

April 23, 2008

Analysis of Sales/Earnings

Aaron Rents, Inc.

RNT - \$20.89

Rating: **Outperform**
Suitability: **Market Risk**

RNT Issues Strong Earnings Report and Guidance

- Q1 EPS of \$0.46 vs. \$0.48 exceeds our estimate and the consensus estimate of \$0.40, with a \$9MM beat on revenues.
- Q2 guidance for revenues in excess of \$405MM compares to our \$399MM estimate. EPS range of \$0.34 to \$0.39 compares to consensus of \$0.35 and our \$0.31 estimate.
- Maintaining Outperform rating on continued operational momentum.

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Market Data

Price	\$20.89
52-Week Range	\$30.72 - \$13.27
Market Cap (mm)	\$946.3
Dividend/Yield	\$0.06/0.29%
Shares Outstanding (mm)	45.3
Float (mm)	42.9
Avg. Daily Vol.	363,873
Insider Ownership	5%

Financial Summary

ROE	11.7%
Debt-to-Total Cap	13.9%
Convertible	No
Tang. Book Value	\$10.05
EV / EBITDA	7.4x
5-Year Est. EPS Growth Rate	10%

Short Interest

date	(000s)
3/31/08	7,151
3/14/08	7,408
2/29/08	7,176
2/15/08	6,805

Revenue & EPS/YE: Dec.						EPS % Change			First Call Consensus			
	12/07A	12/08E	Prev.	12/09E	Prev.	12/08E	12/09E	12/07A	12/08E	12/09E		
Rev(\$mm)	1,490.0A	1,706.2E	1,657.4E	1,868.7E	1,809.6E							
EPS												
Q1	0.48A	0.46A	0.40E	0.56E	0.50E	Q1	-4.2	21.7	Q1	—	0.40	0.50E
Q2	0.36A	0.36E	0.31E	0.40E	0.35E	Q2	0.0	11.1	Q2	—	0.35E	0.35E
Q3	0.29A	0.34E	0.27E	0.36E	0.31E	Q3	17.2	5.9	Q3	—	0.33E	0.31E
Q4	0.28A	0.39E	0.44E	0.46E	0.45E	Q4	39.3	17.9	Q4	—	0.37E	0.45E
FY	1.41A	1.55E	1.43E	1.78E	1.61E		9.9	14.8		—	1.45E	1.72E
CY	—	—	NC	—	NC		NM	NM		—	—	—
FY	P/E	14.8x	13.5x	11.7x						—	—	—
CY	P/E	NM	NM	NM								

Operating EPS

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Investors should consider this report as only a single factor in making their investment decision.

Please see Disclosure and Certification Statement beginning on page 4 of this report.

Summary - Atlanta, Georgia-based Aaron Rents reports Q1 EPS of \$0.46 vs. \$0.48 - ahead of our estimate and the consensus estimate of \$0.40. The company issued a bullish outlook for Q2 and maintained its FY2008 outlook. The company sees Q2 sales of \$405MM - ahead of our estimate of \$399MM and EPS of \$0.34 to \$0.39 - ahead of the consensus of \$0.35 and our estimate of \$0.31. During the quarter, RNT recorded a \$2.3MM gain relating to the sale of company-operated stores to franchisees. The company also recorded \$1.6MM in future lease obligations related to store closures. These items essentially net themselves out with an after-tax gain of less than a penny per share. We believe RNT's Q1 performance and outlook speaks volumes during a time when many retailers are struggling to meet expectations and lowering guidance. We believe the rent-to-own industry could actually benefit from tightening credit conditions and a slowing economy, as lenders pare back credit to subprime borrowers. Consumers unable to obtain traditional credit could migrate to the rent-to-own space in order to obtain essential everyday home furnishings. We reiterate our Outperform rating on shares of RNT, as the company seems to have momentum on both its top and bottom line.

Q1 Highlights - Q1 sales increased 13% to \$437MM - driven by SSS +2.6% on top of +5.4%. SSS at franchised stores came in at 13% - which indicates to us that the demand for the company's monthly payment rent-to-own model is still very strong. Operating expenses as a percentage of net sales came in at 43.9% vs. 42.2%, which was 110 bps better than our estimate of 45%. The company commented that its net write-offs at company owned stores during the March quarter were lower as a percentage of revenue compared to several previous quarters. EBIT margin was 9.8% vs. 11.5% and 90bps better than our estimate. During the quarter on a net basis, the company closed 4 company owned stores and opened 3 franchised stores and now operates 1,466 total sales and lease ownership stores. We believe the slowed store expansion may significantly benefit the company's earnings in future quarters. The company had a \$0.09 drag on EPS during the quarter due to the rapid store expansion in 2007. The new store drag that hampered results through 2007 should dissipate as expansion slows. The company generated cash flow from operations of \$30MM, up 25% yr./yr. and ahead of our estimate of \$24MM.

Model Adjustments - We are raising our Q2 EPS estimate five cents to \$0.36 vs. \$0.36, which is one penny ahead of current consensus and within management's guided range. Our upwards earnings revision is driven by our raised for sales growth of 13.7% yr./yr. We are raising our FY2008 EPS estimate \$0.12 to \$1.55 vs. \$1.41, which is ten cents ahead of the consensus and is the high estimate on the Street. We now assume sales grow 14.5% yr./yr., 320bps above our prior estimate. We are also lowering our expectations for operating expenses as a percentage of net sales by 20bps to 45.8% vs. 45.3%.

Valuation - We believe shares of RNT are attractive relative to the company's historical valuation and the company's projected growth rate, leaving room for multiple expansion and share price appreciation. Shares of RNT trade at 13.5x our FY2008 EPS estimate. On an enterprise value basis, RNT trades at 7x EBITDA and 0.8x sales. Our DCF model indicates a fair value of \$25 for shares of RNT - utilizing our calculated WACC of 9% and terminal growth rate of 3%.

We advise investors to buy shares of RNT.

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Aaron Rents Inc. (RNT)
FY: December (\$MMs)

Consolidated Income Statement

	2007A					2008E					2009E				
	Mar-07 Q1	Jun-07 Q2	Sep-07 Q3	Dec-07 Q4	Dec-07 FY	Mar-08 Q1A	Jun-08 Q2	Sep-08 Q3	Dec-08 Q4	Dec-08 FY	Mar-09 Q1	Jun-09 Q2	Sep-09 Q3	Dec-09 Q4	Dec-09 FY
Rentals and fees	285,797	277,927	278,104	284,984	1,126,812	319,838	305,995	306,384	337,837	1,270,054	362,451	334,046	333,612	371,398	1,401,507
Retail sales	15,626	12,514	12,808	13,570	54,518	17,149	16,320	16,297	18,139	67,905	24,163	22,270	22,241	24,760	93,434
Non-retail sales	70,253	56,654	58,140	76,537	261,584	85,417	69,359	68,447	81,625	304,848	82,156	75,717	75,619	84,184	317,675
Franchise royalties and fees	9,914	9,602	8,881	10,406	38,803	11,039	12,240	12,223	13,604	49,106	12,082	11,135	11,120	12,380	46,717
Other	1,444	2,288	1,448	3,114	8,294	3,888	4,080	4,074	2,267	14,310	2,416	2,227	2,224	2,476	9,343
Total revenues	383,034	358,985	359,381	388,611	1,490,011	437,331	407,994	407,425	453,473	1,706,222	483,269	445,394	444,816	495,198	1,868,676
Retail cost of sales	10,307	8,484	8,389	8,919	36,099	11,022	10,771	10,756	12,153	44,702	15,948	14,698	14,679	16,342	61,666
Non-retail cost of sales	64,130	52,130	53,095	70,400	239,755	77,896	63,810	62,287	74,279	278,272	74,762	68,903	68,813	76,607	289,084
Operating expenses	161,677	163,737	169,105	179,893	674,412	192,002	187,677	191,490	209,958	781,127	217,471	203,100	206,839	227,791	855,201
Depreciation of rental merchandise	103,051	101,063	101,299	101,908	407,321	113,597	111,806	111,190	121,251	457,844	124,541	122,986	122,310	133,376	503,214
Operating income (EBIT)	43,869	33,571	27,493	27,491	132,424	42,814	33,930	31,702	35,832	144,277	50,547	35,708	32,175	41,082	159,511
EBITDA	52,695	42,988	36,066	38,228	169,977	52,659	43,652	41,370	46,375	184,057	61,376	46,402	42,811	52,680	203,269
Interest expense	1,889	1,896	2,180	2,514	8,479	2,435	2,025	1,650	1,275	7,385	1,200	1,050	975	900	4,125
Pretax income	41,980	31,675	25,313	24,977	123,945	40,379	31,905	30,052	34,557	136,892	49,347	34,658	31,200	40,182	155,386
Taxes	15,523	12,018	9,394	9,485	46,420	15,626	12,347	11,629	13,373	52,975	18,752	13,170	11,856	15,269	59,047
Income before cumulative effect of accounting change	26,457	19,657	15,919	15,492	77,525	24,753	19,558	18,422	21,184	83,917	30,595	21,488	19,344	24,913	96,340
Cumulative effect of change															
Net Income	26,457	19,657	15,919	15,492	77,525	24,753	19,558	18,422	21,184	83,917	30,595	21,488	19,344	24,913	96,340
Extraordinary item, net of taxes															
Net income from operations	26,457	19,657	15,919	15,492	77,525	24,753	19,558	18,422	21,184	83,917	30,595	21,488	19,344	24,913	96,340
Diluted EPS from operations	\$0.48	\$0.36	\$0.29	\$0.28	\$1.41	\$0.46	\$0.36	\$0.34	\$0.39	\$1.55	\$0.56	\$0.40	\$0.36	\$0.46	\$1.78
Diluted weighted average shares outstanding	54,992	55,065	55,049	54,791	55,082	54,156	54,156	54,156	54,156	54,156	54,156	54,156	54,156	54,156	54,156
Dividend per share	\$0.02	\$0.02	\$0.02	\$0.02	\$0.06	\$0.02	\$0.02	\$0.02	\$0.02	\$0.06	\$0.02	\$0.02	\$0.02	\$0.02	\$0.06
Dividend payout ratio	3.1%	4.2%	5.2%	5.7%	4.3%	3.5%	4.4%	4.7%	4.1%	4.1%	2.8%	4.0%	4.5%	3.5%	3.6%
Free cash flow															
EBIT	43,869	33,571	27,493	27,491	132,424	42,814	33,930	31,702	35,832	144,277	50,547	35,708	32,175	41,082	159,511
Depreciation and amortization of PP&E	8,826	9,417	8,573	10,737	37,553	9,845	9,722	9,669	10,544	39,780	10,830	10,694	10,636	11,598	43,758
Capital expenditures	24,511	23,910	48,325	44,772	141,518	20,834	20,324	31,411	29,102	101,671	21,876	21,340	32,982	30,557	106,754
Cash interest payments	2,137	2,137	2,137	2,137	8,548	2,435	2,025	1,650	1,275	7,385	1,200	1,050	975	900	4,125
Cash taxes	12,733	12,733	12,733	12,733	50,931	15,626	12,347	11,629	13,373	52,975	18,752	13,170	11,856	15,269	59,047
FCF	13,314	4,208	(27,129)	(21,414)	(31,020)	13,764	8,957	(3,320)	2,626	22,026	19,549	10,843	(3,002)	5,954	33,343
Yr./yr. growth															
Rentals and fees	12.4%	13.1%	14.1%	14.4%	13.5%	11.9%	10.1%	10.2%	18.5%	12.7%	13.3%	9.2%	8.9%	9.9%	10.4%
Retail sales	-18.5%	-21.5%	-10.6%	5.3%	-12.5%	9.7%	30.4%	27.2%	33.7%	24.6%	40.9%	36.5%	36.5%	36.5%	37.6%
Non-retail sales	9.7%	22.2%	17.6%	18.3%	16.5%	21.6%	22.4%	17.7%	6.6%	16.5%	-3.8%	9.2%	10.5%	3.1%	4.2%
Franchise royalties and fees	19.0%	18.3%	6.7%	17.5%	15.4%	11.3%	27.5%	37.6%	30.7%	26.6%	9.4%	-9.0%	-9.0%	-9.0%	-4.9%
Other	-4.7%	103.6%	-26.8%	45.0%	34.5%	169.3%	78.3%	181.4%	-27.2%	72.5%	-37.9%	-45.4%	-45.4%	9.2%	-34.7%
Total revenues	10.3%	13.1%	13.1%	15.1%	12.9%	14.2%	13.7%	13.4%	16.7%	14.5%	10.5%	9.2%	9.2%	9.2%	9.5%
SSS growth	5.4%	5.0%	4.0%	3.9%	4.6%	2.6%	3.0%	3.0%	3.0%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%
EPS	14.0%	7.6%	-8.9%	-12.3%	1.3%	-5.0%	1.2%	17.6%	38.3%	10.1%	23.6%	9.9%	5.0%	17.6%	14.8%
% of total revenues															
Rentals and fees	74.6%	77.4%	77.4%	73.3%	75.6%	73.1%	75.0%	75.2%	74.5%	74.4%	75.0%	75.0%	75.0%	75.0%	75.0%
Retail sales	4.1%	3.5%	3.6%	3.5%	3.7%	3.9%	4.0%	4.0%	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Non-retail sales	18.3%	15.8%	16.2%	19.7%	17.6%	19.5%	17.0%	16.8%	18.0%	17.9%	17.0%	17.0%	17.0%	17.0%	17.0%
Franchise royalties and fees	2.6%	2.7%	2.5%	2.7%	2.6%	2.5%	3.0%	3.0%	3.0%	2.9%	2.5%	2.5%	2.5%	2.5%	2.5%
Other	0.4%	0.6%	0.4%	0.8%	0.6%	0.9%	1.0%	1.0%	0.5%	0.8%	0.5%	0.5%	0.5%	0.5%	0.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Margins															
Retail cost of sales	66.0%	67.8%	65.5%	65.7%	66.2%	64.3%	66.0%	66.0%	67.0%	65.8%	66.0%	66.0%	66.0%	66.0%	66.0%
Non-retail cost of sales	91.3%	92.0%	91.3%	92.0%	91.7%	91.2%	92.0%	91.0%	91.0%	91.3%	91.0%	91.0%	91.0%	91.0%	91.0%
Operating expenses	42.2%	45.6%	47.1%	46.3%	45.3%	43.9%	46.0%	47.0%	46.3%	45.8%	45.0%	45.6%	46.5%	46.0%	45.8%
Depreciation of rental merchandise	36.1%	36.4%	36.4%	35.8%	36.1%	35.5%	36.5%	36.3%	35.9%	36.0%	34.4%	36.8%	36.7%	35.9%	35.9%
Operating margin (EBIT)	11.5%	9.4%	7.7%	7.1%	8.9%	9.8%	8.3%	7.8%	7.9%	8.5%	10.5%	8.0%	7.2%	8.3%	8.5%
Taxes	37.0%	37.9%	37.1%	38.0%	37.5%	38.7%	38.7%	38.7%	38.7%	38.7%	38.0%	38.0%	38.0%	38.0%	38.0%
Interest expense	6.4%	6.2%	5.7%	5.4%	5.9%	6.1%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Pretax margin	11.0%	8.8%	7.0%	6.4%	8.3%	9.2%	7.8%	7.4%	7.6%	8.0%	10.2%	7.8%	7.0%	8.1%	8.3%
Net margin	6.9%	5.5%	4.4%	4.0%	5.2%	5.7%	4.8%	4.5%	4.7%	4.9%	6.3%	4.8%	4.3%	5.0%	5.2%
Charge-off rate	2.0%	2.6%	2.7%	3.3%	2.7%										
Store count															
Sales & Lease Ownership - co. operated	842	868	927	987	987	983			1,032	1,032					1,135
Sales & Lease Ownership - franchised	451	454	442	480	480	483			560	560					616
Total Sales & Lease Ownership	1,293	1,322	1,369	1,467	1,467	1,466			1,592	1,592					1,751
Sales & Lease Ownership yr./yr. growth	11.9%	12.8%	13.9%	15.6%	15.6%	13.4%			8.5%	8.5%					10.0%
Rent-to-rent	59	60	61	62	62	62			62	62					
RIMCO	20	22	27	27	27	29			30	30					
Franchised RIMCO stores		2	4	4	4	6			6	6					
Total stores	1,372	1,406	1,461	1,560	1,560	1,563			1,690	1,690					
Yr./yr. store growth	12.2%	13.3%	14.7%	16.0%	16.0%	13.9%			8.3%	8.3%					

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Company Description

Atlanta, Georgia-based Aaron Rents is the second-largest rent-to-own company in the United States. The company's products include consumer electronics, residential and office furniture, home appliances, and computers. Aaron Rents manufactures some of its furniture, under the brand name MacTavish.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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*REIT's performance benchmark is total return relative to the NAREIT Equity Index.

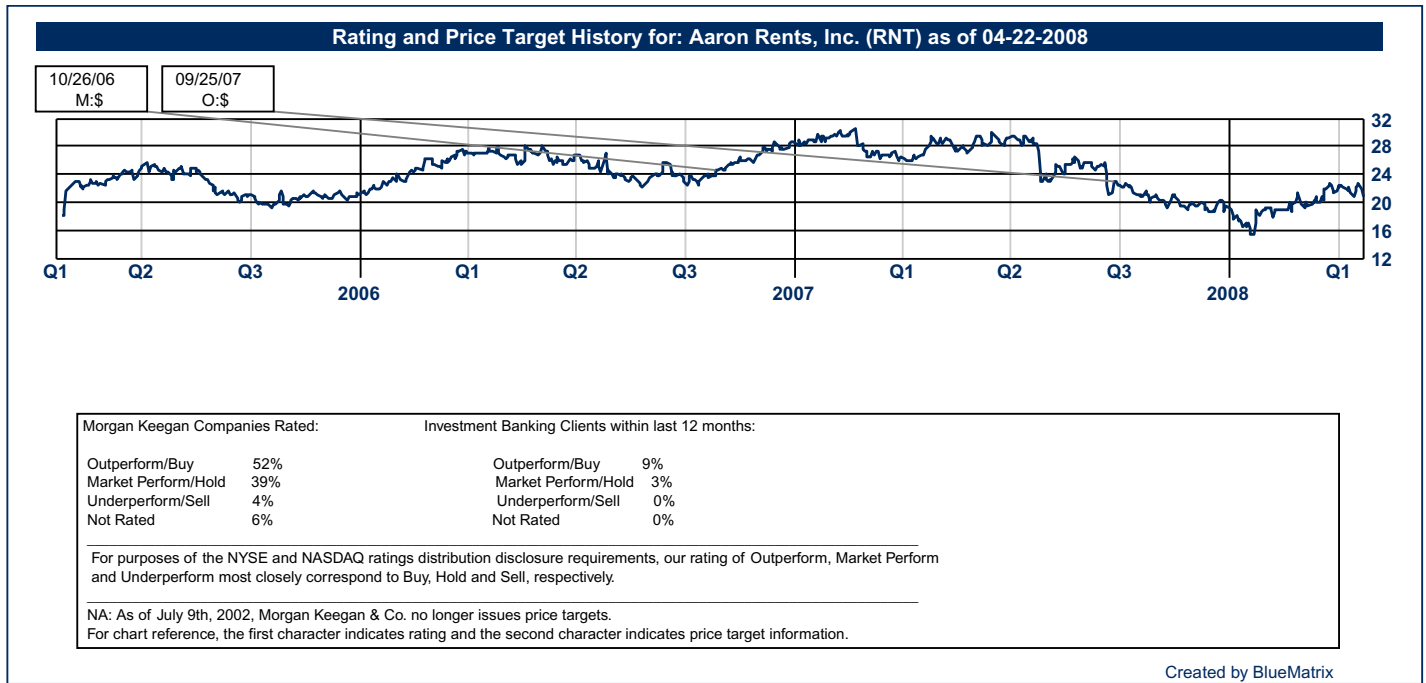
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