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Q1 2024 Credit Acceptance Corp Earnings Call

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CORPORATE PARTICIPANTS

Jay D. Martin *Credit Acceptance Corporation - CFO*
Kenneth S. Booth *Credit Acceptance Corporation - CEO, President & Director*
Douglas W. Busk *Credit Acceptance Corporation - Chief Treasury Officer & IR*

CONFERENCE CALL PARTICIPANTS

Robert Henry Wildhack *Autonomous Research US LP - US Capital Markets Specialty Financials Analyst*
Ryan Shelley *Bank of America - High Yield Credit Research Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Credit Acceptance Corporation First 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's Chief Financial Officer, Jay Martin.

Jay D. Martin *Credit Acceptance Corporation - CFO*

Thank you. Good afternoon, and welcome to the Credit Acceptance Corporation First Quarter 2024 Earnings Call. As you read our news release posted on the Investor Relations section of our website at ir.creditacceptance.com, and as you listen to this conference call, please recognize 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 first quarter results.

Kenneth S. Booth *Credit Acceptance Corporation - CEO, President & Director*

Thanks, Jay. Our GAAP and adjusted results for the quarter as compared to the first quarter of 2023 includes the following:

First, related to earnings, adjusted net income of \$117 million, which is an 8% decrease from the first quarter of last year, and adjusted earnings per share of \$9.28, which is a 4% decrease from the first quarter of last year.

Second, related to collections, a decrease in forecasted collection rates that decreased forecasted net cash flows from our loan portfolio by \$31 million, or 0.3%, compared to stable forecasted collection rates during the first quarter of last year that increased forecasted net cash flows from our loan portfolio by \$9 million, or 0.1%.

Also, forecasted profitability for consumer loans assigned in 2020 through 2022 that was lower than our estimates at March 31, 2023, due to a decline in forecasted collection rates since the first quarter of 2023 and slower forecasted net cash flow timing during 2023 and the first quarter of 2024. This was primarily a result of a decrease in consumer loan prepayments, which remain at below-average levels.

Then, related to volume, unit and dollar volumes grew 24.1% and 20.2%, respectively, as compared to the first quarter of last year, and the average balance of our loan portfolio is now the largest it has ever been. On a GAAP and adjusted basis, it increased by 12% and 16%, respectively, as compared to the first quarter of last year.

Additionally, an increase in the initial spread on consumer loan assignments to 22% compared to 21% and consumer loans assigned in the first quarter of 2023. Also, an increase in our average cost of debt from 5% to 7%, which was primarily due to higher interest rates

and recently-completed or -extended secured financings and recently-issued senior notes coupled with the repayment of older secured financings and senior notes with lower interest rates.

Finally, a decrease in common shares outstanding since the first quarter of 2023 due to stock repurchases of approximately 728,000 shares, or 6% of the shares outstanding as of March 31, 2023.

At this time, Doug Busk, our Chief Treasury Officer, along with Jay and I, will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from Rob Wildhack from Autonomous Research.

Robert Henry Wildhack *Autonomous Research US LP - US Capital Markets Specialty Financials Analyst*

Maybe just to start out, I just wanted to ask about April unit volume slowing to 11% from 24% in the first quarter. Could you talk about what's driving that? Is it just a difficult compare or maybe something else that's contributing?

Kenneth S. Booth *Credit Acceptance Corporation - CEO, President & Director*

It's a little difficult to say. There really hasn't been a material change from our perspective in the competitive environment. We do think our comps are a little bit tougher so that could be why.

Robert Henry Wildhack *Autonomous Research US LP - US Capital Markets Specialty Financials Analyst*

Okay. Then on the competitive environment and in your experience, once competitors have pulled back, like they seem to have done or be doing now, what does it usually take to get them to re-enter the market?

Kenneth S. Booth *Credit Acceptance Corporation - CEO, President & Director*

I think it's a big decision when someone pulls out. I don't know the exact timing of when competitors would go back in, but it doesn't seem like something you would take lightly where you would come back in quickly. So I would think they would need to stabilize their business more and maybe get better access to funding.

Again, we're really kind of speculating here. We tend to focus on ourselves, but it's definitely favorable from our standpoint as our competitors pull out.

Operator

(Operator Instructions). And our next question comes from [Tony Orange] from S&P Global Market Intelligence. (Operator Instructions).

And we have a follow-up question. One moment please. And our follow-up question is from Rob Wildhack from Autonomous Research.

Robert Henry Wildhack *Autonomous Research US LP - US Capital Markets Specialty Financials Analyst*

Maybe just one more on the buyback in the quarter, which was pretty punchy. I think you said before the preferred use of capital is to originate loans and then to share repurchase. So just wondering if there's anything to read into around the elevated buyback in the quarter and the origination growth you're expecting going forward?

Douglas W. Busk *Credit Acceptance Corporation - Chief Treasury Officer & IR*

Not really. I will say that we raised a fair amount of new capital in the last part of 2023. We did a \$500 million securitization during the first quarter. We are growing, but we've raised a significant amount of capital so we felt good about deploying some of that capital in the form of buybacks.

Operator

One moment for our next question. And our next question comes from [Tony Orange] from S&P Global Market Intelligence. (Operator Instructions).

And our next question comes from Ryan Shelley from Bank of America.

Ryan Shelley Bank of America - High Yield Credit Research Analyst

Just one here on the forecasted collection percentage for the 2022 vintage. I noticed that's down 5.4%. Do you have any color there? Is there anything with that specific vintage that you can point to? That would be great.

Douglas W. Busk Credit Acceptance Corporation - Chief Treasury Officer & IR

Yes. I think the first thing I'd point out is, based on our understanding, that's a subprime auto finance industry phenomenon so nothing unique about our experience there. I think there are a variety of contributing factors there. Those loans were originated in a very competitive period, which tends to hurt loan performance. Those consumers financed vehicles at pretty close to peak valuations.

Vehicle prices have subsequently come down. Then, of course, there is the impact of inflation on the subprime consumer. Inflation is lower than it was a couple of years ago, but the cumulative effect means that things cost a lot more today than they did a few years back. I think it's probably the combination of those factors.

Operator

With no further questions in the queue, I would like to turn the conference back over to Mr. Martin for any additional or closing remarks.

Jay D. Martin Credit Acceptance Corporation - CFO

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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