

Credit Acceptance Corp (Q1 2025 Earnings)

April 30, 2025

Corporate Speakers:

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

Participants:

- Moshe Orenbuch; TD Cowen; Analyst
- Robert Wildhack; Autonomous Research; Analyst
- John Rowan; Janney; Analyst
- Jordon Hymowitz; Philadelphia Financial

PRESENTATION

Operator: Good day everyone, and welcome to the Credit Acceptance Corporation First Quarter 2025 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.

Jay Martin: Thank you. Good afternoon, and welcome to the Credit Acceptance Corporation First Quarter 2025 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 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 say 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 the first 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, 2024, and 2025 vintages modestly underperforming our expectations, while our other vintages were stable during the quarter. Overall, forecasted net cash flows declined by 0.2%, or \$21 million, which was our smallest decline of the last eight quarters.

During the quarter, our loan portfolio reached a new record high of \$9.1 billion on an Adjusted Basis, up 10% from Q1 last year, although we experienced a decline in unit and dollar volume growth. Our market share in our core segment of used vehicles financed by subprime consumers was 5.2% for the first two months of the year compared to 6% for the same period in 2024. Our unit volume was likely impacted by our Q3 2024 scorecard change that has resulted in lower advance rates and increased competition.

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, etc. It also gives them the opportunity to improve or build their credit.

Our customers are people like Vivien from Maryland. Vivien is an elementary school assistant, a role that requires her to consistently and timely show up for children with disabilities and special needs. After her vehicle was totaled in an accident, she was left without reliable transportation. She needed a new vehicle, but worried about her ability to secure financing due to her poor credit history. Her fears were confirmed when she was turned down for financing multiple times. Discouraged but not defeated, she found a dealership who approved her to finance a vehicle through Credit Acceptance. Vivien described the moment she was approved for financing as a turning point in her life. With a reliable vehicle, she regained her independence. Vivien plans to use Credit Acceptance again when it comes time to finance another vehicle, knowing she would be supported by a team that listens and puts her at ease.

During the quarter, we financed over 100,000 contracts for our dealers and consumers. We collected \$1.4 billion overall and paid \$68 million in dealer holdback and accelerated dealer holdback to our dealers. We enrolled 1,617 dealers and now have our second highest quarterly number of active dealers with 10,789 dealers.

From an initiative perspective, we've made progress with 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 improvements every step of the way. We also continue to invest in our technology team. We remain focused on modernizing both our key technology architecture and how our teams work to support this goal.

During the quarter, we were named the Top Workplace USA award winner for the fifth year in a row with the number two ranking among companies of our size. Last year, we were recognized with a record 13 workplace awards, and we continue to focus on making our amazing workplace even better. We support our team members in making a difference to what makes a difference to them, raising money for five different charitable organizations that were selected by our team members.

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 comes from Moshe Orenbuch with TD Cowen.

Moshe Orenbuch: I was sort of hoping that we could talk a little bit about the forecast changes. As you mentioned, this was the smallest one in a while, and yet you still had a \$76 million portion of your GAAP provision related to it. Unlike last quarter, when you had a larger forecast change, you had an increase in the adjusted yield, and this quarter, it went down. So maybe could you talk about how we should be thinking about those two items, both in this quarter and going forward?

Jay Martin: Sure. First, I'll talk about your provision question; the \$76 million provision for forecast changes. So that is the impact of us decreasing the present value of future cash flows, and that has two components: There's the change in undiscounted cash flows, which is the \$21 million decrease that you referenced, and then there's also the slower cash flow timing on our total forecasted net cash flows, which is approximately \$12 billion. It doesn't take much of a slowing on the timing of the cash flows to increase that provision, so that's what drove the provision for forecast changes for the quarter.

Now on your point on the adjusted yield, there's a couple of things going on there. If you look at page 10 of our earnings release, you'll notice we added a new metric there, which is adjusted finance charges as a percentage of our adjusted loans receivable. What you'll see there is that similar to last quarter, we did see an increase in the yield from the prior quarter, and that's due to the yields on the current quarter originations. The expected yields on those new originations more than offset the decline due to the underperformance of the loans on the entire portfolio.

We did see the adjusted yield increase slightly from Q4. What you're seeing is adjusted revenue as a percentage of adjusted capital, and that did decrease from 18.4% last quarter to 18.0% this quarter. What was driving a decrease there where adjusted yield went up was the \$500 million of cash and cash equivalents we have on our balance sheet. It's higher than what we normally have just due to the timing of some recent debt issuances coupled with slower loan growth. We don't expect to have cash and cash equivalents at that level, but that drove our adjusted capital growing faster than adjusted loans.

Moshe Orenbuch: Got it. Just to clarify on the GAAP provision, I guess that means the cash flows were slowing somewhat in addition to the \$21 million less in just nominal amounts, right?

Jay Martin: That's correct. Consumer Loan prepayments came in lower than historical levels or at least lower than what our forecast was expecting, so we continue to see a slight decline in the timing, or slowing in the timing.

Moshe Orenbuch: Yes. In the opening comments, you talked a little bit about the volume. I noticed that you also had a slightly higher percentage of Purchased Loans as opposed to Portfolio Loans. I'm not sure exactly what to make of that. Maybe you could expand on that a little bit, but it feels like more competition at the dealer. Is that what that would reflect?

Kenneth Booth: I think it's pretty comparable. I think it's a modest change. It's a 2 percentage point difference. I would say it's just a little more randomness or mix of loans. I don't necessarily think it's due to competition or anything.

Operator: Our next question comes from Robert Wildhack with Autonomous Research.

Robert Wildhack: In the past, you've talked a decent amount about how forecasting models can be less accurate in periods of volatility, and I think we could all agree that the broader environment today looks to be a volatile one. So should we expect more volatility around forecasted collections going forward, or how are you thinking about the accuracy of forecasts moving through '25, given all the volatility in the broader market today?

Jay Martin: Yes. Our current forecast right now represents our best estimate of how our loans are going to perform. We know predicting loan performance is difficult and can't predict the future any better than anyone else. We feel like we have a pretty good track record, but there are a few things that could make it more challenging going forward.

First would be the impact of inflation. It's declined some recently, but things still cost a lot more than they did three years ago. And then we don't know what impact tariffs could have on inflation, so that's likely to increase inflation. We also know that vehicle prices could decline, but that risk does seem like it's minimized by the impact of tariffs. And then thirdly, a potential recession. All that can have a negative impact. We'll just have to wait and see, but, again, what we have out there now is our best estimate today.

Robert Wildhack: Okay. And then kind of on a similar point, the 2022 vintage and performance there was marked by a period of elevated inflation. Whether it's the '24, '25 or even '26 vintages, those are likely to be defined by tariffs, and maybe a recession. Is the source of the volatility a big deal, or is all volatility the same? Is inflation-induced volatility different from the tariff-related volatility?

Jay Martin: It's tough to say exactly, but it likely all has an impact. It depends on the extent of the impact of inflation. Things like vehicle prices have less of an impact on our forecasted collection rates, so we just really don't know at this point. Again, what we have out there is our best estimates of what we know today.

We also know with the '22 loans, beyond just inflation, there are some other factors on why those have underperformed. A couple of those would be that the loans were originated in a very competitive period, which certainly hurts loan performance, consumers purchased vehicles at peak valuations, vehicle prices subsequently declined, and then as you mentioned, inflation. We also know what we saw in the '22 loans is not unusual compared to what we see from others in the industry.

Jeff Soutar: Just to jump in there, that's the reason we can't predict when the volatility is going to come or what's going to be more volatile. And that's why we price our loans with a big margin of safety so that they'll most likely still produce a good result regardless of those economic factors.

Robert Wildhack: Got it. And then just quick, you touched on the cash, and I hear you that this quarter was impacted by the recent debt issuance. But more broadly, you used to run with a single-digit million cash number, and it's been up in the hundreds for the last three quarters. So why the longer-term increase there?

Jay Brinkley: This is Jay Brinkley. Similar to what we said last quarter, we took a fairly conservative stance going into Q4 with the unknowns related to the election and what impact it would have on the capital markets. Really, we saw no reason to change that stance. There's a lot up in the air, obviously. We were pretty active during the quarter, as you saw, we refinanced our '26 notes and upsized those by \$100 million.

We also closed a securitization at the end of the quarter. I think in terms of timing, we feel pretty good about getting in and out of the market when we did. Things have gotten fairly volatile out there, and it feels good to be in the cash position that we are right now rather than having to issue into a volatile capital market environment.

Operator: (Operator Instructions) Our next question comes from John Rowan with Janney.

John Rowan: Just curious, why did you guys decide to accelerate dealer holdback?

Douglas Busk: This is Doug. I can handle this. What we're trying to do with dealer holdback in general is incentivize dealer behavior primarily at the time of origination because part of their compensation is dealer holdback that is based over time on the performance of the loan.

The problem you have with that is you're trying to incentivize dealer behavior today with additional profitability that will occur 30, 36, 42 months from the point of origination. So we accelerated dealer holdback, and we've been doing this for many, many years to try to create a better linkage between dealer behavior at origination and that collection-related profit or dealer holdback.

John Rowan: Okay. I guess just one accounting question. There's a pretty big jump in salaries and wages. Is that a good run rate going forward?

Jay Martin: It depends—are you comparing salaries and wages to Q4 of last year or Q1 of last year?

John Rowan: I'm just looking at the \$88.6 million reported.

Jay Martin: Yes. I would say there's some seasonal events in Q1 that tend to have operating expenses higher. This has to do with our payroll taxes; volume that's seasonally higher—loan unit volume seasonally higher in Q1, which impacts sales commissions; and we also have some higher fringe benefits. If you do look at Q1 versus last year, you will see we gained some operating leverage as it declined as a percentage of adjusted average capital.

John Rowan: Okay. And then just you mentioned something earlier, I just want to make sure I heard it correctly. You said you had a 5.2% market share versus 6% last year. What timeframe was that? And you talked about something about a VantageScore. Just can you repeat what you said?

Kenneth Booth: The 5.2% was for the first two months of the year, because we don't have data for March yet. And then the 6% for 2024 was also the same period. What was the second part of your question again?

John Rowan: You mentioned something about VantageScore being the reason for that. Can you just go over that again?

Kenneth Booth: Maybe I didn't speak clearly or maybe you heard it wrong, but what I said was our unit volume was likely impacted by our Q3 2024 scorecard change that resulted in lower advance rates and also increased competition.

Operator: Our next question comes from Jordan Hymowitz with Philadelphia Financial.

Jordon Hymowitz: A couple of questions. One is the CFPB recently dropped its lawsuit against you guys. Can you give a sense of how much in legal fees were spent in the first quarter on that case that won't be repeated?

Jay Martin: No. We don't comment on legal costs unless they're material to our financials, so we won't comment on that beyond what we've disclosed in our filings. What I would do though is just reiterate what we put in the release last week that we're pleased with the CFPB's decision to withdraw from the case as it should limit the scope to New York consumers only. As we've outlined in our motion to dismiss, this lawsuit seeks to create new law through litigation and asserts legal theories that conflict with established statutes. But we won't comment on legal reserves or legal expenses.

Jordon Hymowitz: So whatever would be, that would be coming down. My next question is, you're getting closer and closer to not providing or writing down older pools and you spent \$76.3 million in the quarter.

If I just tax effect that number, it's about \$5.50. So would I think about your earnings power being closer to like \$13.50, \$14 today, if there were no changes for write-backs to older pools?

Jay Martin: We think the best way to look at our financial results is looking at our adjusted financial results, so I would use that as your proxy.

Jordon Hymowitz: Okay. Were there any other one-time things that you're not going to break out of the legal fees, like you've been spending a lot on IT and other things that may come down going forward?

Kenneth Booth: We have had elevated levels of investment in the business in recent years. A lot of these have been foundational, trying to get things like sufficient talent density, changing org design, modernizing our tech stack.

I think maybe at some point, they would come down. But once we kind of modernize our tech stack, we're then looking at making a lot of changes and trying to improve our products, so I don't foresee in the relatively near future, the elevated levels coming down. Although I will say we hope to start to see more of a return on them once we get past the foundational stage.

Operator: Thank you. 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 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. We look forward to talking to you again next quarter. Thank you.

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