Credit Acceptance Corp (Q2 2025 Earnings)

July 31, 2025

Corporate Speakers:

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

Participants:

- Moshe Orenbuch; TD Cowen; Analyst
- John Rowan; Janney Montgomery; Analyst
- Kyle Joseph; Stephens; Analyst

PRESENTATION

Operator^ Good day, everyone, and welcome to the Credit Acceptance Corporation Second 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. Please go ahead.

Jay Martin^ Thank you. Good afternoon and welcome to the Credit Acceptance Corporation Second 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 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 second quarter results.

Kenneth Booth^ Thanks, Jay. Our results for this quarter reflected steady execution with declines in loan performance and year-over-year originations volumes balanced by continued portfolio growth.

Loan performance declined this quarter, with our 2022, 2023, and 2024 vintages underperforming our expectations, and our 2025 vintage exceeding our expectations, while our other vintages were stable during the quarter. Overall, forecasted net cash flows declined by 0.5% or $56 million.

During the quarter, we experienced a decline in unit and dollar volumes, though our loan portfolio still reached a new record high of $9.1 billion on an adjusted basis, up 6% from last Q2.

Our market share in our core segment of used vehicles financed by subprime consumers was 5.4% for the first five months of the year, down from 6.6% for the same period in 2024. Our unit volume was impacted by our Q3 2024 scorecard change that resulted in lower advance rates and likely impacted by 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 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 people like Sugar, from Oklahoma. Sugar's life took a dramatic turn when the former credit counselor was arrested for driving under the influence in 2014. Overwhelmed with shame and having lost her license, she realized she needed to make a profound change. She sought help from Women's First Step, a treatment facility, and after graduating from the program eight months later, she began rebuilding her life. She regained her license, started a stable career, and achieved a powerful "symbol of victory" when she was approved by us for car loan. This journey of recovery came full circle when Sugar was hired to work for the treatment facility that had helped her, dedicating herself to her new mission of helping others find their own second chance.

During the quarter, we financed over 85,000 contracts for our dealers and consumers. We collected $1.4 billion overall and paid $63 million in dealer holdback and accelerated dealer holdback to our dealers. We enrolled 1,560 new dealers and had 10,655 active dealers during the quarter.

We continue to invest in our engineering team, which is focused on modernizing both our key technology architecture and how our teams perform work. The engineering team has made significant strides in modernizing our loan origination system. This modernization has laid a strong foundation for us to deploy innovative, frictionless dealer experiences. It has increased the velocity at which we release features from a matter of months to a matter of days, allowing us to accelerate value to our business and customers.

During the quarter, we received two awards for our amazing workplace including being named one of the 100 Best Companies to Work for by Great Place to Work and *Fortune* Magazine. With 93% of team members agreeing that Credit Acceptance is a great place to work, this year marked our 11th time in the last 12 years receiving this prestigious award, moving up five spots to the #34 ranking.

We support our team members in making a difference to what makes a difference to them, raising over $270,000 for St. Jude Children's Research Hospital and the Make-A-Wish foundation. Through these donations, we were able to fund wishes for 15 children, bringing our total to 95 wishes granted.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) The first question will come from the line of Moshe Orenbuch of TD Cowen.

Moshe Orenbuch^ Great. I noticed that obviously the collections were down again this quarter, but the adjusted yield was higher. That's happened, I think, at least once before, but maybe you could just talk about what drives that. Usually the adjusted yield will follow the lower collections.

Jay Martin^ Sure. So the decline in forecasted collections—the change in the amount and timing there, all things being equal, would drive the adjusted yield down, but the ultimate yield that we recognize is also dependent on the volume and pricing of new loan originations so that's what you've seen in the last few quarters. The yields of the new loans that we've originated more than offset the decline in the yield due to loan performance.

Moshe Orenbuch^ Right. Although interestingly, the collection shortfall is greater than the last two quarters so even though you said that the '25 vintage is outperforming, I mean the underperformance in the back book has been greater than it's been in the past. Even if you kind of 'X' out the change that you made, it's still bigger than either of the last two quarters.

In the discussions we've had before, I guess there had been an idea that you were burning through those vintages, and they should be, I guess, hurting you less, but that's not what happened. Is there any way to talk about why that is?

Jay Martin^ Yes. I would say that our forecasting models generally perform well during a relatively stable economic period but are less accurate during periods of volatility like we've experienced in recent years.

We do think the continued impact of inflation is contributing to the loan underperformance we've seen there. You may recall during the second quarter last year, we put in an adjustment to address that underperformance.

It's worked fairly well for most vintages, but for our 2024 loans, we have seen more underperformance there than what that adjustment would have anticipated. It's specifically related to the loans that we originated in '24 before our scorecard change during the third quarter, so the bulk of the decrease you saw for the quarter was on that segment alone. The good news for the loans that we've originated since we put that scorecard change in place during the third quarter last year, is those loans are performing as expected. We haven't seen any signs of underperformance on those loans.

Moshe Orenbuch^ Right. And then just two other trends that caught my attention. I guess the first is that the loan size continues to decline over the last couple of quarters. Is there a different type of car that you're financing? Or is there something else that's going on there? And then a follow-up to that.

Jay Martin^ Yes. We've just had a different mix of consumer that's come in in recent years, and that's contributing to the size of the consumer loans. It's just a different mix of business.

Moshe Orenbuch^ Different meaning higher quality, lower quality? Because back in '23, I guess you were talking about a higher quality kind of borrower. Is this a lower quality borrower that you're seeing?

Douglas Busk^ I don't think it's a lower quality borrower. I think there's a slightly different mix of vehicles that are being financed. Again, there's been a fair amount of variability in the mix of vehicles since the start of the pandemic, so I think it's just normal volatility there.

Moshe Orenbuch^ Right. And I guess the last thing for me is that you're assuming— you've got a forecasted collection percentage that's over 65% for 2025, and it's actually higher than that for the second quarter. So it's been rising, even as you've had these nine quarters in a row of having to pull your estimates back down. I guess it's hard for me on the outside. Obviously we don't see the detail in that, but it's hard to understand that, I guess, from the outside.

Jay Martin^ Yes. When you look at the initial forecasted collection rate there, to your point, they're very similar. But again, to the point of having a different mix of business driving that; over the last few years, we've lowered our initial expectations, and, all things being equal, for the loans that were originated in '24 and '25—had we originated those back in '22, we would have had a higher expected collection rate on those. So different mix of business, but we have, as we always have, continued to adjust our expectations on the new loans to address that underperformance, and that's reflected in those initial estimates.

Operator^ And the next question will be coming from the line of John Rowan of Janney Montgomery.

John Rowan^ I guess I just want to understand the return profile, right. Your release says you've got an 8.5% return on capital, adjusted return on capital, but the cost of capital is 7.4%, which leaves a 110 basis point spread.

As you look back at some of these vintages that you've written down, are some actually generating a negative economic return? And where is that watermark?

I'm just trying to understand whether or not there is a point in time when you—I don't know I don't want to say get more realistic, but start putting loans on the books at a number that's more achievable, and whether or not you're really generating economic profit on the loans that you're putting on today, assuming that there's going to be a reduction in forecasted collections.

I know it's a loaded question, but you spent a lot of money on share repurchases in the quarter, and I'm trying to assess whether or not you're diverting capital to repurchasing shares because in reality, when you look back at these older vintages, if '24 and '25 trend that way, they're going to be generating negative economic profit.

Jay Martin^ Our business is designed to produce an acceptable return, even if our loans underperform, and to your point, if you look at the '22 vintage, that vintage has underperformed the most of any year that we presented in that collection rate table. I'll say those loans, in the aggregate, are still producing a return on capital in excess of our cost of capital, assuming that those collection expectations are accurate.

So there would be, at some point, if they continue to decline, a point where that return would fall below our weighted average cost of capital, but based on our current estimates, those are still producing economic profit. They're still profitable loans.

John Rowan^ Okay. Can you tell me how much money you spent on repurchases in the quarter, and what the plans are for repurchases going forward? Because it seems like you spent quite a bit of money in the second quarter.

Jay Brinkley^ Yes. This is Jay Brinkley. We were very active in the quarter. We bought back 530,000 shares at roughly an average price of $490.

As always, we look at ensuring that we've got adequate capital to fund new originations and then look at the share price as well. We haven't changed our view there. Volume is down as Ken mentioned, due to our pricing change and, to some degree, the competitive environment. So with year-over-year growth being slower, if you look back over a long period when originations are down, we tend to be pretty active, and that was certainly the case this quarter.

John Rowan^ What's remaining on any current authorization, and what are the plans going forward? That's it for me.

Jay Brinkley^ Yes. Under the latest authorization, we've got 391,000 shares left. I imagine based on that, we'll be going back to the board for additional capacity should the buying opportunity arise.

Operator^ (Operator Instructions) And the next question will be coming from the line of Kyle Joseph with Stephens.

Kyle Joseph^ I just wanted to talk about the competitive environment. I think in your prepared remarks, you mentioned that competition either heated up or remains intense. Just given the macro outlook, expectations with tariffs for used car prices to continue to increase, and the industry kind of reeling from the 2022 vintage, is your expectation that you'd see a little bit of a pullback from traditional providers of credit? Or did you actually see them get more aggressive post-Liberation Day? Just kind of want to get your sense for the pulse of the competitive environment.

Kenneth Booth^ The competitive environment is always hard to forecast how it's going to be going forward. Obviously our volume per dealer went down, so it does seem like the environment is more competitive over the first half of this year. Tariffs and things that drive up costs for our consumers tend to be a negative for us, both whether it's related to the vehicles or just other things that they spend money on. But it's really too early to tell what the impact will be on our business.

I do think from a volume standpoint, we had a pretty tough comparable. Last year was our highest volume year ever so when we compare it year-over-year, it's a tough comparable. We made our scorecard change last year in the middle of the third quarter. Once we get past that, we'll have an easier comparable so I think that those would be some things that might get positive going forward.

Kyle Joseph^ No. That's good color. A good reminder on the tough comps.

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. Go ahead, please.

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