

## To Our Shareholders



### **THIS WAS OUR SEVENTH CONSECUTIVE YEAR OF RECORD GROWTH IN REVENUES AND EARNINGS**

During 1998, Aaron Rents, Inc. reaffirmed its position as *America's Premier Name in Furniture Rental and Rental Purchase*. We continued to achieve records in revenues and earnings, grow our store base, expand our rental purchase franchise program, increase our manufacturing capability and receive national recognition. Throughout our operations, we focused on growing revenues and profits, with the ultimate goal of increasing shareholder value.

Revenues for 1998 reached a record \$379.7 million, an increase of 22% over \$310.8 million for 1997. Earnings advanced 17% to a record \$21.5 million compared to \$18.4 million the previous year. Earnings per share were \$1.06 (\$1.04 assuming dilution) compared to \$.96 (\$.94 assuming dilution) for 1997. With these results, our Company has now achieved seven consecutive years of record revenues and earnings.

Although our stock performance during the latter part of the year was disappointing, the five-year average annual total return to our shareholders at December 31, 1998 on Common Stock was 21.6%. We are committed to our continuing efforts to maximize long-term shareholder value. Our strategic plan for growth plays to our distinct strengths which include our unique concept for serving our markets; our manufacturing, design and distribution capabilities; and our franchising program. No competitor can match this winning combination.

In our core rent-to-rent business, we focused on increasing revenues and profits of every store, with rental revenues increasing more than 7% over 1997. At year end, our total number of stores had increased to 109. We will continue to concentrate on increasing individual and corporate accounts in our residential business and capitalize on opportunities in the growing office furniture portion of the business. Although historically not a high-growth industry, the rent-to-rent division does have sufficient potential to increase market share and contribute substantially to the Company's bottom line.

The Aaron's Rental Purchase division continued on its expansion track with rental revenues increasing 39% over 1997. Overall, nearly 53% of the Company's total 1998 revenues were generated by this business. At year end, the total rental purchase store count had increased to 318, including 136 franchised stores. The assimilation of the December 1997 RentMart acquisition went well during the year and we expect continued growth in these stores. During the year, the Company purchased five franchised stores in the Carolinas and 40 new franchised stores were opened. As of the end of the year, another 91 franchised stores had been awarded and slated for future openings.

MacTavish Furniture Industries, our furniture manufacturing division, again achieved records by producing more than \$50 million of furniture at cost, nearly all of which was shipped to our Company-operated and franchised stores. The

**Aaron Rents in  
"200 Best Small  
Companies in  
America"**

*In 1998, Aaron Rents was again listed as one of the "200 Best Small Companies in America" by Forbes magazine. "These companies have survived the toughest screening process since we began our annual ranking 20 years ago," Forbes reported. "This year we include growth in sales and earnings per share as well as return on equity. This gives a better measure than past methods of whether these companies are likely to sustain their momentum."*



benefits of our vertical integration are maximized by the Aaron Rents distribution system, consisting of five major warehousing centers located strategically across the country. Our unique manufacturing and distribution expertise provide key advantages in meeting customer demand for same-day or next-day delivery of merchandise.

The acquisition of Lamps Forever during the year added an important dimension to our design and manufacturing capabilities. Founded and operated by Avi Yofan, the highly regarded California-based producer of designer lamps, Lamps Forever offers creative lines that appear prominently throughout the Company's showrooms. The designer lamps, tables and matching accessories are available to both rent-to-rent and rental purchase customers, as well as nationally recognized third-party retailers, and allow us to capitalize on the rapidly growing coordinated room trend in furniture retailing.

Performance below expectations in our convention furnishings division led to the sale of that business in October 1998. We acted expeditiously when our plans for this division were not fulfilled to insure that our energies and assets remain employed in operations that meet the Company's profit standards. The divestiture will enable us to shift full attention to our core rent-to-rent and rental purchase businesses.

Our Company's management strength was enhanced through promotions of several key employees providing recognition for their continuing contributions. Gilbert L. Danielson was promoted to Executive Vice President in addition to his duties as Chief Financial Officer, having previously been Vice President, Finance and Chief Financial Officer. Our Directors also approved the promotion of four key managers to Vice President of the Aaron's Rental Purchase division: James D. Almond, Franchise Operations; David M. Deignan, Marketing and Merchandising; K. Todd Evans, Franchise Development; and Michael B. Hickey, Management Development. In addition, Marc S. Rogovin was appointed Vice President, Real Estate and Construction in 1998.

With our move to the New York Stock Exchange in March 1998, we anticipate greater visibility for the Company and increased investor interest. In April 1998, we completed a secondary offering of 2.1 million shares of Common Stock. During the year, the Company completed the repurchase of one million shares of Common Stock authorized in February 1997. The Board of Directors authorized in November 1998 and February 1999, the additional buyback of one million and two million shares of Common Stock, respectively. The Company's financial strength continues to be one of its greatest assets.

Aaron Rents once again in 1998 ranked among the best businesses in the country for both overall performance and our rental purchase franchise program. For the second consecutive year, Aaron Rents was chosen by *Forbes* magazine as one of the "200 Best Small Companies in America". The Aaron's Rental Purchase Franchise program ranked 10th in *Success* magazine's "1998 Franchise Gold 100" listing of the nation's best franchise programs and in the top 100 of *Entrepreneur* magazine's "20th Annual Franchise 500." In addition, franchise owner Her-Kel, Inc. of Georgia, operating 13 stores in the Southeast, placed 212th in *Inc.* magazine's rating of the "500 Fastest-Growing Private Companies in America."

These enviable rankings underscore our winning concept. From the quality of our personnel and franchise owners to our unique positioning in the market as *America's Premier Name in Furniture Rental and Rental Purchase*, Aaron Rents is an industry leader that is consistently gaining in market recognition. We thank our employees, customers, shareholders and suppliers for a record 1998 and look forward to continuing growth.

R. Charles Loudermilk, Sr.  
Chairman and Chief Executive Officer

Robert C. Loudermilk, Jr.  
President and Chief Operating Officer