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Q1 2021 Credit Acceptance Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Brett A. Roberts** *Credit Acceptance Corporation - CEO & Director*

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

**Kenneth S. Booth** *Credit Acceptance Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Moshe Ari Orenbuch** *Crédit Suisse AG, Research Division*

**Randall Matthew Heck** *Goodnow Investments*

**Robert Henry Wildhack** *Autonomous Research LLP*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the Credit Acceptance Corporation First Quarter 2021 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 Treasury Officer, Doug Busk.

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

Thank you. Good afternoon, and welcome to the Credit Acceptance Corporation First Quarter 2021 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'll turn the call over to Brett Roberts.

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### **Brett A. Roberts** *Credit Acceptance Corporation - CEO & Director*

Thanks, Doug. Today, we announced my retirement. I'm retiring for personal reasons, and I'm leaving with a tremendous sense of gratitude for the opportunity I had, and for all the people that helped me along the way. The Board has decided that Ken Booth will replace me as CEO. Ken is a great choice. He's

talented, has high integrity, and he's well-respected inside the company. If anyone is worried about my retirement creating a void, I think you should understand that this has never been a one-man band. We've run the company in a very collaborative manner for at least the last 15 years. The leadership team meets on a weekly basis and every decision, every challenge, every opportunity has been discussed and decisions have been made in a collaborative manner.

We have an unusually experienced team. Charlie Pearce; Dan Ulatowski have been with the company for more than 25 years; Art Smith and Doug Busk more than 24 years; Jon Lum, our Chief Operating Officer, more than 19 years; and Ken has worked for me for the last 17 years. So I leave behind a talented and experienced team, and I'm confident they will do a great job.

I would like to use this opportunity to thank all the people that have supported me over the years. We have an amazing board. We have great leaders throughout the company. We have what I think is a unique culture filled with an unusual amount of trust and goodwill, and I'm proud of what we accomplished together over the last 29.5 years.

With that, I will say goodbye and turn it over to Doug and Ken to answer your questions about the quarter.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Moshe Orenbuch from Crédit Suisse.

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### Moshe Ari Orenbuch *Crédit Suisse*

I understand that the agreement with the Commonwealth of Massachusetts is an agreement in principle. But the press release mentions a contingent loss. Are there any other elements of that, that you could kind of tell us about in terms of anything that you're going to have to do that's different as you go forward?

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### Douglas W. Busk *Credit Acceptance Corporation*

No, I can't really discuss the agreement in principle that we have with the Commonwealth of Massachusetts beyond what's disclosed in the press release and in the 10-Q.

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### Moshe Ari Orenbuch *Crédit Suisse*

Okay. The 10-Q mentions also an additional CID from the CFPB that was in March, you had kind of back and forth over the back half of last year. Is there any kind of updates that you can give us there?

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### Douglas W. Busk *Credit Acceptance Corporation*

Can't really provide any commentary beyond what we've disclosed in the 10-Q.

**Moshe Ari Orenbuch *Crédit Suisse***

Okay. In terms of the collection percentages, you said that in the quarter that your expectations for 2018 through '20 actually improved during the first part of 2021. But the collection expectations for the first quarter of the year actually deteriorated. Is there any way to explain how that happens? Like what would cause the most recent expectations to deteriorate while the slightly older ones improve?

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**Kenneth S. Booth *Credit Acceptance Corporation***

I mean, for the first quarter, it's down a tenth of percent, which is pretty much flat. So it doesn't surprise me it'd be flat with our expectations. If you're referring to the fact that it's lower than previous quarters, our initial expectation, it really just depends on what kind of business we're pricing. That initial expectation is not really relevant, except for the fact of how we do compared to it.

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**Douglas W. Busk *Credit Acceptance Corporation***

One thing that I'd like to point out is I think if you look in the footnote, you'll note that we say that forecasted collection rates are negatively impacted by canceled consumer loans because we don't take the contractual amount out from the denominator for purposes of computing forecasted collection rates. So I think you'll generally see in the first quarter following originations that collection results are either down a little bit or up a little bit, but in any event they're depressed by the impact of canceled loans.

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**Moshe Ari Orenbuch *Crédit Suisse***

Got it. I actually didn't know that. You discussed the spread between your forecasted collection rates. And that, I think, Ken, that's what you were referring to, the forecast collection rates are a bit lower in 2021 and the advance is a bit higher. In the explanation you say that that's because of the better collections. Does that mean that the better collections that you've experienced have caused that -- I guess I didn't quite understand that, so I don't know if there's a way to help us understand that.

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**Kenneth S. Booth *Credit Acceptance Corporation***

Initially, we have an expectation of what we're going to collect. And as we gather more information from month to month, our forecast goes up or down generally based upon what we learn. But what we're talking about there is our past business has performed a little better than we initially thought, which has made the spread seem like a little bit bigger.

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**Operator**

(Operator Instructions) Your next question comes from the line of Randy Heck from Goodnow Investment.

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**Randall Matthew Heck *Goodnow Investments***

Well first, I just want to congratulate Brett for just a tremendous run and a tremendous job creating value—tremendous value for shareholders. And it's been a real pleasure being a shareholder for the last 23 years. Secondly, it was noted in the press release, the collections were much better in the month of

March, and they're up another 20...I think 25% in the month of April. And you said that because of the way the accounting works, the earnings, you didn't get the full benefit in the earnings release or the P&L because the collections were [skewed toward the back end of the quarter]. So can you give us a general idea of what adjusted earnings would have been roughly in the first quarter if we take into account the stronger collections in March, if the accounting was different?

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**Kenneth S. Booth *Credit Acceptance Corporation***

Randy, that's a hard question to answer. I mean, we really can't calculate that or quantify that. Clearly, if the collections had come in higher ratably through the quarter, we would have done better. But collections continue to come better; that will help us next quarter.

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**Randall Matthew Heck *Goodnow Investments***

Okay. And then finally, the press release noted that unit volume and originations were up 25% in the month of April through, I guess, yesterday or something. And that's against a negative 7% comp. What would you attribute that strength to?

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**Kenneth S. Booth *Credit Acceptance Corporation***

A lot of that really has to do with the comparable we have to last year. The first part of April last year was a pretty easy comparable basically due to stimulus. So while it was a good run for the first 28 days, it's really an easier comparable. That's why we included the comparable to 2019 in the release.

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**Douglas W. Busk *Credit Acceptance Corporation***

If you go back and look, I think that unit volumes were down approximately 20% last year in both March and April, and then up quite a bit in May and June.

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**Operator**

(Operator Instructions) Your next question comes from the line of Rob Wildhack from Autonomous Research.

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**Robert Henry Wildhack *Autonomous Research***

You've mentioned in the past that stimulus programs have helped originations and active dealers in a given quarter. Can you give any color as to the degree that the most recent stimulus package helped this quarter's results? And I'm wondering if you're also still feeling a benefit from that stimulus package through April?

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**Kenneth S. Booth *Credit Acceptance Corporation***

It's hard to quantify the impact of that. But it's very likely that stimulus is having a positive impact on both collections and originations. If you look at our experience over the last 13 months, we've done better when there's stimulus and not as well when there's not. We don't have a quantification of that, though.

**Operator**

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

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**Douglas W. Busk *Credit Acceptance Corporation***

We'd 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](mailto:ir@creditacceptance.com). We look forward to talking to you again next quarter. Thank you.

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**Operator**

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

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