Rent-A-Center, Inc. Reports Second Quarter 2017 Results

July 26, 2017

Sequential Improvements Highlight Progress on Strategic Plan

PLANO, Texas--(BUSINESS WIRE)--Jul. 26, 2017-- Rent-A-Center, Inc. (the "Company") (NASDAQ/NGS: RCII) today announced results for the quarter ended June 30, 2017.

“We continued to make progress executing our strategic plan during the second quarter, delivering sequential improvements in same store sales in both the Core U.S. and Acceptance Now businesses. While we are on a positive trajectory, given the portfolio nature of the business it will take time for the results to fully materialize,” said Mark Speese, Chief Executive Officer of Rent-A-Center. “A number of new initiatives were implemented during the quarter which are expected to continue our positive momentum by further improving execution and enhancing the customer experience. Looking forward, we are confident in our ability to fully realize the value creation opportunities of our strategic plan and we will continue to take actions that we believe are in the best interests of our stockholders.”

Progress on Strategic Plan

During the second quarter of 2017, Rent-A-Center saw improved results following the execution of several targeted initiatives. The new value proposition, which was implemented in the first quarter, continued to be optimized with refinements across both Company operated domestic segments. In the Core U.S. segment, an employee co-worker profit sharing program was implemented to reinforce the focus on quality and execution. The Company also improved its inventory mix through a customer-centric assortment strategy focused on aspirational products. Additionally, in order to improve the customer experience, the Company launched a mystery shopper program.

- Core U.S. same store sales for the quarter improved sequentially by 230 basis points
- Acceptance Now same store sales for the quarter improved sequentially by 380 basis points
- The year over year change in Core U.S. merchandise on rent improved sequentially by 380 basis points
- Average monthly rate of new agreements for June improved by 5.7 percent versus prior year
- Higher end product comprised over 65 percent of product received in stores across major categories for the quarter
- Annualized co-worker turnover for June improved 19.5 percentage points versus prior year

Consolidated Overview

Explanations of performance are excluding special items and compared to the prior year unless otherwise noted.

On a consolidated basis, total revenues were $677.6 million versus $749.6 million in the second quarter of last year. Consolidated same store sales improved 40 basis points versus the first quarter of 2017 due to the progress made on executing the Company’s initiatives. Diluted loss per share, on a GAAP basis, was $0.17 compared to diluted earnings per share of $0.19 in the second quarter of last year.

Excluding special items, the Company’s diluted loss per share was $0.01 and the Company generated $28.9 million in adjusted EBITDA in the second quarter. Adjusted EBITDA as a percent of revenue decreased 20 basis points versus the first quarter.

For the six months ended June 30, 2017, the Company generated $111.9 million of cash from operations and ended the second quarter with $73.8 million of cash and cash equivalents. On July 20, 2017, the Company paid a quarterly dividend for the second quarter of 2017 in the amount of $0.08 per share and also reduced its outstanding debt balance by $15.6 million in the second quarter. The Company also executed an amendment to its credit facility, providing the Company with the liquidity and flexibility to implement its strategic plan.

Segment Operating Performance

CORE U.S. second quarter revenues of $457.0 million decreased 13.9 percent primarily due to lower same store sales and the rationalization of the Core U.S. store base in the prior year. Gross profit as a percent of total revenue decreased 260 basis points due to targeted pricing actions implemented to right size the inventory mix and changes from the new value proposition. Labor decreased $19.4 million driven by lower store count and insurance expenses. However, labor as a percent of store revenue increased primarily due to sales deleverage. Other store expenses decreased $17.6 million driven by lower store count and lower skip/stolen losses. Other Expenses, as a percent of store revenue, increased primarily due to sales deleverage.

ACCEPTANCE NOW second quarter revenues of $203.3 million increased 1.9 percent primarily due to the same store sales increase of 6.7 percent offset by revenue declines due to store closures. Gross profit as a percent of total revenue versus prior year decreased 170 basis points due to lower gross profit on merchandise sales resulting from a focused effort to encourage ownership and reduce returned product. Labor, as a percent of store revenue, improved 90 basis points versus prior year. Other store expenses, as a percent of store revenue, increased by 60 basis points primarily driven by sales deleverage, offset by lower skip/stolen losses which decreased by 70 basis points.

MEXICO second quarter revenues decreased 9.7 percent primarily due to lower same store sales. Gross profit as a percent of total revenue versus prior year improved 30 basis points driven by higher merchandise sales gross margin due to pricing initiatives. Operating profit was $0.13 million.

FRANCHISING second quarter revenues decreased 14.6 percent due to a lower amount of merchandise sold to the Company's franchise partners and operating profit was $1.1 million.

CORPORATE operating expenses increased compared to prior year primarily driven by incentive compensation accrued at a higher rate versus prior year and higher depreciation brought about by the implementation of the new point of sale system in 2016.

SAME STORE SALES
(Unaudited)

Table 1

Period	**Core U.S.**	**Acceptance Now**	**Mexico**	**Total**
Three Months Ended June 30, 2017	(10.2)%	6.7%	(6.9)%	(7.4)%
Three Months Ended March 31, 2017	(12.5)%	2.9%	(6.0)%	(7.8)%
Three Months Ended June 30, 2016	(6.9)%	(0.7)%	12.7%	(4.9)%

Note: Revised Same Store Sales Methodology - Same store sales generally represents revenue earned in stores that were operated by us for 13 months or more and are reported on a constant currency basis. Under the revised methodology, the Company excludes from same store sales base any store that receives a certain level of customer accounts from closed stores or acquisitions. The receiving store will be eligible for inclusion in the same store sales base in the twenty-fourth full month following the account transfer. The Company believes these modifications better align its same store sales calculation with the methods used by other rent-to-own companies.

KEY OPERATING METRICS
(Unaudited)

Table 2	**Same Store Sales**	**Delinquencies**		**Annualized Co-worker Turnover**		**Average Monthly Rate of New Agreements**
Segment	**Change vs 2016 (%)**	**2017**	**Sequential Change (BPS)**	**2017**	**Change vs 2016 (PPT)**	**Change vs 2016 (%)**
Core U.S.						
April	(13.0)%	6.5%	40	83.4%	(15.9)	(3.8)%
May	(9.9)%	6.5%	0	84.1%	(18.8)	1.0%
June	(7.7)%	7.1%	60	86.1%	(19.5)	5.7%
Acceptance Now						
April	5.5%	7.9%	(90)			
May	6.0%	7.2%	(70)			
June	8.6%	8.1%	90			

Note: In the Core U.S. segment delinquencies represent the percent of customer agreements greater than 7 days past due. In the Acceptance Now segment delinquencies represent the percent of customer agreements greater than 32 days past due.

Non-GAAP Reconciliation

To supplement the Company's financial results presented on a GAAP basis, Rent-A-Center uses the non-GAAP measures ("special items") indicated in Table 3 below, which primarily excludes charges in the second quarter of 2017 for the closure of Acceptance Now locations, incremental legal and advisory fees, debt refinancing charges, and discrete income tax items. Gains or charges related to sales of stores, store closures, and discrete adjustments to tax reserves will generally recur with the occurrence of these events in the future. The presentation of these financial measures is not in accordance with, or an alternative for, accounting principles generally accepted in the United States and should be read in conjunction with the Company's consolidated financial statements prepared in accordance with GAAP. Rent-A-Center management believes that excluding special items from the GAAP financial results provides investors a clearer perspective of the Company's ongoing operating performance and a more relevant comparison to prior period results.

Please see the Company's earnings press release dated May 1, 2017 for additional information related to non-GAAP diluted loss per share excluding special items used to calculate the sequential improvements contained in this press release.

Reconciliation of net (loss) earnings to net earnings excluding special items:

Table 3	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
(in thousands, except per share data)	**Amount**	**Per Share**	**Amount**	**Per Share**
Net (loss) earnings	$ (8,893)	$ (0.17)	$ 9,946	$ 0.19
Special items, net of taxes:				
Other charges (1)	7,105	0.14	12,005	0.22
Debt refinancing charges	1,239	0.02	—	—
Discrete income tax items	(47)	—	(205)	—
Net (loss) earnings excluding special items	$ (596)	$ (0.01)	$ 21,746	$ 0.41

(1) Other charges for the three months ended June 30, 2017 and 2016 primarily includes charges, net of tax, related to the closure of Core U.S. and Acceptance Now locations, and incremental legal and advisory fees. Charges related to store closures are primarily comprised of losses on rental merchandise, lease obligation costs, employee severance, asset disposals, and miscellaneous costs incurred as a result of the closure.

2017 Outlook

The Company is not providing annual guidance as it relates to revenue or diluted earnings per share for 2017. In an effort to enhance transparency regarding the Company's results and turnaround efforts, the Company has shifted to a monthly report of key operating metrics (Table 2). The Company believes these changes will provide the investment community meaningful insight into the progress the Company is making on its turnaround.

Webcast Information

Rent-A-Center, Inc. will host a conference call to discuss the second quarter results, guidance and other operational matters on Thursday morning, July 27, 2017, at 8:30 a.m. ET. For a live webcast of the call, visit http://investor.rentacenter.com. Certain financial and other statistical information that will be discussed during the conference call will also be provided on the same website. Residents of the United States and Canada can listen to the call by dialing (800) 399-0012. International participants can access the call by dialing (404) 665-9632.

About Rent-A-Center, Inc.

A rent-to-own industry leader, Plano, Texas-based, Rent-A-Center, Inc., is focused on improving the quality of life for its customers by providing them the opportunity to obtain ownership of high-quality, durable products such as consumer electronics, appliances, computers, furniture and accessories, under flexible rental purchase agreements with no long-term obligation. The Company owns and operates approximately 2,600 stores in the United States, Mexico, Canada and Puerto Rico, and approximately 1,300 Acceptance Now kiosk locations in the United States and Puerto Rico. Rent-A-Center Franchising International, Inc., a wholly owned subsidiary of the Company, is a national franchiser of approximately 230 rent-to-own stores operating under the trade names of "Rent-A-Center," "ColorTyme," and "RimTyme." For additional information about the Company, please visit our website at www.rentacenter.com.

Forward-Looking Statements

This press release and the guidance above contain forward-looking statements that involve risks and uncertainties. Such forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "could," "estimate," "should," "anticipate," "believe," or “confident,” or the negative thereof or variations thereon or similar terminology. The Company believes that the expectations reflected in such forward-looking statements are accurate. However, there can be no assurance that such expectations will occur. The Company's actual future performance could differ materially from such statements. Factors that could cause or contribute to such differences include, but are not limited to: the general strength of the economy and other economic conditions affecting consumer preferences and spending; factors affecting the disposable income available to the Company's current and potential customers; changes in the unemployment rate; difficulties encountered in improving the financial and operational performance of the Company's business segments; the Company's chief executive officer and chief financial officer transitions, including the Company's ability to effectively operate and execute its strategies during the interim period and difficulties or delays in identifying and/or attracting a permanent chief financial officer with the required level of experience and expertise; failure to manage the Company's store labor and other store expenses; the Company's ability to develop and successfully execute strategic initiatives; disruptions, including capacity-related outages, caused by the implementation and operation of the Company's new store information management system, and its transition to more-readily scalable, “cloud-based” solutions; the Company's ability to develop and successfully implement digital or E-commerce capabilities, including mobile applications; disruptions in the Company's supply chain; limitations of, or disruptions in, the Company's distribution network; rapid inflation or deflation in the prices of the Company's products; the Company's ability to execute and the effectiveness of a store consolidation, including the Company's ability to retain the revenue from customer accounts merged into another store location as a result of a store consolidation; the Company's available cash flow; the Company's ability to identify and successfully market products and services that appeal to its customer demographic; consumer preferences and perceptions of the Company's brand; uncertainties regarding the ability to open new locations; the Company's ability to acquire additional stores or customer accounts on favorable terms; the Company's ability to control costs and increase profitability; the Company's ability to retain the revenue associated with acquired customer accounts and enhance the performance of acquired stores; the Company's ability to enter into new and collect on its rental or lease purchase agreements; the passage of legislation adversely affecting the Rent-to-Own industry; the Company's compliance with applicable statutes or regulations governing its transactions; changes in interest rates; adverse changes in the economic conditions of the industries, countries or markets that the Company serves; information technology and data security costs; the impact of any breaches in data security or other disturbances to the Company's information technology and other networks and the Company's ability to protect the integrity and security of individually identifiable data of its customers and employees; changes in the Company's stock price, the number of shares of common stock that it may or may not repurchase, and future dividends, if any; changes in estimates relating to self-insurance *liabilities and income tax and litigation reserves; changes in the Company's effective tax rate; fluctuations in foreign currency exchange rates; the Company's ability to maintain an effective system of internal controls; the resolution of the Company's litigation; and the other risks detailed from time to time in the Company's SEC reports, including but not limited to, its Annual Report on Form 10-K for the year ended December 31, 2016, and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. Except as required by law, the Company is not obligated to publicly release any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*

Rent-A-Center, Inc. and Subsidiaries

Please see the Company's earnings press release dated May 1, 2017 for the non-GAAP reconciliation of consolidated adjusted EBITDA in the prior quarterly period which was used to calculate the sequential improvements contained in this press release.

STATEMENT OF EARNINGS (LOSS) HIGHLIGHTS - UNAUDITED

Table 4	**Three Months Ended June 30,**							
	2017		**2017**		**2016**		**2016**	
(In thousands, except per share data)	*Before Special Items (Non-GAAP Earnings)*		*After Special Items (GAAP Earnings)*		*Before Special Items (Non-GAAP Earnings)*		*After Special Items (GAAP Earnings)*	
Total revenues	$ 677,635		$ 677,635		$ 749,619		$ 749,619	
Operating profit (loss)	10,231	(1)	(873	)	46,399	(3)	27,550	
Net (loss) earnings	(596	) (1)(2)	(8,893	)	21,746	(3)	9,946	
Diluted (loss) earnings per common share	$ (0.01	) (1)(2)	$ (0.17	)	$ 0.41	(3)	$ 0.19	
Adjusted EBITDA	$ 28,939		$ 28,939		$ 67,175		$ 67,175	
Reconciliation to Adjusted EBITDA:								
(Loss) earnings before income taxes	$ (873	) (1)(2)	$ (13,913	)	$ 34,770	(3)	$ 15,921	
Add back:								
Other charges	—		11,104		—		18,849	
Debt refinancing charges	—		1,936		—			
Interest expense, net	11,104		11,104		11,629		11,629	
Depreciation, amortization and impairment of intangibles	18,708		18,708		20,776		20,776	
Adjusted EBITDA	$ 28,939		$ 28,939		$ 67,175		$ 67,175	

(1) Excludes the effects of approximately $11.1 million of pre-tax charges primarily related to the closure of Acceptance Now locations, and incremental legal and advisory fees. These charges reduced net earnings and net earnings per diluted share for the three months ended June 30, 2017, by approximately $7.1 million and $0.14, respectively.

(2) Excludes the effects of $1.9 million of pre-tax debt refinancing charges reducing net earnings and net earnings per diluted share for the three months ended June 30, 2017, by approximately $1.2 million and $0.02, respectively.

(3) Excludes the effects of $18.8 million of pre-tax charges primarily related to the closure of Core U.S. stores. These charges reduced net earnings and net earnings per diluted share for the three months ended June 30, 2016, by approximately $12.0 million and $0.22, respectively.

SELECTED BALANCE SHEET HIGHLIGHTS - UNAUDITED

Table 5	**June 30,**	
(In thousands)	**2017**	**2016**
Cash and cash equivalents	$ 73,831	$ 88,170
Receivables, net	64,379	64,402
Prepaid expenses and other assets	56,363	63,177
Rental merchandise, net		
On rent	706,086	780,934
Held for rent	200,223	225,350
Goodwill	55,424	207,027
Total assets	1,472,598	1,756,242

Senior debt, net	$ 97,579	$ 187,864	
Senior notes, net	538,118	536,833	
Total liabilities	1,223,801	1,340,623	(1)
Stockholders' equity	248,797	415,619	(1)

(1) Total liabilities and stockholders' equity for the second quarter of fiscal year 2016 are revised for the correction of a deferred tax error associated with our goodwill impairment reported in the fourth quarter of 2015 as discussed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Rent-A-Center, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) - UNAUDITED

Table 6	**Three Months Ended June 30,**			
(In thousands, except per share data)	**2017**		**2016**	
Revenues				
Store				
Rentals and fees	$ 575,411		$ 645,710	
Merchandise sales	76,773		76,777	
Installment sales	17,657		17,672	
Other	2,519		3,280	
Total store revenues	672,360		743,439	
Franchise				
Merchandise sales	3,214		4,023	
Royalty income and fees	2,061		2,157	
Total revenues	677,635		749,619	
Cost of revenues				
Store				
Cost of rentals and fees	159,276		169,139	
Cost of merchandise sold	77,055		70,903	
Cost of installment sales	5,708		5,662	
Total cost of store revenues	242,039		245,704	
Franchise cost of merchandise sold	3,063		3,757	
Total cost of revenues	245,102		249,461	
Gross profit	432,533		500,158	
Operating expenses				
Store expenses				
Labor	179,447		199,992	
Other store expenses	177,050		192,856	
General and administrative expenses	47,097		40,135	
Depreciation, amortization and impairment of intangibles	18,708		20,776	
Other charges	11,104	(1)	18,849	(2)
Total operating expenses	433,406		472,608	
Operating (loss) profit	(873	)	27,550	
Debt refinancing charges	1,936		—	
Interest expense	11,263		11,737	
Interest income	(159	)	(108	)
(Loss) earnings before income taxes	(13,913	)	15,921	
Income tax (benefit) expense	(5,020	)	5,975	
Net (loss) earnings	$ (8,893	)	$ 9,946	
Basic weighted average shares	53,292		53,092	
Basic (loss) earnings per common share	$ (0.17	)	$ 0.19	
Diluted weighted average shares	53,292		53,381	
Diluted (loss) earnings per common share	$ (0.17	)	$ 0.19	

[1] Includes approximately $11.1 million of pre-tax charges primarily related to the closure of Acceptance Now locations, and incremental legal and advisory fees.

[2] Includes $18.8 million of pre-tax charges primarily related to the closure of Core U.S. stores.

Rent-A-Center, Inc. and Subsidiaries

SEGMENT INFORMATION HIGHLIGHTS - UNAUDITED

Table 7	**Three Months Ended June 30,**	
(In thousands)	**2017**	**2016**
Revenues		
Core U.S.	$ 457,025	$ 530,612
Acceptance Now	203,321	199,516
Mexico	12,014	13,311
Franchising	5,275	6,180
Total revenues	$ 677,635	$ 749,619

Table 8	**Three Months Ended June 30,**	
(In thousands)	**2017**	**2016**
Gross profit		
Core U.S.	$ 318,006	$ 383,129
Acceptance Now	103,934	105,352
Mexico	8,381	9,254
Franchising	2,212	2,423
Total gross profit	$ 432,533	$ 500,158

Table 9	**Three Months Ended June 30,**	
(In thousands)	**2017**	**2016**
Operating profit		
Core U.S.	$ 30,980	$ 38,715 [3]
Acceptance Now	18,597 [1]	27,547
Mexico	(41)	572
Franchising	1,092	1,425
Total segments	50,628	68,259
Corporate	(51,501) [2]	(40,709)
Total operating (loss) profit	$ (873)	$ 27,550

[1] Includes approximately $7.3 million of pre-tax charges related to the closure of Acceptance Now locations.

[2] Includes approximately $3.3 million of pre-tax charges primarily related to incremental legal and advisory fees.

[3] Includes $18.8 million of pre-tax charges primarily related to the closure of Core U.S. stores.

Table 10	**Three Months Ended June 30,**	
(In thousands)	**2017**	**2016**
Depreciation, amortization and impairment of intangibles		
Core U.S.	$ 7,882	$ 10,563
Acceptance Now	629	828
Mexico	526	864
Franchising	44	44
Total segments	9,081	12,299
Corporate	9,627	8,477
Total depreciation, amortization and impairment of intangibles	$ 18,708	$ 20,776

Table 11	**Three Months Ended June 30,**	
(In thousands)	**2017**	**2016**
Capital expenditures		

Core U.S.	$ 8,600	$ 3,456
Acceptance Now	612	305
Mexico	24	76
Total segments	9,236	3,837
Corporate	8,875	9,906
Total capital expenditures	$ 18,111	$ 13,743

Table 12	**On Rent at June 30,**		**Held for Rent at June 30,**	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Rental merchandise, net				
Core U.S.	$ 373,907	$ 442,103	$ 181,773	$ 211,011
Acceptance Now	318,099	323,618	11,477	5,915
Mexico	14,080	15,213	6,973	8,424
Total rental merchandise, net	$ 706,086	$ 780,934	$ 200,223	$ 225,350

Table 13	**June 30,**	
(In thousands)	**2017**	**2016**
Assets		
Core U.S.	$ 781,141	$ 1,031,773
Acceptance Now	396,092	400,161
Mexico	33,978	35,399
Franchising	2,402	2,619
Total segments	1,213,613	1,469,952
Corporate	258,985	286,290
Total assets	$ 1,472,598	$ 1,756,242

Rent-A-Center, Inc. and Subsidiaries

LOCATION ACTIVITY - UNAUDITED

Table 14	**Three Months Ended June 30, 2017**					
	Core U.S.	**Acceptance Now Staffed**	**Acceptance Now Direct**	**Mexico**	**Franchising**	**Total**
Locations at beginning of period	2,453	1,389	96	131	229	4,298
New location openings	—	70	3	—	—	73
Acquired locations remaining open	—	—	—	—	—	—
Conversions	—	(8)	8	—	—	—
Closed locations						
Merged with existing locations	(13)	(262)	—	—	—	(275)
Sold or closed with no surviving location	(3)	—	(1)	—	(1)	(5)
Locations at end of period	2,437	1,189	106	131	228	4,091
Acquired locations closed and accounts merged with existing locations	1	—	—	—	—	1

Table 15	**Three Months Ended June 30, 2016**					
	Core U.S.	**Acceptance Now Staffed**	**Acceptance Now Direct**	**Mexico**	**Franchising**	**Total**
Locations at beginning of period	2,662	1,436	526	129	227	4,980
New location openings	—	50	42	—	1	93
Acquired locations remaining open	—	—	—	—	—	—
Conversions	—	(4)	4		—	—
Closed locations						
Merged with existing locations	(174)	(108)	—	—	—	(282)
Sold or closed with no surviving location	(10)	—	(27)	—	—	(37)
Locations at end of period	2,478	1,374	545	129	228	4,754
Acquired locations closed and accounts merged with existing locations	1	—	—	—	—	1

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