

Estimate Change

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*Decor/Leisure/
Self Improvement*

Aaron Rents, Inc. (RNT-\$20.89)

Buy (1)

Company Statistics

12-month Price Target:	\$24
52-wk Range:	\$13.27-\$30.72
Market Capitalization (M):	\$1,131
Shares Outstanding (M) fd:	54.2
Avg. Daily Vol. (000):	403
Dividend:	\$0.06
Yield:	0.31%
Debt/Total cap:	18.1%
Est. 3-yr. EPS Growth:	18.0%
Tangible Book Value:	\$10.63
Price/Tangible Book Value:	2.0x

Financials

FYE Dec	2005A	2006A	2007A	2008E	2009E
P/E Ratio:	15.8x	14.2x	14.6x	14.0x	11.8x
EBITDA (M):	\$434.0	\$530.0	\$577.3	\$614.3	\$691.4
FCF/sh:	(\$1.34)	(\$0.38)	(\$0.60)	\$1.71	--
EPS:					
Q1	\$0.36	\$0.42	\$0.48	\$0.46A	--
Q2	\$0.32	\$0.39	\$0.36	\$0.37	--
Q3	\$0.17	\$0.32	\$0.29	\$0.32	--
Q4	\$0.47	\$0.35	\$0.28	\$0.36	--
Total	\$1.32	\$1.47	\$1.43	\$1.50	\$1.77
Prior EPS:					
Q1	--	--	--	--	--
Q2	--	--	--	\$0.35	--
Q3	--	--	--	\$0.33	--
Q4	--	--	--	\$0.37	--
Total	--	--	--	\$1.47	\$1.93
Revenue (M):					
Q1	\$279.3	\$347.3	\$383.0	\$437.3	--
Q2	\$271.3	\$321.7	\$359.0	\$395.3	--
Q3	\$278.7	\$317.7	\$359.4	\$391.6	--
Q4	\$305.2	\$339.9	\$388.6	\$409.2	--
Total	\$1,126	\$1,327	\$1,490	\$1,634	\$1,803

Company Description

Aaron Rents, Inc., is among the largest rental-purchase home furnishings retailers in the United States. Based in Atlanta and founded in 1955, as of March 30, 2007, the company had 1,579 stores throughout the US.

RNT: UPSIDE Q1; RAISING FY'08 EPS

Key Points

- **Upside Q1.** Yesterday evening, Aaron Rents reported Q1'08 results that were above expectations. Q1 revenue was \$437.3M vs. guidance provided 2/29/08 in the \$425M range, BB&T's \$425M, and consensus \$428M estimates. EPS were \$0.46, ahead of guidance of \$0.38-\$0.43, BB&T's \$0.42, and consensus \$0.40.
- **Detail on Q1.** Relative to our model, Q1 revenue upside came from franchisees and non-retail sales, with franchised store comp sales up 13% and company-owned store comp sales up 2.6%. Our model was for company-owned comp sales of 3.5%, which was really the only downside in the Q1 release. In addition to revenue, upside to our EPS model came in SG&A expense, which was 43.9% vs. our model for 45.7%. Offsetting this was cost of goods higher than expected, for an operating margin of 9.8%, down 166 bps from last year due to new store pressures, but better than our model for 8.9% operating margin. More detail should be provided on today's 10:30 a.m. conference call.
- **Still Expect H2 Profit Acceleration.** We continue to expect EPS growth to accelerate later this year, with operating expense leverage from new-store maturation as a key driver, combined with continued strong execution from Aaron. By Q4'08, we expect operating margins to expand by close to 100 bps from last year. We expect operating margin expansion to continue into FY'09 as Aaron maintains a moderate rate of store growth, not repeating the accelerated 2007 store opening schedule that has pressured margins for several quarters now.
- **Maintaining Guidance.** Aaron is maintaining guidance it provided on 2/19/08 for \$1.7B in sales and \$1.40-\$1.55 in EPS. Its initial take on Q2 guidance is at or above consensus expectations, with sales guidance of \$405M and EPS guidance of \$0.34-\$0.39, vs. previous BB&T and consensus EPS of \$0.35.
- **Raising FY'08 EPS, Tweaking Quarters, Correcting FY'09.** To reflect Q1 results, we are raising FY'08 EPS by \$0.03 and tweaking the year as follows: first, more moderate comp sales, at 3.2% now vs. our previous model for 4.6%; second, higher operating margin, at 8.4% vs. our previous model for 8.3%. In addition, we are raising Q2 from \$0.35 to \$0.37 on the stronger Q1 operating margin, while tweaking H2 down based primarily on conservatism. We are also correcting a modeling error for FY'09 EPS from our last note.
- **Maintaining \$24 Price Target, Buy (1) rating.** As Aaron's earnings accelerate this year, we believe its P/E should expand from its current 14x towards its historical average in the 18.6x range. Assuming it reaches 16x within a year, we are maintaining our price target of \$24 (16x our FY'08 EPS estimate of \$1.50.)

Additional Discussion

Valuation Methodology and Risks. We like to value retail/consumer stocks relative to earnings growth rates, and we see Aaron Rents sustaining earnings growth in the high teens or better from a combination of new store openings, same-store sales gains, and margin gains. Since March 2004, RNT has traded in a P/E range of 14.7x–23.3x forward earnings and at an average of 18.6x, which we believe is reasonable for a retail/consumer stock with a high-teens or better estimated EPS growth rate. We assume Aaron's P/E will expand this year from the low end of this range, as earnings growth accelerates from new store maturation. Assuming a P/E of 16x our FY'08 EPS estimate of \$1.50, our price target is \$24.

We believe **risks** to achieving our price target include those typically faced by other retailers, such as weather and natural disasters, competition, management change, and economic factors—especially unemployment, for Aaron Rents customers. In the rent-to-own industry, government regulation and litigation are also a risk, although Aaron's consumer-friendly policies make it less of a target of the media, politicians, and regulators than other players, in our opinion.

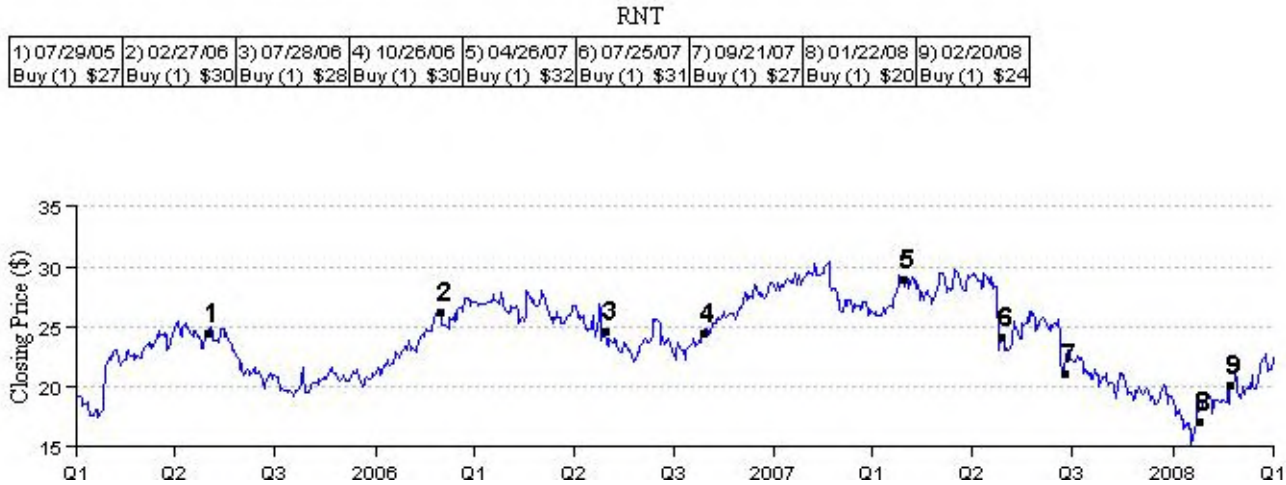
Aaron Rents (RNT)
Historical and Projected Income Statement

(FYE Dec., \$ millions except per share data)

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	2000	2001	2002	2003	2004	2005	2006	2007				2007	2008E				2008E	2009E
	FY 12/31/00	FY01 12/31/01	FY02 12/31/02	FY 12/31/03	FY 12/31/04	FY 12/31/05	FYE 12/31/06	Q1 3/31/07	Q2 6/30/07	Q3 9/30/07	Q4 12/31/07	FY 12/31/07	Q1 3/30/08	Q2E 6/29/08	Q3E 9/29/08	Q4E 12/30/08	FYE 12/30/08	FYE 12/30/09
Rentals & Fees		\$403.4	\$459.2	\$553.8	\$694.3	\$845.2	\$992.8	\$285.8	\$277.9	\$278.1	\$285.0	\$1,126.8	\$319.8	\$311.9	\$305.0	\$303.1	\$1,239.8	\$1,385.4
Retail Sales		60.5	72.7	68.8	56.3	58.4	62.3	15.6	12.5	12.8	13.6	54.5	17.1	13.8	13.8	14.0	58.8	65.7
Non-Retail Sales		66.2	89.0	120.4	160.8	185.6	224.5	70.3	56.7	58.1	76.5	261.6	85.4	59.4	62.6	78.1	285.5	304.8
Other		16.6	19.8	23.9	29.7	36.4	47.0	11.4	11.9	10.3	13.5	47.1	14.9	10.2	10.1	14.0	49.3	47.5
Net Sales	502.9	546.7	640.7	766.8	941.0	1125.5	1326.6	383.0	359.0	359.4	388.6	1490.0	437.3	395.3	391.6	409.2	1633.5	1803.3
Retail Cost of Sales	44.2	44.0	53.9	50.9	39.4	39.1	41.3	10.3	8.5	8.4	8.9	36.1	11.0	9.4	9.1	9.3	38.8	43.6
Non-Retail Cost of Sales	277.1	302.8	341.8	408.5	498.9	608.0	714.0	205.5	197.3	196.6	207.4	806.8	234.8	219.5	214.9	219.6	888.9	986.6
Depreciation of Rental Merch.	120.7	137.9	162.7	195.7	253.5	305.6	364.1	103.1	101.1	101.3	101.9	407.3	113.6	113.4	111.1	108.4	446.5	499.0
Total Cost of Sales	225.8	243.9	298.9	358.3	442.0	517.5	612.6	177.5	161.7	162.8	181.2	683.2	202.5	175.8	176.6	189.7	744.6	816.8
Gross Profit	277.1	302.8	341.8	408.5	498.9	608.0	714.0	205.5	197.3	196.6	207.4	806.8	234.8	219.5	214.9	219.6	888.9	986.6
Operating Expenses	227.6	271.1	293.3	344.9	414.5	507.2	579.6	161.7	163.8	169.1	179.9	674.4	192.0	186.7	185.8	186.6	751.1	824.2
Income from operations	49.5	31.7	48.4	63.6	84.4	100.9	134.4	43.9	33.5	27.5	27.5	132.4	42.8	32.9	29.1	33.0	137.8	162.4
Interest income (expense)	-5.6	-6.3	-4.8	-5.8	-5.4	-8.5	-9.7	-1.9	-1.9	-2.2	-2.5	-8.5	-2.4	-2.1	-2.4	-2.6	-9.5	-10.5
Income before income taxes	43.9	25.5	43.7	57.8	79.0	92.3	124.7	42.0	31.6	25.3	25.0	123.9	40.4	30.8	26.8	30.3	128.3	151.8
Income tax expense	16.6	7.5	16.2	21.4	29.8	34.2	46.1	15.7	12.0	9.4	9.5	46.6	15.6	10.9	9.5	10.8	46.8	53.9
Net Income	27.3	17.9	27.4	36.4	49.2	67.2	78.6	26.2	19.6	15.9	15.5	77.3	24.8	19.9	17.3	19.6	81.4	97.9
Diluted Shares	44.6	45.1	47.8	49.8	50.6	50.8	53.4	54.2	54.2	55.0	54.8	54.1	54.2	54.3	54.4	54.9	54.4	55.2
EPS (diluted)	\$0.61	\$0.40	\$0.57	\$0.73	\$0.97	\$1.32	\$1.47	\$0.48	\$0.36	\$0.29	\$0.28	\$1.43	\$0.46	\$0.37	\$0.32	\$0.36	\$1.50	\$1.77
% of Sales																		
Rentals & Fees	71.6%	73.8%	71.7%	72.2%	73.8%	75.1%	74.8%	74.6%	77.4%	77.4%	73.3%	75.6%	73.1%	78.9%	77.9%	74.1%	75.9%	76.8%
Retail Sales	12.4%	11.1%	11.3%	9.0%	6.0%	5.2%	4.7%	4.1%	3.5%	3.6%	3.5%	3.7%	3.9%	3.5%	3.5%	3.4%	3.6%	3.6%
Non-Retail Sales	13.0%	12.1%	13.9%	15.7%	17.1%	16.5%	16.9%	18.3%	15.8%	16.2%	19.7%	17.6%	19.5%	15.0%	16.0%	19.1%	17.5%	16.9%
Other Inc. (Exp.)	3.0%	3.0%	3.1%	3.1%	3.2%	3.2%	3.5%	3.0%	3.3%	2.9%	3.5%	3.2%	3.4%	2.6%	2.6%	3.4%	3.0%	2.6%
Gross margin	55.1%	55.4%	53.3%	53.3%	53.0%	54.0%	53.8%	53.7%	55.0%	54.7%	53.4%	54.1%	53.7%	55.5%	54.9%	53.7%	54.4%	54.7%
bps chg	(145)	29	(204)	(7)	(25)	100	(20)	131	(12)	21	(13)	33	3	57	19	29	27	29
Total operating expense	45.3%	49.6%	45.8%	45.0%	44.1%	45.1%	43.7%	42.2%	45.6%	47.1%	46.3%	45.3%	43.9%	47.2%	47.5%	45.6%	46.0%	45.7%
bps chg	(92)	433	(380)	(81)	(93)	101	(137)	76	123	186	239	158	169	160	40	(70)	72	(28)
Operating Income	9.8%	5.8%	7.6%	8.3%	9.0%	10.1%	10.1%	11.5%	9.3%	7.7%	7.1%	8.9%	9.8%	8.3%	7.4%	8.1%	8.4%	9.0%
bps chg	(53)	(405)	176	74	67	(1)	117	55	(135)	(165)	(253)	(125)	(166)	(103)	(21)	99	(45)	57
Pretax Margin	8.7%	4.7%	6.8%	7.5%	8.4%	8.2%	9.4%	11.0%	8.8%	7.0%	6.4%	8.3%	9.2%	7.8%	6.8%	7.4%	7.9%	8.4%
Net Margin	5.4%	3.3%	4.3%	4.8%	5.2%	6.0%	5.9%	6.8%	5.5%	4.4%	4.0%	5.2%	5.7%	5.0%	4.4%	4.8%	5.0%	5.4%
bps chg	(43)	(214)	100	47	48	74	(4)	64	(95)	(104)	(162)	(74)	(119)	(45)	(2)	80	(20)	45
yr/yr % change																		
Net Sales	15.0%	8.7%	17.2%	19.7%	22.7%	19.6%	17.9%	10.3%	11.6%	13.1%	14.3%	12.3%	14.2%	10.1%	9.0%	5.3%	9.6%	10.4%
Operating income	9.1%	-36.0%	52.7%	31.4%	32.7%	19.5%	33.3%	15.9%	-2.5%	-6.9%	-15.8%	-1.5%	-2.4%	-2.0%	6.0%	20.0%	4.1%	17.8%
Pre-tax income	6.3%	-42.0%	71.5%	32.5%	36.6%	16.9%	35.1%	21.2%	-0.1%	-8.4%	-18.8%	-0.6%	-3.8%	-2.7%	5.7%	21.5%	3.5%	18.4%
Net income	6.5%	-34.2%	53.1%	32.7%	35.1%	36.4%	17.1%	21.7%	-5.0%	-8.4%	-18.6%	-1.7%	-5.7%	1.2%	8.4%	26.3%	5.4%	20.3%
Shares	50.2%	1.0%	6.0%	4.2%	1.6%	0.4%	5.0%	6.0%	2.8%	0.5%	-0.1%	1.3%	0.0%	0.1%	-1.3%	0.1%	0.6%	1.5%
EPS	-29.1%	-34.9%	44.4%	27.4%	33.0%	35.8%	11.5%	14.8%	-7.6%	-8.9%	-18.5%	-3.0%	-5.6%	1.0%	9.8%	26.2%	4.7%	18.5%
RTO comp store sales	7.4%	8.8%	13.0%	11.5%	11.8%	8.9%	8.5%	5.4%	5.0%	4.0%	3.9%	4.6%	2.6%	2.6%	3.6%	4.0%	3.2%	4.0%
# RTO stores	23.0%	38.9%	13.2%	21.4%	23.2%	20.0%	12.0%	14.1%	15.7%	19.6%	19.3%	19.3%	16.6%	15.0%	9.3%	3.5%	3.5%	11.0%

IMPORTANT DISCLOSURES
Price Chart



BB&T Capital Markets' rating distribution by percentage (as of March 31, 2008):

All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	46.7%	Buy (1)	10.2%
Hold (2)	51.8%	Hold (2)	4.9%
Underweight/Sell (3)	1.5%	Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%	Not Rated (NR)	0.0%
Suspended (SP)	0.0%	Suspended (SP)	0.0%

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The BB&T Capital Markets Equity Research Department Stock Rating System consists of three separate ratings. The appropriate rating is determined by a stock's estimated 12-month total return potential, which consists of the percentage price change to the 12-month price target and the current yield on anticipated dividends. A 12-month price target is the analyst's best estimate of the market price of the stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

The definition of each rating is as follows:

- Buy (1): estimated total return potential greater than or equal to 10%
- Hold (2): estimated total return potential greater than or equal to 0% and less than 10%
- Underweight (3): estimated total return potential less than 0%

- NR: Not Rated
- NA: Not Applicable
- NM: Not Meaningful
- SP: Suspended

Stocks rated Buy (1) are required to have a published 12-month price target, while it is not required on stocks rated Hold (2) and Underweight (3).

BB&T Capital Markets Equity Research Disclosures as of April 23, 2008

Company	Disclosure
Aaron Rents, Inc. (RNT)	6, 8, 9

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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6. BB&T Capital Markets expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
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