

Renters Choice has built a great business catering to lousy credit risks.

You want it, you rent it

By Christine Foster

PAULETTE MITCHELL, who earns her living as a home care nurse, dreamed of owning a big-screen TV. But where would she get \$3,032 all at once? Charge it to her credit card? Mitchell

didn't have one: After becoming entangled in debt a couple of years back, she'd sworn off credit cards.

Thanks to Renters Choice Inc. she got her TV anyway. Now ensconced

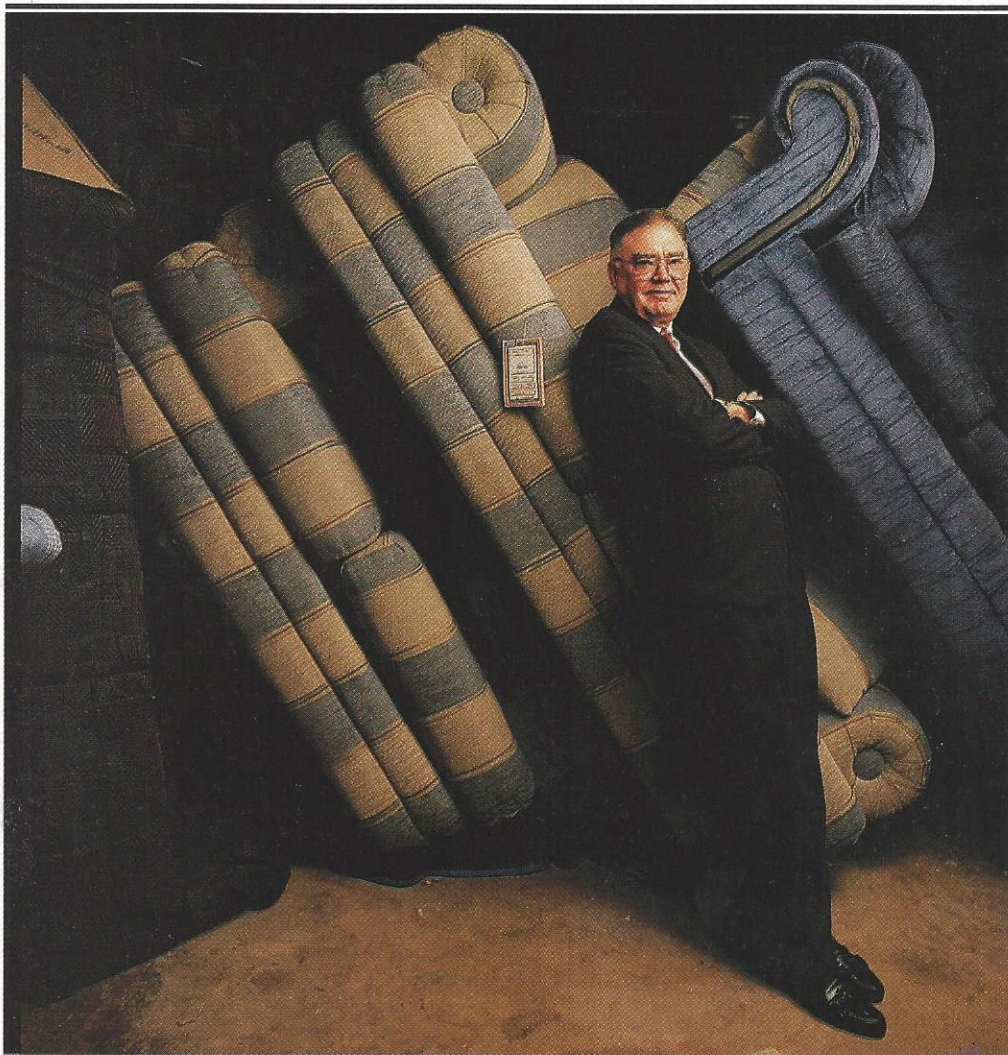
in her modest Dallas living room is a 52-inch RCA rear-projection set. Every Tuesday she goes to a Renters Choice store in a Dallas strip mall and pays \$40 cash, plus tax and insurance. If she keeps this up, she'll own the TV by August 1999. Her total price: \$6,065.10—an effective annual interest rate of 55%.

Usury? Not to Mitchell, who earns \$30,000 a year. The extra cost enables her to enjoy the set now, not in the distant future. She's paying with money she would have dribbled away. "I throw away money all the time," says Mitchell.

"In America we want it, and we want it right now," shrugs Renters Choice President Mark Speese, 39. No big problem for solvent folks

with good credit, but millions of Americans, either out of improvidence or want, lack ready cash or credit. So they turn to providers like Renters Choice for a TV, a washer, a bed or a living room set. Filling this need has enabled the Dallas, Tex.-based firm to prosper. Its revenues have risen from \$16 million in 1991 to an estimated \$233 million for 1996. Net profits have gone from \$1.8 million in 1991 to an expected \$18 million, or 72 cents a share, for 1996.

Renters Choice has a lot of competition from around 8,000 similar establishments. But its 1995 operating margin of 15% is well above the 11% and 9% earned, respectively, by its biggest competitors, Rent-A-Center and Aaron Rents. The primary key to the company's success is its extraordinary ability to weed out deadbeats. By definition most Renters Choice customers are high-risk. Some have declared personal bank-



Renters Choice Chief Executive Ernie Talley

Hiring savvy managers who know how to spot bad rental risks.

ruptcy. Others have had their cars repossessed and their credit cards revoked. And yet the company's delinquent accounts are just 6.5% of revenues, versus the industry average of around 10%. Few customers disappear; writeoffs for theft account for just 2% of revenues.

How do you get workers to spot deadbeats? Start by paying well. Renters Choice salaries for store clerks start at \$10.50 an hour, well above minimum wage. Base pay for store managers starts at around \$31,000, but can reach \$75,000. Manager hopefuls take five-hour exams that cover math and reading comprehension skills, and personality traits. That final portion of the test includes some 500 true/false statements and yes-or-no questions such as "No one seems to understand me," or "Do you love your mother?"

Pop psychology? Not to Joe Arnette, the firm's director of training. He believes these tests help pick employees wisely by identifying repressed hostilities or revealing a tendency to impose one's personal philosophy on others. Since many of its customers live nontraditional lives, the last thing Renters Choice needs is a store manager who chides a customer for extravagance or job-hopping.

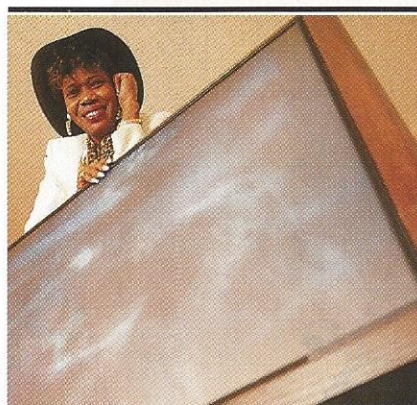
Kevin Wolfe is a 32-year-old Dallas store manager for Renters Choice. With only 400-odd customers, each of whom comes in to make payments once a week, Wolfe gets to know his clients well and understands their problems. The relationship is important. It breeds repeat business. An ideal customer is one who pays off the big-screen TV and then goes in for, say, a new living room set.

Renters Choice doesn't impose rigid guidelines on its managers; it gives them leeway in deciding whom to trust and whom not to trust. Their compensation depends heavily on the soundness of those judgments. "The question we ask ourselves is, 'Can I get my merchandise back?'" says Wolfe. "Because if I lose five pieces, it's money out of my pocket."

Besides, Big Brother is watching. In-store computers that managers use to track rentals feed information back to headquarters each night, immediately highlighting accounts that are as

little as one day late. Many mornings Renters Choice's Mark Speese can be found making comments on the inches-thick reports focusing on revenues, inventory and delinquencies.

The brains behind it all is J. Ernest Talley, 61, the chief executive of Renters Choice. Back in the 1950s Talley teamed up with a cousin to run a retail appliance store. When banks tightened credit, Talley came up with the idea to rent items to those who had no credit. Talley built a 14-store rent-to-own chain, which he sold in the late 1970s. He got back into the rent-to-own business in 1986 by acquiring 18 stores. He built that into a 114-store chain, which he took public in January 1995, selling



Customer Paulette Mitchell

A big screen, but a big payout, too.

34% for \$22.5 million. About \$18 million of that went to pay off all debt, including a \$6 million loan Talley had made to the company. The balance was used for acquisitions.

Since the public offering, Talley has expanded to 423 company-owned stores, mainly through acquisitions. The company's Nasdaq-traded stock went from 10 to a high of 28 last May before falling to a recent 16%. Talley's 26% share is now worth some \$94 million.

Talley has no shortage of emulators. There are six publicly traded rent-to-own chains, including one in Canada, and other companies are hankering to get in. Associates First Capital Corp., the finance firm 80%-owned by Ford Motor Co., is testing the rent-to-own concept with 19 new RentMart stores in Texas.

UNITED STATES

THE WESTIN ALYESKA PRINCE, ALASKA
THE BILTMORE HOTEL, CORAL GABLES
THE WESTIN RESORT,
HILTON HEAD ISLAND
WALT DISNEY WORLD SWAN & DOLPHIN
THE WESTIN MISSION HILLS RESORT,
RANCHO MIRAGE
THE WESTIN LA PALOMA, TUCSON
THE WESTIN RESORT, MIAMI BEACH

HAWAII

HAPUNA BEACH PRINCE HOTEL
MAUNA KEA BEACH HOTEL
THE WESTIN MAUI
MAUI PRINCE HOTEL - MAKENA RESORT
HAWAII PRINCE HOTEL WAIKIKI

THE CARIBBEAN

THE WESTIN CARAMBOLA
BEACH RESORT, ST. CROIX
THE WESTIN RIO MAR
BEACH RESORT, PUERTO RICO
THE WESTIN CASUARINA RESORT,
GRAND CAYMAN

MEXICO AND CENTRAL AMERICA

LAS BRISAS, ACAPULCO
THE WESTIN REGINA RESORT, CANCUN
THE WESTIN BRISAS RESORT, IXTAPA
THE WESTIN REGINA RESORT,
LOS CABOS
THE WESTIN REGINA RESORT,
PUERTO VALLARTA
CAESAR PARK BEACH & GOLF RESORT,
CANCUN
CAMINO REAL, TIKAL

ASIA PACIFIC

THE WESTIN RESORT, MACAU
CAESAR PARK HOTEL, KENTING, TAIWAN
THE WESTIN CHOSUN BEACH, PUSAN

EUROPE AND AFRICA

THE WESTIN DRAGONARA RESORT,
MALTA
(OPENS APRIL 1997)
CAESAR PARK PENHA LONGA
GOLF & RESORT, SINTRA, PORTUGAL



WESTIN

HOTELS & RESORTS®

Call your Travel Agent or
1-800-WESTIN-1
www.westin.com

**CHOOSE
YOUR TRAVEL
PARTNER WISELY.™**