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Moderator: Vincent Caintic

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Operator: Good day, and welcome to the Stephens Inc. Rent-A-Center conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Vincent Caintic. Please go ahead.

Vincent Caintic: Thanks, Elaine. Thanks, everyone, for joining the call. My name is Vincent Caintic. I'm the Stephens equity analysts covering special finance, ((inaudible)), and consumer finance. I'm pleased to host this morning Rent-A-Center's CEO Mitch Fadel, and CFO Maureen Short.

Before we get started, I just want to talk briefly about the format of this call. I like to have these calls be interactive with the audience, so I intend to poll questions with the audience ((inaudible)). Investor questions are always more interesting, so please have them ready and join the queue. If you'd rather have me ask the question, just email me at vincent.caintic@stephesn.com. Caintic is C-A-I-N-T-I-C, and I'll ask your question once I get done ((inaudible)) queue.

With that, we'll get started. Mitch and Maureen, thank you very much for joining the call, and your time this morning. First, Mitch, if you could give an introduction on Rent-A-Center and the rent to own industry ((inaudible)). We have some investors on the call who are new to rent to own ((inaudible)). I don't know if you could maybe describe the customer set, ((inaudible)) and for Rent-A-Center your differences and your competitive advantages.

Mitch Fadel: Sure. Glad to do it, Vincent. Thanks for doing this, and thank you everybody for your time. As Vincent said, I'm Mitch Fadel, the CEO of Rent-A-Center, and I think I'll be able to describe what Rent-A-Center is all about. I started with Rent-A-Center, for those of you who don't know it, in

1983. So, I've been doing this a long time. Left for a couple of years, but came back a few years ago. So, it's been most of my adult life.

So Rent-A-Center is just like the name says, a rental company. Really we call it lease to own now. It's leasing with an option to own, with a lot of flexibility, household durable goods. So you can lease anything for the home from furniture to appliances to electronics, even handbags, tools, things like that, most everything inside the home, on a lease where you have an option to own. But you also have an option to return it, and that's certainly a key variable in this day and age. We're not a subprime lender, our customer is lower income demographic, average income in the $35,000 household annual income range. That's an average. Depending what part of the country you're in, it's a range more like from $15,000 if you're talking about some of the lower income/lower cost of living areas, to that $50,000 range in some of the higher cost living areas.

Again, it's a customer that's cash and credit constrained, and needs leasing. Because we can take risk with a customer that doesn't have a good credit score. Because if they can't pay us, we just pick it up and rent it to somebody else. So the lease equity doesn't transfer to the end, so we can do business with customers that lenders can't. The flexibility allows us to do business with them. The margins are good doing business this way, and we have the flexibility of the return, which is good under any circumstances. And, like I said, we just rent it to somebody else.

About 2,000 corporate-owned stores in the U.S., another 120 in Mexico. About 300 franchise stores. So, about 2300 brick and mortar. We also have another segment called Preferred Lease, which is a lease to own option within retail partner business. We do it two different ways. We can staff their kiosk if they have a lot of volume, and we can benefit from supplementing their labor by doing more business, or we do it virtually. It's a business that has even more interest now because it more often than not is in a waterfall, where if somebody gets turned down for traditional credit we'll do a lease to own agreement right on the spot in that retail store. Whether it's with one of our employees, the salesperson can do it, or it's just virtually done. That's the growing part of our business.

E-comm is a big part of our business, both on that preferred lease side, through the retail partners, and, of course, on the Rent-A-Center side. Skyrocketing these days up over 100% to last year, just like you're hearing from a lot of retailers. We feel good about our business model because of the flexibility, and because our products are home products. That seems, for the next little while, a year or two anyhow, that products for the home are where you want to be. That's a background on Rent-A-Center.

Vincent Caintic: Okay, great. Thank you for that. Maybe if we'll go to today. So, I think, you know, eye on the market, we're very impressed with how close everything was to business as usual in the first quarter, and the ((inaudible)) you gave last week on your earnings call. I guess, are we back to normal now that we're two weeks into May? Maybe if you could update us on what you're seeing, and the performance, and anything different from what you've experienced on your earnings call?

Mitch Fadel: Yeah, nothing different from the earnings call, which was just last week. Certainly what we said in the earnings call would hold. I don't know that we're back to normal, maybe we're back to a new normal, but you said, Vincent, you were surprised at how close we were to normal numbers. I would just say that, I mean, that's the benefit of having a recurring revenue stream. Even as stores had to close, on the retail partner side - let's use that example.

So if a retail partner store had to close, we still had revenue stream. We've got a very variable cost structure, so we furlough the employees but money's still coning in. Now, the portfolio. You don't want to do that very long, or your portfolio - obviously the payments run out at some point in time, as people take ownership of the product. So, you don't want to do that forever, but in the short term you have a recurring revenue stream. You can cut your expenses. Because we've turned our cost structure very variable. Now it's a reopening, they're seeing really good demand. A lot of pent-up demand, and we're back growing the portfolio again.

So, I would just say it's a great time to have a recurring revenue stream. You think about the Rent-A-Center side of the business, the brick and mortar side, same thing. About 25% of our stores at one point had to close the showroom. They could still operate. Only a handful of stores ever got shut down totally, but we stayed open pretty much everywhere as an essential business because we have appliances and computers, and things people needed to get through this. Again, cash and credit constrained, where else are they going to get a refrigerator? Where else are they going to get a computer to do home-schooling, or to work from home, and so forth. So we were able to stay open.

In some cases we had to close the showroom and just work off web orders, phone calls, curbside, and so forth. But we were able to furlough some employees, because we didn't need quite as many, and then as the showrooms reopened bring them back. You know, the recurring revenue stream allowed us to stay pretty close on our numbers, as you said, you know, relative to traditional retail quite a bit ahead. And a pleasant surprise to people that hadn't thought about our business model. It wasn't a surprise to us, we know our business model, but it surprised a lot of people that this business model could - I guess a lot of people hadn't focused on the fact with a recurring revenue stream you're not going to have the drop the traditional retail has.

With the fact that people can return it, you're not going to have the huge losses that maybe a lender would have. Because our equity doesn’t transfer until the customer takes ownership at the end, if they do the buyout. So, we can pick it up and rent it to somebody else. And all that does is save us money from not having to buy a new product to rent to somebody else. So, a lot of the inherent benefits I think people are just starting to open their eyes to. But normal? I guess it's a new normal. You know, web orders are through the roof, doubled from last year, like we said on the earnings call last week. Do a lot more business on the web. People are shopping, they're just shopping from home a little more than they were, but demand is strong.

Vincent Caintic: Okay, perfect. Thank you. Yes, I appreciate the discussion about the stability due to the portfolio nature of the business. Yes, if we could look through the rest of the year, what are the variability in the way it can play out? When you think about the Bull case, what's the opportunities here versus the Bear case? Is it fairly stable in your view about how it's looking for the rest of the year?

Mitch Fadel: Yeah, good question. I think that we have a seasonal dip usually in the summer. I don't know if we'll actually see that dip today, but I think the overall street estimates have it pretty normal in the second quarter, just like we talked about. A little bit of a dip in the third quarter, because it's seasonally usually the lowest quarter for us in the summer, from a revenue standpoint. Also, as we bring back furlough people and build the portfolio back up from the little bit of drop it had early on, when Corona Virus first started shutting places down, you've got to fill that back up. So, you have a little bit of expense ahead of the revenue.

So, a little bit of a dip in the third quarter, but I think on average -- I don't know about every individual one, but on average the street estimates, we think, you know, got it right. In the portfolio business, the second quarter we've guided pretty close to, and then the third quarter is seasonally a little low. Then when you think about the expenses coming back in, some of the furlough expenses coming back in, in some cases ahead of the revenue, then you have a little bit of a drop in the third quarter, and then it builds back up in the fourth quarter. Now, you know, so you do already have that drop built in. Most of the analysts have that drop built in, and that's about as bearish as I can be.

On the bullish side, you know, the demand's strong and there's a lot of pent-up demand. As the retail partner stores open up, the retail partners are looking for more alternatives as lenders above us tighten up. We're already seeing that. So, you know, the bullish side is just doing a lot more business and doing even better than the numbers that are out there today.

Vincent Caintic: Okay, that's helpful. Even though there's a typical third quarter seasonal drop in revenues, it sounds like since we're in a new situation as things start to open up more we could see some of that pent-up demand drive incremental third quarter and fourth quarter sales. Is that kind of the bull case? It sounds like that's a pretty comfortable place to be at?

Mitch Fadel: Yeah. I think that is the bull case. You know, we don't want to predict it. We're not predicting it on this call. You know? I'm just saying that we normally have that little bit of drop. It seems like the average of Wall Street has that built in for that little bit of seasonal drop, and there's the chance that we can do better than that, based on the new normal. Which is, you know, more shopping for the home. And think about looking for flexibility. I mean, a lease to own transaction gives you that flexibility where you can return it at any time. So, if you're looking for something for the home and you're looking for flexibility, the lease to own transaction is the way to go. We feel like we have the best value proposition out there compared to our competition, and we're already seeing more new customers.

We talked on our call last week, web order volume is double, but here's a real important stat. The web order on the Rent-A-Center site doubled from last year, but the new customer mix in there, the percentage of new customers that are in there has held. That means we haven't doubled because our regular customers are sitting at home using the internet instead of coming down to the store, it's doubled on new customers as well. So that's a really positive sign from our standpoint.

Vincent Caintic: Very helpful, thank you. We're at the 15 minute mark. Elaine, if you wouldn't mind polling the line for live questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute button is turned off, to allow your signals to reach our equipment. Again, press star 1 to ask a question. We will take our first question from (Adita Bendra), from .72.

(Adita Bendra): Hi, thanks for taking my question. I appreciate all the callers so far. I just have a question regarding the effect of stimulus and unemployment on your customers. As we kind of go further into the summer, and we get to a place maybe where some of this starts to wean off, how much do you think that's going to impact your average customer? Did you see any uplift on maybe weekly data around the time stimulus came out? I guess just how reliant do you think your average customer is on these packages? Thank you.

Mitch Fadel: Yeah, good question. First, on the stimulus side, it certainly helps. From a demand standpoint, it helps people pay rather than having to return the product. Mostly it's helped on the demand side, so I think that's a good thing, obviously, for us. As that runs out - and, of course, we're going to see a lot of it all summer as paper checks go out, which is a lot of our demographic that didn't have their bank account on file. I think that's all good. It's been a positive impact, I think it will continue to be. Even after that, when you think about unemployment, we have - well, I guess the way we said it last week on the call.

You know, the cash and credit constraint customer, our customer, tends to live in a recession all the time. They're always under a lot of pressure. They're not going to be impacted by the stock market being down 50% and then being up 20%, and all that kind of stuff. They live check to check all the time, and we're used to that. Our customers are used to it. We don't see the unemployment, so far, you know, scaling any bigger at our customer level. It may be larger at other levels. A lot of our customers are the frontline workers out there and so forth. And as factories reopen and things like that, I don't know that it's - it's not going to impact our customer, we don't believe. Or it's not impacting our customer more than other demographics. So we don't see an overweight there.

Certainly the supplemental unemployment helps, but again, we've been through recessions before. You know, our average payment is $25 a week for a product. Whether it's a living room group, or a TV, or a washer/dryer, or an essential item for the house, or a laptop so the kids can do their schoolwork, or bunk beds, you know, for the kids' room, and so forth. Again, the average payment's in the $25 range. So this isn't like you can't afford it because you're on unemployment. Even without the supplemental unemployment. And, again, you can return it anytime. We just rent it to somebody else.

You know, we've got a program some of you have heard us talk about in our structure now called Benefits Plus. Where if the customer becomes unemployed - they pay a small fee every week to have this add-on program, there's a lot of benefits in there. One of them is the unemployment benefit. Eligible customers can file for that. It's underwritten by (AM). They then pay us directly for the product, and the customer doesn't have to come out of pocket for those payments for as long as they're on unemployment. You know, we've seen a spike in those claims but it's not off the charts. It's not like, you know, 20% of our customers are unemployed. It's not like that.

So, we're not seeing a huge impact there. That program certainly helps them the ones that are unemployed. Again, a lot of customers are the frontline workers and people that are working a heck of a lot right now. I don't mean frontline just on the hospital side, or things like that, but you think about, you know, the Wal-Marts of the world and the grocery stores. And retail reopening. You know, those are our customers. Restaurants now starting to reopen.

And we go back to the way we performed in 2008 during the recession. You know, the biggest recession we had seen before this one. We performed very well. We didn't have a spike in losses because, again, it's not a loan. It may be subprime customer, but it's not a loan. They can return it, we rent it to somebody else. Stimulus is good for us, the supplemental unemployment is good for us, but we don't see it going back when that runs out, either.

(Adita Bendra): Got it. Thank you. That's very helpful.

Mitch Fadel: Thank you.

Operator: Once again, if you'd like to ask a question please press star 1. For your information, we have no questions in the queue at this time.

Vincent Caintic: We'll continue. I actually had a couple of emailed questions. I guess maybe a follow-up on the stimulus question. Did you see a lot of incoming sales due to the stimulus? One question an investor has, it's just a pull forward of demand maybe from future quarters because the ((inaudible)) people were able to make initial payments on their items.

Mitch Fadel: You know, I don't know if I'd call it a pull forward. It helped a lot of categories. It helped people make their payments, it helps - and, of course, it's still going out. I don't think more than 60 or 70% of it's out yet, so it's still going out. So we don’t see it quite that short-term. It certainly helped people make their payments. It helped a few people - you know, you get a few more people paying out their contract, but then it helps demand to offset people paying out their contract.

So, more money on the streets, so to speak, is always good for us. Whether, you know, people buy out their contract - and most of you know, we re-rent to a high majority of our customers, in the 70% range that come back and get another product from us. So, you know, we've got a lot of different products for the home. Even when stimulus drives a little - it does a couple of good things. It drives more revenue as people buy out their agreements, it drives a lot more revenue as people make their payments. It drives a lot more demand that makes up for those payouts as well.

So we don't see it as something that the other shoe's going to drop when that money ends. That's not been the way we've performed during past recessions.

Vincent Caintic: Okay, great. Thank you. Another investor question about comparing what we're going through today versus the prior recession. Compare the different experiences and sort of data points that we should be paying attention to, to kind of track where we are in this recession and your performance.

Mitch Fadel: Yeah, good question. I think, you know, the model is still the same in the fact that the customer can return it if they can't afford it. That keeps the losses from blowing up on you. So it's still not a loan. I think one of the things compared to 2008 recession is what we've done on the preferred lease side. I think there's going to be more demand on the retail partner business as they look for alternatives to lenders tightening up. We weren't ready for that in 2008. It was a brand-new business for us in 2008. So I think we'll be more ready for that, to take advantage of retail partners that need lease to own in their stores as financing tightens up. So, I think that's going to be the biggest difference is the opportunity on the preferred lease side.

Maureen Short: One thing to add on that, I think as far as benefits versus the financial crisis, we're in a much better position with our digital capabilities. Our ecommerce is a significant portion of our business, and that's seen tremendous growth during the shutdowns. Just our digital capabilities in general, as well as our variable cost structure, I think are two favorable benefits versus the Great Recession that put us in a positive condition.

Mitch Fadel: Yeah, that's a good point.

Vincent Caintic: Okay, great. Next emailed question, and this is sort of just describing the business question. This investor is asking what's the average length of a rental, the percentage of the product that's eventually purchased, and what percentage that's returned, and I guess how much of your revenue ((inaudible)) from the second or third rental?

Mitch Fadel: Yeah. Let's see if I kept track of that. I don't have all of those numbers in front of me. The average rental time is in the four to five month range. Of course, it goes from, you know, as little as a week up to ownership. Which, I think the average contract we write now is somewhere in the 16-month range. Of course, they can buy it out early. So the average is four or five months, so it gives us visibility out that long. Pretty much through the summer. The numbers haven't changed much on the ownership levels, and that's all in our ((inaudible)). Off the top of my head, on the Rent-A-Center side it's in that 35 to 40% range that will take ownership. So it takes two to three rentals on average. You know, some are one and some are three, but it's not in our system a long time. The average product's only in our system about the 16 months I mentioned, even with multiple rentals. So we don't have aging inventory.

On the preferred lease side, the higher percentage take ownership. More in the 70 to 80% range take ownership on the preferred lease side. Because, again, that's a little bit different customer. That's a customer that came into a retail store wanting to buy something and ends up in a lease owner agreement, but takes ownership at a much higher level. If they don't take ownership on that side, we end up re-renting it in the Rent-A-Center store. So we've got a great outlet for anybody who doesn't take it to ownership on the preferred lease side.

Vincent Caintic: Okay, great. Thank you. Next, if we can maybe discuss the sales that you've generated in more detail. Actually, with ecom being the biggest one. So ecom has certainly helped in quarantine times, and it's something you've focused on since rejoining. Maybe you could talk about it in more detail, how you were able to expand it up quickly, and how do you find your ecom customers? Especially and particularly new customers in this environment?

Mitch Fadel: Well, yeah. Ecom is important for any business these days, and ours is no exception. We've put a big focus on it, a lot of our orders come through ecom. One of our biggest benefits, if you think about ecom business, is we've got 2300 brick and mortar locations out there, and they do the final mile. So you put your order in online, and the store delivers it, and then manager at ecom picks it up if you ever want to return it. So we've got final mile built in, so when you think about it ecom is not near as expensive a proposition for us as it is for traditional retail.

When tradition retail is setting up ecom, or I talk to retailers who, "Oh, my gosh. My ecom business is through the roof these last two months," they have to add infrastructure. First thing they have to do is, "How am I going to deliver all of that?" And distribution is the biggest problem, and infrastructure cost comes ahead of it. With us, we've got the infrastructure. It's our stores. So it can grow. It's double right now what it was a year ago, which is no surprise based on people shopping from home, and we haven't had to add any infrastructure for it. For that part of the business doubling. Because the stores are already there. If anything, we're doing it with less labor right now, which is why the second quarter forecast, you know, the 10% or less on the revenue side then it was 10% or less on the profit side, too, because we're actually doing it with less labor.

So, you know, very positive stuff there. Very high concentration of new customers. You know, from a new customer standpoint it's more than half of our ecom orders that come in are customers that we've never seen before. That continues. Even though it's doubled from a year ago, the number of overall orders, the percentage of new customers has maintained the same percentage. So, that's doubled as well, and it's much more than half of the customers coming in. More like 2/3 of the customers coming in are new customers on the ecom site. And that's held at 2/3 even though the overall has doubled. So, as you can probably tell, we're real excited about that. L

Vincent Caintic: Right. That makes sense. You know, 2/3 of new customers coming through ecom is really impressive. In this environment how are you able to source those customers? Is it marketing ((inaudible)) optimization? That's a pretty impressive number to be growing by quickly. Any thoughts on how you're able to do that successfully?

Mitch Fadel: Yeah, that's a good question. You know, a couple of answers there. One is, you know, lease to own is so relatively unknown. You know, just like you asked at the beginning of this call, "There's some people that aren't familiar with it, so go ahead and explain it," but we've been a public company for 25 years. There's still people that don't know what we do on Wall Street. It's the same thing on Main Street. There's still people that don't know the lease to own transaction, so there's a tremendous opportunity there to add new customers.

How we do it, it's mostly these days. You know, one of the things I did when I came back in 2018, when I came back to the company, as you know, Vincent, I brought back a CMO that had been with us for a while before that. I brought Ann Davids back, and she's really gone down the digital path. There's a little advertising that you'll see, whether it's radio, or television, or some print materials and so forth. You might see a little of it, but it's mostly digital, and so it's much more targeted to that customer base. An awful lot of search engine optimization money we spend. All kinds of way to spend money digitally with that customer. Just like any other company, we know where that customer's been, and we use cookies and so forth to tell them about our transaction and so forth. So, you know, it's very targeted and very digital is how we're driving it.

Vincent Caintic: Okay, that's really helpful. I guess talking a little bit more about sales in this environment. So, it appears the accommodations on the store's site, the website experience and the drive-thrus, it doesn't seem like that's impacted business that much. I guess I'm trying to think about demand versus some of the frictions that were here. Are you seeing more demand? Is the adjustments that you've had to make to the business I guess not materially impacted the customers for doing business with you, or wanting to do business with you?

Mitch Fadel: Yeah. Another good question. Think about it this way, Vincent, we were able to maintain full operation in 75% of our stores. Even though we do threshold deliveries. We don't go inside the home. Yet. But still, you could go in the showroom, you know, social distancing. There are some states where there could only be a certain number of people in there and so forth, but we're a small box retail so we never really had much of a problem with that. So if you think about 75% staying open the whole time as an essential business, the other 25% with the showroom locked and only doing, you know, phone orders and web orders and so forth, that does affect demand in those. That's why it's good that we're down under 20% now as far as the stores mostly in the northeast. New York, Massachusetts, and New Jersey. But that's good as that number goes down.

So the demand is impacted there, but if you think about the 75% that are open with extra demand, that's the way to think about it. When you say, "Well, how could you close showrooms and not have any deterioration in demand?" We do have deterioration in demand in those stores that are closed showrooms, but made up for in the ones that are open. You end up coming out pretty close to even.

Vincent Caintic: Okay, that's very helpful. On the preferred lease side, and maybe you have tied the ecom and preferred lease, how much of your business is coming from ecom on the preferred lease side? And on both preferred lease and the Rent-A-Center business, I guess we're in a new normal now, but how big could the ecom business get as a percentage of your overall mix?

Mitch Fadel: Yeah, right now on the preferred lease side the ecom business depends on the retailer. Because a lot of the ecom business comes through the retailer. Like, you know, one of the furniture chains we're doing business with, you know, 30 or 40% of all the business we do with them is through ecom. So, it can be a high percentage there. We're not yet in any retailers that are ecom only. So it's a percentage of the business with everybody we're doing business with - almost everybody. Then in straight ecom, someone that doesn't have any brick and mortar, say a Wayfair or somebody like that, we're not in any of those just ecom retailers yet on the preferred lease side. But it is in that 30 to 40% range - probably 30% is a better average - 30% range for the retailers that we are in, that the business starts either on their website or on our website.

Then how big can that get? I just think the percentage is going to move over there. I just think there's going to be great growth in general with our retail partners, from a lot of areas. Primarily, you know, the lenders tightening up above us, number one. And, number two, that they're products for the home that I think are going to continue to, you know, take share. I think purchases for the home are going to take share from restaurants and travel, and some other categories probably until there is a vaccine. So, for another couple of years I think products for the home will continue to do better than most products. More of that percentage will come from ecom.

On the Rent-A-Center side, I just think it's going to continue to drive, even in a mature business like that, as we've talked about, low single digit same store sales, as that part continues to grow. Even as the traditional brick and mortar part of the business is flat, or even down one or two points if you look three years out, like traditional retailers would be. When you look at the ecom side, we're very comfortable saying we'll maintain positive same store sales. You know, low to mid single digit same store sales for a number of years, and it's because of the ecom side.

Vincent Caintic: Okay, that's really helpful. One of the emailed questions I got, I'll just read this out. If you could talk about how you execute a lease to own ecom with your retail partners. Like maybe describing the process? Is it a click to ship process, or do people go to the stores? Maybe if you could just describe ecom for preferred lease. Thanks.

Mitch Fadel: It varies on the retailer. In some cases it just flows. If they put an order online, it will just flow through and be transacted like any other ecom program. They don't have to leave their home, and it gets delivered by that retail partner, and we can do the lease to own agreement, you know, over the internet so to speak, and DocuSign and those kind of things. Other retailers, the customer has to come in the store to pick out the product. It just depends a lot on the retailer, on whether they have to come in the store or not. Almost every retailer you can pick the product out and start the order online, but then depending on the retailer you can either finish it online or come into the store.

Vincent Caintic: Okay, very helpful. I'll pause here, and Elaine, if you could poll the line for questions again for our live Q&A.

Operator: Thank you. Ladies and gentlemen, if there are any questions please press the star followed by the 1 at this time. As a reminder, if you're using speaker equipment you'll need to lift the handset before making your selection. Once again, if you would like to ask a question please press star 1 now. Thank you.

Vincent Caintic: Okay, if there are no questions on the line, I'll just continue on. Maybe next if we could talk about the credit side and the reserve side. Just your expectations that you have, and your guidance when you go into second quarter. When we think about the rest of the year, if the economy gets better or even if it gets somewhat worse from here, should we be expecting much bad debt expense beyond what you already are forecasting as a reserve for the second quarter?

Maureen Short: Yeah, I can take that.

Mitch Fadel: Yeah. Go ahead.

Maureen Short: Sure. So we did build in some modest increases in the skip stolen reserved in the second quarter. They're just based on our collections and what we're seeing there, and anticipating some increases in write-offs. Not significant write-offs, and for the full year expect the same situation. Modest increases, but not significant increases. That's mainly due to what Mitch mentioned earlier. The fact that we're not a subprime lender. We've got the collateral of the product that the customer can return.

So when they bring back the product, we re-rent it to other customers and it doesn't result in an inventory write-off. And these are non-cash inventory write-offs. If a customer decides to keep the merchandise, stop payments, and we lose contact with them, we saw very stable bad debt expense or reserve for skip stolen losses in the financial crisis. The Great Recession. And so we expected a very similar situation. That the customer can always return the product, and they generally work with us to do that. So, just a minor increase in losses in the second quarter, but nothing material.

Vincent Caintic: Okay, that's helpful. Understanding that generally there's no losses because the customer can return the product, if you can talk about how the return process works. And does that, in a way, I guess, impact P&L in terms of maybe depreciation or some other factor to the P&L?

Mitch Fadel: Yeah, good question. It doesn't...

Maureen Short: Sure.

Mitch Fadel: Sorry, Maureen. I was just going to talk about how we do the returns and you can get into the financial part. If the customer wants to return it, the store picks it up, cleans it, and then re-rents it to somebody else. It affects the revenue, but our revenue is basically on a cash basis. With some accrual at the end of the month and so forth, for payments. It cuts off the revenue stream, but there's no write-off or anything like that, because it's not a retail sale. We maintain ownership of the product, it gets returned, we rent it to somebody else and pick up the revenue stream again. It helps cash flow from the standpoint you didn't have to buy another product. That doesn't mean we want returns, we'd rather have the revenue stream stay out there and we'll go ahead and buy another product. We've got plenty of cash to do that. But there is an offset that you get to rent to somebody else and not have to buy that product. I'll let you answer the depreciation part of that, Maureen.

Maureen Short: Yes. So when we book a reserve for skip stolen losses, it does hit the P&L and it's included in the skip stolen losses that we talked about in our earnings call. It was 3.9% in the Rent-A-Center business in the first quarter, and 12.2%. And those include any reserve adjustments that we make within the quarter, as well as the actual skip stolen losses in that quarter. So that goes through other store expenses. So an operating expense on the P&L, depreciation is taken throughout the rental term, and is not impacted by the skip stolen losses. It's just a portion of the product that we write off each week that we're renting the product.

So when we bring back returns, like Mitch mentioned, we re-rent that product. There is almost never a need to write down anything as far as obsolescence or, you know, occasionally the product comes back where it's not re-rentable, but that's a very small portion. There's not a lot of obsolescence in our business, so if we do get quite a bit of product back - not that we expect it - but we have every assurance to be able to re-rent it based on what's taken place historically.

Vincent Caintic: Okay, great. That's really helpful in the financials. In this environment, are you seeing a lot of demand for used or returned products? I guess, to your point earlier, you mentioned I think some people have been maybe worried about there being a high level of returns. Given the performance you've seen so far, it sounds like there's a lot of pent-up demand even for a used product. If you could maybe talk about the velocity of the returns you're seeing versus actually the demand of people who want those returns. Who lease those returns.

Mitch Fadel: Well, if you think about the products, and you think about what we rent are for the home mostly being essential products - and, of course, we could say they're all essential, because that's the eye of the beholder category - but certainly appliances that are essential, computers these days are essential, even televisions most people would say are essential, to stay in touch with the world. Is the living room essential? I suppose so. I suppose sitting on the floor would not be very good. So a lot of essential products. So, who wants to return those things? If they're going to spend more time in the home, why would there be an influx of returns? Well, if they can't afford it is the answer to that. Well, why wouldn't they be able to afford it? The average payment's $25 a week, so it doesn't take much. Even on unemployment. Even without supplemental unemployment, we have a lot of people on a day to day basis paying us that are on unemployment.

So, you know, this isn't where they've got to return it because the ticket's so big they can't afford it, so we're not seeing the increase in returns. I think people will - obviously money can get tight, it's always tight in our demographic. Lower to middle income demographic. So why do they rent in the first place? They need stuff for their home. These are essential products, and they fight hard to keep up with their payments rather than return it, and it's no different now. Then when they do return it, to your point, Vincent, and we've got people that want the used product.

You go into one of our stores, and a new living room group, you know, they six month same as cash price might be $999, $1199, something like that. And the used one will be used one will be $699 to take it to ownership, or something like that. So, you know, it's a better deal for the used products. So we've always been able to rent used product. Even ((inaudible)) new product because it's a better deal. So, for every customer that says, "No, I've got to have brand new. I need a brand new TV, it's got to be in the box when it's delivered to me," that's fine. The next customer right behind them will say, "I can save $300 if I take that one? It looks brand new." You know? And you say, "Yeah, you can save $300 if you take that one." Because we've already depreciated it down the way Maureen's talked about.

So, it's always been easy to rent it because people are always looking for a deal as well on the used.

Vincent Caintic: Okay. That's really helpful, thank you. One of the things you touched on, and I think it's a differentiator for Rent-A-Center, is that benefits plus program. I think that's perhaps underappreciated. If you'd talk about it, how many people are using this, are unemployed, and how much are your performances better because of benefits plus?

Mitch Fadel: Yeah, I think it's a good product for us. It's a product that has a lot of benefits in it for the customer. They pay a little bit weekly. It's a good fee for us under any circumstances. We pay a percentage of that fee to a subsidiary of (AM). So they underwrite some of the benefits. Like an ADD, you know, some of the insurance benefits that are in there, including unemployment insurance. So if the customer gets laid off, and they're laid off - I think it's more than two weeks, I think they've got to be laid off for 15 days - they show us they filed for unemployment and so forth, and if they hit all the eligibility requirements, then Ann would pay their rental payments up to $1,000 in the aggregate, until they're back to work.

So, it helps. We've seen, you know, a lot more claims come in this last 30 days. You know, it's not 20% of our customers or anything like that. It's actually surprised us that it hasn't been more. There's a spike there, but it's not - and it's helpful. It'll be helpful, and we're starting to get the money in from (AM). It allows people to keep their product. It's a nice supplement, and helpful, but it's not like it's holding up the business at 10% level or anything like that. So it's good we have it, and it's helping some. Like a lot of things are helping us.

Vincent Caintic: Right. Maybe if we could switch to the expense side. It was nice to see that your ((inaudible)) for the second quarter, even if your revenues are down 10% your ((inaudible)) down less than that, your APS is ((inaudible)). If you could maybe talk about the variability of your expenses, and how you were able to kind of flex that, if needed, more going forward.

Mitch Fadel: Well, you think about it, our two biggest expenses are product cost and on our P&L that depreciation that Maureen was talking about. As products are on rent, you know, we depreciate the product. That's our biggest expense. The second one is labor. Almost as big, for that matter, is the labor side of the transaction. In the lease to own business, if you think about traditional retail, where you sell the product once and you make your margin, in rental - we talked about this earlier - on average we rent every one of our products two or three times.

The margins are higher, the gross margins are higher than traditional retail, but there's a lot of expense in transacting it. Because you're making your money $25 a week for, on average, the average product is in our system, let's call it 15 months. So it takes you 15 months to get your money out. Which is at a higher margin, so it's worth it, but there's also a higher cost than the traditional retailer. Well, we've made it a very variable cost structure.

In that, if we don't need as much labor in the store, if the volume's down, or in the case of those closed showroom stores where they're running at about 70% capacity, we're able to take the labor out and furlough those employees. So we can do that, and we can call them back when we need them. In any circumstance, even without furlough, we can now hire and reduce staff when we need to, based on the volume.

Same thing with our trucks that do the delivery and the returns. You know, not every store has to have the same amount. Some stores have one, some stores have three trucks. So it's variable all the way through it. You know, we're getting help from the gas prices when you think about expenses as well, and we've got a lot of delivery trucks out there doing deliveries and returns in our Rent-A-Center side.

So the labor is the biggest part that variable, and we reacted fast in this case, but we'll also bring people back fast, too, to take care of the demand as those store reopen the showrooms, or as retail partners open up. It's extremely variable on the preferred lease side in that it's really a sales kiosk, the ones we do staff. We've got the contact center, which you can expand and contract just like any call center, contact center, whatever you want to call it. You expand and contract very efficiently in those kind of businesses.

Maureen, I probably forgot a couple of points that you could add to what I just said on our cost structure.

Maureen Short: I think you covered the main topics. I mean, there's other expenses that are always variable that we didn't to, you know, change operations to make it variable. Things like credit card fees, service expenses on the wear and tear of the products, gas prices you mentioned. But just the fact that we're doing less collection runs, that makes it more variable.

I would also say that one of the things that Mitch brought back is just a culture of trying to be as efficient as possible as an operation, and as everybody I think is aware we went through transformational effort to reduce cost and pulled out over $150 million of expenses a couple of years ago. We still have that mindset internally, that we want to make the most of every dollar that we spend.

Mitch Fadel: I think a lot of it, when we went from, you know, two years ago overall we've gone from 1,000 people at the office at the FSC to 550 or something like that. And then we go into something like this. A lot of it is not just cutting jobs, it's focus. What are the priorities? Let's make sure we don't have projects going on that, you know - if they don't move the needle a certain amount, we don't do them. We don't waste labor on something that may or may not pay for itself. So, we go into something like this and we're able to, you know, cut probably in the 20, 25% on the FSC. And you just focus ((inaudible)) down to the things you really have to do, versus things that people like to do.

Vincent Caintic: Okay, thank you. I actually just got an investor question on that. It's on the ability to bring back your employees from furlough. How quickly can you do that, particularly given unemployment benefits are so strong now. So the investors commenting things like there's a lot of growth opportunities going into the rest of the year. How quickly could you ramp back up if you need to, and get your employees back, just given maybe you're competing with unemployment benefits?

Mitch Fadel: Yeah. We're in the process of doing that as certain states reopen. You know, we've gone from 25% of our stores who had a closed showroom down under 20, so we've had to call back some people. A lot of retail partner stores have reopened for sure, so we've had to recall people. We're having pretty good success. It's not 100%. There's some people who will take the short term because the unemployment's higher. But it's at a high percentage.

I don't have the exact number, but three out of four are coming back when we need them to, something like that, 75 or 80%. So we're not seeing a big problem with that. With the unemployment rates being what they are, if only three out of four come back and you have to hire another one there should be plenty of people to hire. We haven't seen that as an impediment.

Vincent Caintic: Okay, great. Thank you. Maybe the last few topics we can focus on your cash flow and your capital. Maybe you can talk about how your cash builds over time, and particularly - so second quarter potentially your guided cash flow is increasing. You can talk about that dynamic and how you think about it going for the rest of the year.

Maureen Short: We're expecting cash flows to increase sequentially in the second quarter, primarily due to lower inventory purchases. So working capital benefits from the pressure we saw on the top line from some of the closures with the impact of the virus. Typically the first quarter is our highest cash flow quarter of the year, given during tax refund season a lot of customers use that money to buy out of, and take ownership, of their agreements. So this is a little unusual that cash flow would be even higher sequentially in the second quarter. But I think it's reflective of the strong performance that we're seeing with demand, and then some of the swift actions that we took to reduce costs that'll help generate sequential increases in cash flow. Along with the slightly lower demand and some of the returns that we're seeing will allow us to buy less inventory within that quarter.

Vincent Caintic: Okay, that's helpful. Thank you. Your cash flow position is strong. I'm wondering if the rest of the industry is as strong, and if maybe we might see consolidation in the rent to own industry from some of the stronger places such as yourselves. Maybe if you might be interested in consolidating. When you think about franchise partners, what's your thoughts on that as well? So if you could talk about maybe any thoughts on consolidation of the industry.

Mitch Fadel: Yeah, I think on the Rent-A-Center side I wouldn't see much there. There's not a lot of competition, two public companies, with us and Aaron's. There is some regional players, but I think business is going to be good for everybody. So I don't know that I'd see much consolidation there. I think our franchisees will stay strong.

I think on the preferred lease side, because there's quite a few startup retail partner businesses out there, that even though that business is going to be strong you've got to have to have a balance sheet to fund it. I think that's where there may be some contraction on some of the smaller regional retail partner companies that have started up and now suddenly - you know, I don't know. If you have a couple of months of downtime, and then you have to have more money to fund, you know, even stronger growth going forward, it's going to be tough for some of those without the balance sheets. So I think if there's any potential for anything, Vincent, I would say it's on the retail partner side of the business.

Of course, that's one advantage for us. The biggest advantage for us on the retail partner side of the business is that all these other companies - especially the startups, and even the bigger ones that are out there - do business the same way from a virtual standpoint. Our advantage is we have what everybody else has from a virtual or an ecom standpoint, but we also will supplementally staff a location if there's enough volume there. So retailers like that. Even more important than that, we do business with unbanked customers. You don't have to have a bank account to get approved by us. We're used to doing business with unbanked customers, we do it in the Rent-A-Center side every day, so we do approve unbanked customers on the staffed and virtual side. They can pay other ways, with Venmo and things like that. So it's a big advantage.

The two big advantages we have is the fact that we'll staff the stores, we'll supplement the staff if we need to, or if there's enough volume to do it and the retailer wants us to do it and there's enough volume for it to make sense to us. Number two is we do business with the unbanked customer. I suppose your point, Vincent, number three is the balance sheet would be the big advantages we have on the preferred lease side.

Vincent Caintic: Okay, great. One email question I just got. How should we measure what you think about your excess capital position, and any thoughts - I know this environment's tough, but any thoughts that your dividend and share buybacks?

Mitch Fadel: Well, we just did the second quarter dividend at our normal rate. Our cash flow is good, like you mentioned, liquidity is good. Once we got past the initial shock of Corona Virus and places getting shut down, it became obvious to us that we could certainly continue the dividend. Maureen mentioned cash flow even being stronger in this quarter. So, you know, we just did that. Obviously every quarter the Board has to decide all over again, but if you look at our cash flow it kind of speaks for itself as far as that goes.

Share repurchase, we did some in the first quarter. You know, now's not the time we're thinking about share repurchase. As we move forward, we want to reinvest in the business. There's going to be a lot of demand by a lot of product, and, you know, the dividend's a pretty big percentage of our stock price. You think about the yield on our dividend, we're putting quite a bit of money back in the pockets of our shareholders.

Vincent Caintic: Right, agree. Thank you for that. Elaine, if you could poll one last time, see if there are any live questions on the queue.

Operator: Thank you. If you would like to ask a live question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute button is turned off to allow your signal to reach our equipment. Once again, press star 1 to ask a question. We'll pause for just a moment, to allow everyone an opportunity to signal a question. For your information, we have no questions on the telephone at this time.

Vincent Caintic: Okay. Well, with that we're at the end of the hour so I will cut it there. Mitch and Maureen, thank you very much for your time, I really appreciate it. I thought it was very insightful. Everyone on the call, thank you for your participation and for asking questions and for listening. I hope everyone stays safe, and feel free to reach out if you have any additional questions. Thank you very much.

Mitch Fadel: Thanks everybody.

Maureen Short: Thank you.

Operator: This concludes today's call. Thank you for your participation.