

## Credit Acceptance Corp (Q4 2024 Earnings)

January 30, 2025

### Corporate Speakers:

- Kenneth Booth; Credit Acceptance Corp; Chief Executive Officer
- Jay Martin; Credit Acceptance Corp; Chief Financial Officer
- Douglas Busk; Credit Acceptance Corp; Chief Treasury Officer
- Jay Brinkley; Credit Acceptance Corp; Senior Vice President and Treasurer
- Jeff Soutar; Credit Acceptance Corp; Vice President and Assistant Treasurer

### Participants:

- Moshe Orenbuch; TD Cowen; Analyst
- John Rowan; Janney Montgomery Scott; Analyst
- Robert Wildhack; Autonomous Research; Analyst

## PRESENTATION

**Operator:** Good day, everyone, and welcome to the Credit Acceptance Corporation Fourth Quarter 2024 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 Chief Financial Officer, Jay Martin. Please go ahead.

**Jay Martin:** Thank you. Good afternoon and welcome to the Credit Acceptance Corporation Fourth Quarter 2024 Earnings Call. As you read our news release posted on the Investor Relations section of our website, at [ir.creditacceptance.com](http://ir.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 Financial Results section of our news release, which provides tables showing how non-GAAP measures reconcile to GAAP measures. At this time, I will turn the call over to our Chief Executive Officer, Ken Booth, to discuss our fourth quarter results.

**Kenneth Booth:** Thanks, Jay. Overall, we had another mixed quarter as it related to collections and originations, two key drivers of our business. Collections improved sequentially this quarter, with only our 2022 vintage continuing to underperform our

expectations, while our other vintages were stable during the quarter. Overall, a small decline of 0.3%, or \$31 million, in forecasted net cash flows.

During the quarter, our growth slowed significantly. However, this was still our second highest Q4 unit and dollar volume ever. Our loan portfolio is now at a new record high of \$8.9 billion on an Adjusted basis, up 15% from last year. Our market share in our core segment of used vehicles financed by subprime consumers was 6.1% year-to-date through November compared to 4.8% for the same period in 2023. Our slower growth was likely impacted by our Q3 scorecard change that has resulted in lower advance rates.

Beyond these two key drivers, we continued making progress during the quarter towards our mission of maximizing intrinsic value and positively changing the lives of our five key constituents: dealers, consumers, team members, investors, and the communities we operate in.

We do this by providing a valuable product that enables dealers to sell vehicles to consumers regardless of their credit history. This allows dealers to make incremental sales to the roughly 55% of adults with other than prime credit. For these adults, it enables them to obtain a vehicle to get to their jobs, take their kids to school, et cetera. It also gives them the opportunity to improve or build their credit.

Our customers are couples like Maurita and Steven, who experienced financial challenges after they moved from the Midwest to the South for a fresh start. Their financial challenges took a toll on their credit and their transportation. Steven's car broke down during his long commute to work. They tried to finance a new vehicle, but dealerships turned them away due to their credit. They had to rent cars at high costs so Stephen could get to work. Discouraged but not defeated, they found a dealership who approved them for a vehicle through Credit Acceptance. It was a moment of relief and a turning point their lives. With a reliable vehicle, they regained stability, improved their credit, and felt supported along the way. From Maurita and Steven, Credit Acceptance was more than a lender—we were a jump start in their new life journey. As Maurita and Steven discovered, the benefits of our program don't end once the contract is signed—we strive to support our consumers throughout the life of the contract.

As we have for many years, we are working with consumers impacted by hurricanes, and more recently, the wildfires, including suspending some of our collection efforts to allow those customers to prioritize their safety and most urgent needs.

During the quarter, we financed 78,911 contracts for our dealers and consumers. We collected \$1.3 billion overall and paid \$65 million in portfolio profit and portfolio profit express to our dealers. We added 902 new dealers for the quarter and now have our largest number of active dealers ever for a fourth quarter, with 10,149 dealers.

From an initiative perspective, we've made progress towards improving product innovation and our go-to-market approach with the goal of supporting our dealers faster and more effectively than ever before. This requires teamwork, attention to detail, and an

iterative process that attempts to make improvement every step of the way. We also continue to invest in our technology team, who remain focused on modernizing both our key technology architecture and how our teams perform work to support this goal.

During the quarter, we received five awards from Newsweek, Monster, Fortune, The Detroit Free Press, and Computerworld recognizing us as a great place to work. We continue to focus on making our amazing workplace even better. This makes 13 workplace awards for 2024, which is the most we've ever received. We support our team members in making a difference to what makes a difference to them. During Q4, we raised money and collected food for Stone Soup Food Bank, and our team members also came together over the holiday season to pack 106,000 meals for local food banks.

Now Jay Martin and I will take your questions, along with Doug Busk, our Chief Treasury Officer; Jay Brinkley, our Senior Vice President and Treasurer; and Jeff Soutar, our Vice President and Assistant Treasurer.

## QUESTIONS AND ANSWERS

**Operator:** (Operator Instructions) Our first question for today will be coming from the line of Moshe Orenbuch of TD Cowen.

**Moshe Orenbuch:** Great. Team, I'm hoping that you could expand just a little bit on the comments about the slowing growth, and how much of that do you think is a result of changes that you made? And is any of it a result of changes in the environment or competition? Maybe just flesh that out for us, if you would.

**Kenneth Booth:** Good question. It's hard to tell exactly. Obviously, our volume per dealer declined about 3.7% versus Q4 2023. That's a good indicator of maybe the competitive environment, but we also have the complication this time where we have changed our scorecard. So it's hard to attribute to which of the two, but I will say that Q4 of 2024 was our second highest unit and dollar volume ever so we do feel good about where we're at.

**Moshe Orenbuch:** Got you. One of the things I always use as a guide to think about the adjusted yield is how you've performed in the previous period. Usually, there's a pretty good correlation and you did have, roughly, I think, a \$60 million reduction in collections last quarter and yet the adjusted yield went up. Anything that we should be aware of? What drives that adjusted yield up in a period when collections levels are down?

**Jay Martin:** All things being equal, that decline last quarter, you would think would have a negative impact on the floating yield and the adjusted revenue as a percentage of average capital going forward, but what impacts the ultimate yield is the business we write in the subsequent period and our overall composition of the portfolio. The yield that we recognize on the business we wrote in the fourth quarter increased our overall yield, so that more than offset the decline in forecasted collections we saw in the third quarter.

**Operator:** Our next question will be coming from the line of John Rowan of Janney Montgomery Scott.

**John Rowan:** When did you make the change to the scorecards?

**Kenneth Booth:** The scorecard change was made during Q3. When it first goes in, it takes a little while to take effect so probably didn't have a full effect until sometime in September.

**John Rowan:** Okay. I don't remember discussing that on the last quarter conference call. Was that something that you disclosed at the time of the call last quarter?

**Kenneth Booth:** I don't know if we did or not. I would have thought we did, but I don't know. It probably didn't have much impact of Q3.

**John Rowan:** Okay.

**Douglas Busk:** John, we've talked about that we always adjust our forecast both with the current scorecard and our ongoing forecast to reflect recent trends in loan performance. Whether we specifically discussed this change or not, I don't recall, but it's a common practice.

**John Rowan:** Okay. Well, obviously unit volume was flat relatively year-over-year. It looks like subsequent to the quarter end, you're down about 4%, or no 3%, relative to the prior quarter, and obviously dollar volume's off more than that because of the increase in the advance rate. Or the decrease in the advance rate. I guess I'm just trying to hone in on whether or not this is a reaction to the chronic underperformance of the vintages over the last several years, and whether you're rightsizing your buy box in light of the current environment, which has been challenging to get the forecasting models correct. I'm just trying to understand if those are related—that you basically go out and you cut the advance rate and you let a bunch of volume tread off.

**Kenneth Booth:** We adjusted the scorecard to reflect trends that we've seen in the forecast, so that's part of it. I think there's also a chance that the competitive environment is a little more difficult than it was before too. And then we're coming off our highest year ever, so we've got harder comparables.

**John Rowan:** Okay. And then just last question for me. Obviously, there's a relatively large sequential decline in G&A expense. Is that just because of the weaker volume growth? Or is that something one-time in that item?

**Jay Martin:** So the decline in G&A expense is primarily related to legal expense. We do see a fair amount of volatility in legal expense quarter-to-quarter, just based on where ongoing regulatory matters and legal matters are. We don't comment on those matters specifically; we don't go into any more detail than what we include in our filing. The decline is primarily related to legal expense.

**Operator:** (Operator Instructions) And our next question will be coming from the line of Rob Wildhack of Autonomous Research

**Robert Wildhack:** A couple of quarters in a row where the revisions to forecasted collections are still negative, but they're smaller negative. Absent any changes in the broader economy and things like that, is that a signal that you think the worst is behind you in terms of downward revisions to the forecast?

**Jay Martin:** Our forecast at any point in time reflects our best estimate, so we do factor in other performance we've seen in the past. I would point out, for the quarter, we did see a smaller decline this quarter than we had in more recent quarters. Like what you said, it was down \$31 million or 0.3%.

If you start digging into it by cohort, you'll see that most of the decline was on the '22 business. Hard to say why that continues to keep declining, but we do know our forecasting models perform best during relatively stable economic periods and are less accurate during periods of volatility like we experienced in the pandemic with this cohort.

We also know others in our industry have experienced similar or worse performance on the '22 cohort so we don't believe the trend is unique to Credit Acceptance. I would point out, at this point, the '22 business is less material to our financial results. We originated a lower volume that year, and we've collected about 66% of what we ultimately expect to collect.

Going forward, our financial results are going to be more heavily weighted on the '23 and '24 cohorts. We wrote more business those years and they're less seasoned. We were happy to report this quarter that our forecast was stable on those two cohorts.

**Robert Wildhack:** Okay. And you've also been pretty active in capital markets, raised a lot of new capital, in the past several quarters. When you did that, did you have a specific level of origination growth in mind? I guess I'm wondering if origination growth is going to be a lot slower for a while given the scorecard changes or competitive dynamics. What's the possibility that you're in a really meaningful excess capital position today?

**Jay Brinkley:** Hey Rob, this is Jay Brinkley. We know that tax time is always our busy season, so we'd rather miss it on that side of it.

I think we stated on last quarter's call that we were going to be fairly conservative going into the unknowns related to the election and what impact that might have on the capital markets. So we ended up with a solid cash position, but this is the right time of year to be in that position, and we feel good about that going into our busy time when originations really pick up.

**Operator:** Thank you. There are no more questions in the queue. I would like to go ahead and turn the call back over to Mr. Martin for closing remarks. Please go ahead.

**Jay Martin:** We would like to thank everyone for their support and for joining us on the conference call today. If you have any additional follow-up questions, please direct them to our Investor Relations mailbox at [ir@creditacceptance.com](mailto:ir@creditacceptance.com). We look forward to talking to you again next quarter. Thank you.

**Operator:** Once again, this does conclude today's conference. Thank you for your participation. You may all disconnect.