CREDIT ACCEPTANCE CORPORATION

Moderator: Douglas Busk
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5:00 p.m. ET

Operator: Good day, everyone. Welcome to the Credit Acceptance Corporation Second Quarter 2015 Earnings Call. Today's call is being recorded. A webcast and transcript of today's earnings call will be made available on Credit Acceptance's website. At this time I would like to turn the call over to Credit Acceptance Senior Vice President and Treasurer, Doug Busk.

Douglas Busk: Thank you, Vince. Good afternoon and welcome to the Credit Acceptance Corporation Second Quarter 2015 Earnings Call. As you read our news release posted on the Investor Relations section of our website at creditacceptance.com, and as you listen to this conference call, please recognize that both contain forward-looking statements within the meaning of federal securities law.

These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control and which could cause actual results to differ materially from such statements. These risks and uncertainties include those spelled out in the cautionary statement regarding Forward-Looking Information included in the news release. Consider all forward-looking statements in light of those and other risks and uncertainties.

Additionally, I should mention that to comply with the SEC's Regulation G, please refer to the Adjusted Financial Results section of our news release, which provides tables showing how non-GAAP measures reconcile to GAAP measures.

At this time Brett Roberts, our Chief Executive Officer; Ken Booth, our Chief Financial Officer; and I will take your questions.

Operator: Thank you ladies and gentleman, at this time if you do have a question please press star then one on your touchtone phone. If your question has been answered or you wish to remove yourself from queue you can do so by pressing the pound key, but if you do have a question, please press star then one.

Our first question comes from Moshe Orenbuch of Credit Suisse, your line is open.

Moshe Orenbuch: Great. Thanks, guys. Could you just talk a little bit about how you're looking at the competitive environment? I guess you've got a couple of different factors showing up in your release, some of which would indicate an improving environment, some a little more competitive. Can you just give us your thoughts?

Brett Roberts: Yes. I think as we've said in prior quarters, the best insight we have into the market is our success in writing business, particularly the volume per dealer number. It increased in the second quarter. A 6.4 percent increase in volume per dealer. That's the third straight quarter we've seen a positive move there, after a couple of years or even longer than that of decline in volume per dealer.

Essentially the best insight we have, if you look at some of the macro numbers, there's more loans being written than there were a year ago. There's more sub-prime loans being written than a year ago. So that would point to higher levels of competition, the volume per dealer number that we experienced would point to the opposite. That's about all we conclude from that.

From our perspective, I think we have to assume, given the volume per dealer number that competition certainly isn't hurting us at this point year-over-year, and probably is helping us to some extent.

Moshe Orenbuch: Got it. OK. Thank you.

Operator: Thanks, your next question come from John Rowan of Janney, your line is open.

John Rowan: Good afternoon, guys. So just a few questions. The first one, are there any one-timers in the quarter that I should be aware of?

Douglas Busk: No.

John Rowan: OK. And as far as duration goes, it looks like you're now at 49.4 months for 2015. If I'm not mistaken, last quarter you were at 48.5. If that's correct, am I to assume that the originating duration now is somewhere north of 50 months?

Douglas Busk: It's right about at 50.

John Rowan: OK. As far as the CFPB goes, obviously there's been some news about the debt collection space, and then reinterpreting the FDCPA, I wanted to know what your take on that was. Whether or not there's any risk from a ruling against a debt collector, or whether or not you're even bound by an interpretation of the FDCPA.

Brett Roberts: I think the way we look at it is if it's a priority for the CFPB, then it becomes a priority for us and we take a very close look at any guidance they put out. And we make sure that we're compliant with that in both the spirit and the letter of that compliance. So whether it's debt collection or any other topics that have been a priority for them, we pay close attention, and we make sure that we're satisfied with our internal procedures.

John Rowan: OK. You know quarter over quarter, your leverage ratios all came down. But it doesn't look like you have a share repurchase program in place at this point. Can you just give us an idea of what you're planning as far as share repurchases, leverage on the balance sheet going forward, and why obviously you haven't seen any repurchases this quarter.

Brett Roberts: I think what we look at there, we look at the price of the stock, and we look at how much capital we have available and we repurchase when both of those indicators tell us to. We haven't repurchased any shares this year.

I think the primary reason for that versus prior years is just the volume of business we're writing makes it more likely we're going to need our capital to fund new loans and so when we're growing as fast as we are now, we tend to be a little more cautious with respect to share repurchases.

John Rowan: OK. And then just last question, just structurally, if a consumer wants to buy another car, but they're currently underwater on another vehicle, do you allow them to buy another car with you and roll the deficiency into the principal of the new loan?

Brett Roberts: No.

John Rowan: OK. Alright. Thank you very much.

Operator: Thank you, your next question come from Kyle Joseph of Jefferies, your line is open.

Kyle Joseph: Good afternoon, guys. Thanks for taking my questions. Just looking at the press release, the forecasted collections are trending down, if you look at it on a year-over-year basis. But you're also seeing a similar decline in the advance rate. Is that a result of the term extension first and foremost?

And then what's your outlook for that on a longer-term basis?

Brett Roberts: Yes. As we said last quarter, it's just a result of the term and the mix of business.

Kyle Joseph: OK. And then do you have any outlook as to where those are heading over time?

Brett Roberts: No, not really. We're happy to write business at the current collection rate. We're happy if it is 10 points higher as it was in 2009. And we'd be happy if it was lower. It doesn't really matter, just as long as we maintain the appropriate relationship between the advance and the collection rate, we're OK with that.

Douglas Busk: The important thing is really can we accurately forecast loan performance at origination. Because again, we vary the amount of the advance based on the expected performance of the loan. So really the important thing is whether the loans perform as expected at origination.

Kyle Joseph: Got it. Thank you. And then I see you guys are at I think a little over 6,000 dealerships now according to the press release. Can you remind us exactly how big you think the market is domestically, and where the size of that market is going over time as well?

Douglas Busk: There are about 55,000 dealers domestically in the United States. If you go back a long way, it was a fair amount higher than that. But it's been relatively stable in recent years.

Kyle Joseph: OK. And then do you have any idea of what percentage of that 55,000 will be addressable for Credit Acceptance specifically?

Douglas Busk: Not really, I mean I think that we have a lot of runway in front of us in terms of being able to grow the business. Others in the industry have had much larger numbers of active dealers than that. So I think that there's ample opportunity for a long time to continue to increase the active dealer base.

Kyle Joseph: Got it. And just as we're starting to see revenue growth accelerate here, how should we think about expense growth going forward? Just more of a modeling question there.

Brett Roberts: Over a long period of time, expenses as a percentage of revenue or as a percentage of capital have come down. We expect as long as we continue to grow, we do have certainly some fixed and semi-fixed expenses as part of our structure. So we would expect that to continue to come down.

Kyle Joseph: All right. That's very helpful. Thanks for answering my questions.

Operator: Thank you, your next question come from Vincent Caintic of Macquarie, your line is open.

Vincent Caintic: Great. Thanks very much, guys. A couple of questions, one on the CFPB and taking it from the auto rules. So the larger participant rules were finalized. And if you could just remind us if you're subject to that, and then in particular if that has any impact on you guys, particularly, I think the disparate impact rule on dealer holdback.

Brett Roberts: We are a larger participant. That wasn't a surprise to us. So we've known that was coming for a long time. So when they published the ruling or the definition of what a larger participant is, it didn't really impact us in any way.

Vincent Caintic: OK, got it. And then for the share repurchases and the capital that you mentioned you had. What is the best way that you use to measure your excess capital capacity? Do you look at it in terms of leverage? And how much capacity do you have?

Douglas Busk: We run series of financial projections with different volume assumptions, different leverage assumptions. And try to select a financing strategy that will enable us to do well, not only when the capital markets are open, but also allow us to maintain origination levels in the event that the capital markets are unavailable to us for a lengthy period of time.

So that's really the way we manage our liquidity and capital.

Vincent Caintic: OK, got it, and a final one from me. So the dealer penetration has seemed to have turned the corner the past two quarters, and has been very good. I was just wondering if you could delve into kind of what's been driving that.

Have there been more sub-prime consumers who have been demanding loans? So there's an improvement in auto origination for them? Or has it been better selling? Or if there is any color that you can use to break that down. That would be appreciated. Thank you.

Brett Roberts: You're referring to the volume per dealer or the number of dealers active?

Vincent Caintic: I guess for both. Maybe just trying to figure out is your penetration–so the volume per dealer and the active dealers, is that because there's demand coming from the customers that's pulling that demand of loans? Or is it better penetration on your guys' behalf on selling that to the dealership. I'm just trying to figure that part out.

Brett Roberts: I think it's a combination of external factors and internal factors. It's hard to say how much of each. If you take a look at the components in terms of new active dealers. That's been strong the last couple of quarters. I think our sales force can probably take a lot of credit for that.

In terms of volume per dealer, I think that's probably more a function of the external environment. Certainly we have some control over that. We'd like to think that we're doing a little bit better job there. But it's hard to separate how much we can take credit for versus how much is just a function of the competitive environment.

The same is probably true for active dealers. The only other component I didn't talk about is attrition. Attrition certainly has something to do with the competitive environment. But it also has a lot to do with how good a job we're doing for the dealer. So I think it's tough to separate the two. The overall result was obviously very good for the quarter, and so we'll take that at this point.

Vincent Caintic: Got it, good. And sorry, just one last one from me. The 2015 forecasted collections rate is lower than it's been for the past, I think, two or three years. I'm just wondering if that's more of a competitive set that's driving that, or are you just being a little bit more conservative? And that's it from me. Thank you.

Brett Roberts: It's not conservatism. It's a just a change in the mix of business, with the term being the primary change there. So if we write a longer-term loan, we expect that, all other things being equal, to have a lower collection rate than a shorter-term loan.

Vincent Caintic: OK. Got it. Thank you.

Operator: Thank you, your next question come from Ken Bruce of Bank of America Merrill Lynch, your line is open.

Ken Bruce: Thank you. Good afternoon. I want to follow up on I guess the question around the active dealer conversation. And specifically can you give us some either color or specific numbers around how many salespeople that you have in the market as of the end of the quarter, versus say maybe a year ago? Can we maybe dimensionalize what your salesforce looks like today?

Douglas Busk: Sure. We have 240 salespeople active out in the market at the end of the quarter. That compared to 225 at year-end 2014, and 236 in June of 2014.

Ken Bruce: And are you actively adding to your sales base, or is this the run rate level at this point?

Brett Roberts: We’re adding to it incrementally. We're not making the increases that we made in 2011-2012. But we are adding to it incrementally.

Ken Bruce: OK. And I know we've had this conversation in the past. I don't know if there's any way to give us a sense as to what level of productivity either in terms of peak dealers per salesperson or volume per salesperson. But is there any way to think about, in terms of the additions that you've had, what the buildup for full productivity would be for that sales team?

Brett Roberts: I think it's difficult to say. Certainly there's a big variance between the best salesperson in terms of how many dealers they handle, and the person who's at the bottom of the list. So we'd like to get the average higher than it is today. The success of our best salesperson or our top 10 percent certainly make us optimistic that we can move the average up over time.

Ken Bruce: Great. Thank you very much. Appreciate your color here.

Operator: Ladies and gentleman, if you do have a question, please do press star, then one on your touchtone phone.

Our next question come from Randy Heck of Goodnow Investment Group, your line is open.

Randy Heck: Hi. Thanks for taking my question. Congrats on another excellent quarter. Brett, how do your market area managers or the sales folks, how do they get paid in terms of business being written? The last two quarters, your loan volume has been so strong. How is that accounted? Do those commissions get expensed up front, or do they get paid over the course of the loan?

Douglas Busk: They get expensed in the period that the loans originated.

Brett Roberts: So to answer the first part of your question, they're paid based on volume. They get a per-unit commission based on any volume that's the same as the prior-year volume, and then get an incremental additional commission if it's growth volume. So commissions increase when volume increases. And those commissions are expensed in the current quarter.

Randy Heck: OK. So in periods of strong loan generation, you've got some upfront expenses. And you generate the economics over the course of the next couple of years, is that fair?

Brett Roberts: That's fair. Yes.

Randy Heck: OK. Thank you.

Operator: With no further questions in the queue, I'd like to turn the conference back over to Mr. Busk for any additional closing remarks.

Douglas Busk: We would like to thank everyone for their support and for joining us on our conference call today. If you have any additional follow-up questions, please direct them to our Investor Relations mailbox at IR@creditacceptance.com. We look forward to talking to you again next quarter. Thank you.

Operator: Once again, this does conclude today's conference. We thank you for your participation.

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