned in my prepared comments, it actually is trending up in the last quarter. So, even with the price deflation, we primarily reduced the term the customer has to keep its ownership and not the rate which keeps the revenue up there. So -- and it has helped margins.

It is part of our margin enhancement, too. Because when the prices come down, due necessarily have to put all of that into our weekly or monthly pricing, right? So, there is a little margin enhancement there, too. So, overall, I would say a good thing, from that standpoint. There are some negatives if you don't manage it right, where it can hurt your ticket, if you were to take it all in price, rather than all in terms.

**Rob Davis** - Rent-A-Center - CFO

Well, in the comp question, no rack acceptance is not benefiting the comp currently as we sit here today and even next year, the 1% to 2% positive comp that we are giving guidance to, is not impacted by rack acceptance either. Given the stores that are opening throughout 2010, they will not be in for the full year, or an annual comp basis, until 2012. So, at this point, rack acceptance is not a driver behind our comp guides.

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

But they will help down the road.

**Rob Davis** - Rent-A-Center - CFO

That's correct.

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

Rob, one free cash flow question for you. You said \$150 million to \$175 million. I know you've done more than that in the past. This is essentially saying your CapEx will be slightly higher given all of the new initiatives you are talking about and will talk about on the investor day?

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**Rob Davis** - *Rent-A-Center - CFO*

Yes, it is really, without trying to get too complicated, a by-product of just in the last 30 or 45 days, the President signed another extension of a tax stimulus act that puts us essentially in an overpay position for 2010, so our cash taxes are a little higher this year than what we need to pay, which will impact paying a little bit more of that back next year. So, if you are reconciling from EBITDA, the guidance I gave was 390 to 410, from expense guidance we are giving you \$25 million, CapEx expected to be \$75 million, working capital net investment of about \$10 million, and then cash taxes of \$125 million, that's a little higher than what we were originally projecting. And so free cash flow this year, or for 2011 is 155 to 175. That 125 for next year is probably \$25 million or \$30 million higher. But otherwise you get back into that \$180 million, \$200 million range we have been talking about as status quo.

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

Great. That's helpful. Thanks.

**Rob Davis** - *Rent-A-Center - CFO*

Thanks, Robert.

**Operator**

Your next question comes from the line of John Rowan. Your line is now open.

**John Rowan** - *Sidoti & Company - Analyst*

Good morning.

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

Good morning, John.

**John Rowan** - *Sidoti & Company - Analyst*

One quick question. On Mexico, when you look at the business as it is obviously expanding in 2011, do you see any difference in the rate at which customers will complete the rental purchase transaction, or do you think -- do you think that could be potentially higher in Mexico than in the US?

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

We think it could be. We certainly don't know yet. But we certainly think it could be. It could be one of the enhanced benefits of Mexico.

**John Rowan** - *Sidoti & Company - Analyst*

Okay. All right. Thank you.



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**Rob Davis** - *Rent-A-Center - CFO*

Thanks, John.

**Operator**

Your next question comes from the line of Mike Grondahl. Your line is now open.

**Mike Grondahl** - *Northland Securities - Analyst*

Yes, Thanks, for taking my questions. The first one, Mark, could you kind of help us kind of update us on the new product pipeline, kind of some of the things you're looking at there to put out in the stores? And maybe secondly, from a high level, could you talk about the profitability you expect maybe in Mexico and Canada and rack acceptance, and how that kind of compares to your domestic stores?

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

Maybe I will take your second one first and then I will pass the first one on to Mitch on the new products. The profit, of course again, we're early into all of those initiatives, but as we have the model based on our learning and expectations and so forth, I will tell you at the end of the day, we don't expect to be -- well, let me start with Mexico first. Our expectation is that the profit margins will be pretty similar to what we are seeing in the US rent to own business. We may get there a little bit different way. And let me explain that.

Of course, household income is very low in Mexico. And so when you think about their ability to spend and how does that affect pricing, we are actually -- have a lower margin on the products there. Our gross profit margin is down a little bit, because rather than being \$25 a week, it may be \$15 a week. So, we've got a lower cost structure gross profit margin, but we make that up on the labor line, for the exact reason that we had to lower the rate, we are now picking it back up on the labor line. So, all in, you end up at the same place, you just get there down two different paths. And so that's our expectation with regard to Mexico.

Canada, not too dissimilar to the US. Margin will be a little bit lower. The pricing is essentially the same. Our cost of doing business, we've got some inherent costs. It is a little bit higher. The labor is generally the same. But our expectation is all in. It will be pretty comparable to what we do in the US otherwise.

Rack acceptance, the expectation is that margin will be maybe a little bit better than what we're seeing in the RTO stores. Again, a little bit different model. A little different gross margin margin line and how we are pricing the product. But, we don't have hardly any of the costs. We've got labor and depreciation of the products, and then you've got some back office costs, and some support costs, but there is no occupancy, there is no advertising, things of that nature. And so all in, that is actually expected to be a little bit better.

Now, again, these are examples of things that in two weeks we're going to go into much more detail and provide the underlying assumptions with all of those. So, we will get pretty granular if you will in two weeks, but that will give you a pretty high level sense I hope today anyways.

**Mike Grondahl** - *Northland Securities - Analyst*

That helps, Mark.



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

Good. And then Mitch, why don't you talk a little bit about what you see on the products side.

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

On the products, some of the core products like furniture and appliances, you're just always updating models, and getting the newest look from a furniture standpoint, and then the appliance, the latest technology on washers and dryers and so forth. Probably the two biggest things as we go into the fourth quarter are larger screen sizes of TV's, as -- with the deflation and pricing, now going into the 60-inch size on flat panels and the 73-inch size on the DLP technology.

So, bigger screen sizes and then of course the two new -- along in the fourth quarter, too, Mike, with the game system, the two new game systems that probably a lot of you have seen advertised just recently, in fact this past weekend, quite a bit of advertising by Sony on the new PS3 system with a move feature, and then the new Xbox is coming out that also has a move feature called connect. So, those two games that are state of the art games with the features that -- the move features, instead of using a controller, you use your body basically to play the game on the screen, and those will be hot for us here in the fourth quarter. I think they will be hot at retail. And we've got plenty of those secured for the fourth quarter. That is probably the hottest new product. But again, the larger screen sizes, also.

**Mike Grondahl** - *Northland Securities - Analyst*

Okay. Great. And maybe two follow-ups. Did I hear correctly that the new initiatives were just a \$0.07 to \$0.08 drag?

**Rob Davis** - *Rent-A-Center - CFO*

That is correct.

**Mike Grondahl** - *Northland Securities - Analyst*

In 2011? So, it is not costing you that much at all, those initiatives?

**Rob Davis** - *Rent-A-Center - CFO*

Obviously, that is based on kind of the range of the guidance we gave in the press release, in terms of number of stores, to the extent we're more successful, and like what we're seeing, to the extent we ramp it up, that impact could be marginally higher, but I wouldn't suspect so.

**Mike Grondahl** - *Northland Securities - Analyst*

Got you. And then interest expense was a little bit higher. Any reason for that?

**Rob Davis** - *Rent-A-Center - CFO*

No, it is kind of consistent and flat with where we're going to end this year. And I would say that as we think about mandatory debt payments next year, that would be the only driver. We do have some expectation that LIBOR could increase. When you look the at the forward, one month and three month LIBOR curves, but otherwise no real big driver behind that.



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

Mike, are you comparing that to the third quarter of last year when you say a little higher?

**Mike Grondahl** - *Northland Securities - Analyst*

You know what? I don't have the --

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

Or sequentially?

**Mike Grondahl** - *Northland Securities - Analyst*

I don't have it in front of me. I just wrote it down when I was looking --

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

The only reason I ask, is sequentially I don't think it is, year over year it may be, but I will remind you in the fourth quarter of last year we did the amendment extend. So, in doing that it increased the rate on the portion we extended, so if you are looking year-over-year that is the answer.

**Mike Grondahl** - *Northland Securities - Analyst*

Got you. That makes sense. Because you paid down so much debt.

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

Exactly.

**Mike Grondahl** - *Northland Securities - Analyst*

One last quick question. A high level one on Mexico. Ballpark, what does it cost to open a store and how long do you think the break even is?

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

Not materially different, again, than the US model. So, by comparison, it is a half a million dollar investment and it is about \$200,000 day one, or \$250,000 and then you make an additional investment throughout the year to buy additional inventory as you are putting it on rent. We expect break even on the rent level around month nine to 12, accumulatively breaking even around month 24.

**Mike Grondahl** - *Northland Securities - Analyst*

Great. Again, congratulations on the quarter and I look forward to seeing you November 10.

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

Thanks. Mike. Look forward to seeing you as well.

**Operator**

Your next question comes from the line of John Baugh. Your line is now open.

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

Thank you. And my congratulations as well. Do you have a store opening plan for the US? It will still be 20, 30 odd stores? And do you plan to close stores in the US that would more or less offset that?

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

We have 25 expected for next year in the guidance. And we might close a handful, John. But not very many. We've got through that rationalization process. It will be a net growth of square footage in the US also next year.

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

And just the decision that came down in New York, where they tweaked the rules, will that have an appreciable change on your profitability of your stores in New York?

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

We don't believe it will be material, John. It certainly will be -- I mean it will lower the margins for the stores in New York. But when we take that little bit of margin deterioration in New York, and drop it into the corporate numbers, it doesn't have any material impact.

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

And all of these stores you're talking about Mexico and Canada, those are corporate not franchise, is that correct?

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

Yes. That is correct.

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

And then with this -- with the President, with the handout here, that will cause, right, 2010 free cash flow to be higher than what you had originally stated because you hadn't expected that?

**Rob Davis** - *Rent-A-Center - CFO*

That's -- for 2010?

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

Yes.

**Rob Davis** - *Rent-A-Center - CFO*

Yes, for 2010, we're \$20 million overpaid right now, as it relates to our cash taxes, so free cash flow for the year for 2010 is going to be closer to \$200 million run rate. Some of that is taken away from next year, but that \$180 million to \$200 million range is kind of our free cash flow status quo. And to some extent we're getting the benefit this year and then we're going to be down next year about \$20 million or so.

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

And my last question is on payday lending and I'm very happy to see you looking at options. Can you remind us again what your invested capital is, in that business?

**Rob Davis** - *Rent-A-Center - CFO*

I think we mentioned last quarter that we currently have an outstanding receivable or loan balance around \$25 million. That has not changed materially since the last time we gave you that number. And from a book value, if you will, fixed assets, we are talking in the \$10 million to \$12 million range. That is the asset value as it stands today.

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

Great. Thank you. See you in a few weeks.

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

Thanks, John.

**Operator**

Your next question comes from the line of [John Brats]. Your line is open.

**Unidentified Participant** - *Analyst*

Good morning, gentlemen. A couple questions, you talked a little bit about the growth initiatives costing you \$0.07 to \$0.08 in 2011. What might that cost have been in 2010? And as you look forward to 2012, could you see that ratcheting up more? Obviously depending on the success. But how would you look at that maybe going forward?

**Rob Davis** - *Rent-A-Center - CFO*

2010, the impact is minimal, particularly when you think about Canada and Mexico, and primarily be related to rack acceptance and it is probably costing us a penny or two this year. Not material.

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**Unidentified Participant** - - *Analyst*

Okay.

**Rob Davis** - *Rent-A-Center - CFO*

And then as you think about -- the question about next year, obviously that will depend on how things are going and how we are performing. I don't know if you want to take that question, Mark.

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

Well, again, that is one of those -- I think in two weeks when we do the investor presentation, and give you the specifics of each of these initiatives from a business model standpoint, and then we had theorized as to how many would be put in forward periods, but much of this, John, is really driven by the accelerated growth rate. So, to the extent by way of example next year, if it is 25 to 75 in Mexico, just as an example, if it is a similar number the following year, you would expect it to be maybe a couple of pennies more. Knowing that you're in year two on this first group of stores, but you've got all of the first year loss of the second group. To the extent we ramp that up even further, because of the results of success, it would be something each greater. When you get out three years or so, that's when you would start to expect it to go from being dilutive to break even, and then probably the year after that is when it starts to ramp up from an accretion standpoint, because of the earlier stores offsetting anything you're --

**Unidentified Participant** - - *Analyst*

Okay. So, we have a couple of years, or three years maybe to see it moving to break-even.

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

I think a couple of years. And again, probably two years, based on an average growth rate assumption within that, yes.

**Unidentified Participant** - - *Analyst*

Okay. And your guidance, for next year, you talk a little bit about same store sales improvements of I think 1% to 2%. At those levels, can you begin leveraging your costs, or what does it take to, on a same store basis, to leverage some of your operating expenses?

**Rob Davis** - *Rent-A-Center - CFO*

We've obviously expanded our margins quite a bit this year. With a comp that is estimated to be flat, roughly, for the year. And so with the 1% to 2% same store sales guidance next year, you would expect, on a steady state basis, for that margin to continue to expand. And that's the way the guidance is currently incorporated. The offset, however, is the new initiatives. So, when you think about margins, and the EBITDA margins we are currently forecasting for this year, we would expect those to be essentially flat, slightly up from where we are right now. But had we -- without the initiative, that same store sales guidance would in fact allow the margins to expand further.

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**Unidentified Participant** - - *Analyst*

Yes, okay. Now I assume you're probably going to talk in more detail about this in New York, but in terms of capital allocation, obviously you're generating a great deal of cash flow. How do you look at using that cash flow in terms of maybe additional share repurchases, versus non-mandatory debt repayments, versus maybe even increasing the dividend more so?

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

As Robert said, we are very comfortable with our balance sheet today, and the debt levels, at 1.4 times. Obviously, we were pretty big supporters this past quarter, as we have been historically in the past. We're comfortable with the balance sheet and we do have mandatory payments coming up. But beyond that, I think we would expect to first and foremost always invest in the business and so these growth initiatives will be where we will first spend our time and resources, but even saying that, it is still going to allow, or leave excess. And I think our past behaviors are what you can expect in the future, and again we have been big supporters of our stock generally speaking. Now the past two years we have focused on the balance sheet and given the market conditions and the fact that we did leverage up vis-a-vis the acquisition of Rent Way a couple of years earlier. But given where we are today, I think you can expect something similar to what we had done historically.

**Unidentified Participant** - - *Analyst*

Thank you very much.

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

Thanks, John.

**Operator**

Your next question comes from the line of Chuck Ruff. Your line is now open.

**Chuck Ruff** - *Insight Investments - Analyst*

Hi, thanks. Just continuing that, have you considered issuing some long-term debt in order to extend your maturities and then getting a lot more aggressive on the share repurchase?

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

Well, we again, most recently, we did the amendment extend last year, late in the last Fall, and really to put us in a position where we felt very comfortable with the mandatory obligations and giving us a little bit more flexibility in how to manage our cash going forward. And so a couple of -- based on that, and where we are today, we feel pretty comfortable. Now we're always considering where the Company is positioned, what are the initiatives we're working on, and how do we think about the costs to debt, our debt levels and that will drive those decisions. But suffice it to say, as we sit here today, we're comfortable with where we are at the moment anyways.

**Chuck Ruff** - *Insight Investments - Analyst*

Right now, is all your debt floating?

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**Rob Davis** - *Rent-A-Center - CFO*

Yes, it is. It is all senior termed debt. And it is floating, certainly.

**Chuck Ruff** - *Insight Investments - Analyst*

Okay. I guess the question is, have you been considering fixing some of it by issuing some long-term debt? I'm talking about like 10-year bonds or something like that?

**Rob Davis** - *Rent-A-Center - CFO*

I think it is fair to say that if you look at our history over the past several years, and even what we did last Fall, we are always evaluating the market and what the environment is, and our alternatives.

**Chuck Ruff** - *Insight Investments - Analyst*

Okay. Very good quarter. I certainly applaud the share repurchase. And thank you for taking my questions.

**Rob Davis** - *Rent-A-Center - CFO*

Thanks, Chuck.

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

Thank you, Chuck.

**Operator**

There are no further questions on the phone lines at this time. As such, I would now like to turn the call over Mark Speese.

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

Ladies and gentlemen, thank you again to all of you for joining us this morning and thank you for your continued support and interest in the Company. We look forward to seeing many of you at the investor day in a couple of weeks and providing you with more detail about the future of the Company. So again, thank you for all of your support. And have a great day.

**Operator**

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

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