

## Credit Acceptance (CACC)

**\$388.96** (As of 06/02/20)

Price Target (6-12 Months): **\$408.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

## Summary

Shares of Credit Acceptance have outperformed the industry so far this year. Yet, the company's earnings has surpassed the Zacks Consensus Estimate in only one and lagged in three of the trailing four quarters. Its first-quarter 2020 results were hurt by a significant increase in provisions. Mounting operating expenses, owing to an increase in compensation and marketing costs, are expected to hurt bottom-line growth. Deteriorating credit quality is another concern for the company. Provisions are expected to remain elevated in the quarters ahead, given loan growth. However, increase in finance charges driven by rise in demand for consumer loans will likely continue to support profits. Improvement in dealer enrollments and active dealers (despite tough competition) is a positive for the company. Steady capital deployments are commendable.

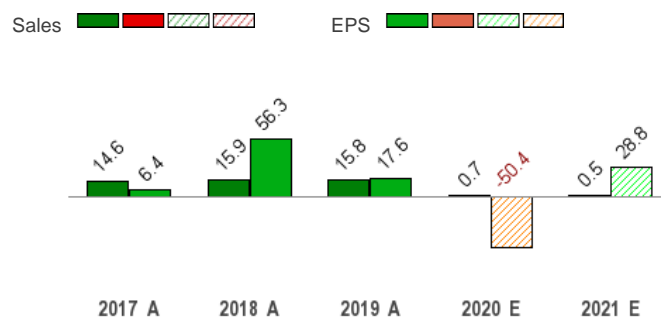
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$498.06 - \$199.00
20 Day Average Volume (sh)	259,733
Market Cap	\$7.1 B
YTD Price Change	-12.1%
Beta	1.26
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Financial - Consumer Loans</a>
Zacks Industry Rank	Bottom 6% (238 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-211.1%
Last Sales Surprise	14.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	-20.5%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	332 E	335 E	328 E	319 E	1,508 E
2020	389 A	373 E	370 E	368 E	1,500 E
2019	354 A	371 A	379 A	386 A	1,489 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.85 E	\$5.81 E	\$6.26 E	\$6.73 E	\$22.10 E
2020	-\$4.61 A	\$4.94 E	\$5.12 E	\$5.39 E	\$17.16 E
2019	\$8.08 A	\$8.68 A	\$8.73 A	\$8.60 A	\$34.57 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/02/2020. The reports text is as of 06/03/2020.

## Overview

Headquartered in Southfield, MI, Credit Acceptance Corporation is a credit services company. The company, founded in 1972, operates through one segment. The segment primarily focuses on offering financing programs, and related products and services to automobile dealers in the United States enabling them to sell vehicles to consumers irrespective of their credit history.

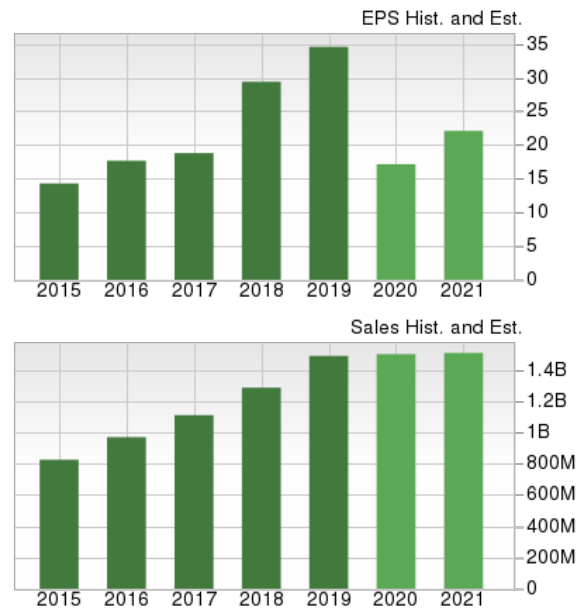
Credit Acceptance offers financing programs through a country-wide network of automobile dealers. These dealers benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for financing programs but actually end up qualifying for traditional financing.

Credit Acceptance has two loan programs:

- **Portfolio Program:** Under this, the company gives money to dealers (called Dealer Loans) in exchange for the right to service the underlying Consumer Loan.
- **Purchase Program:** Under this, the company buys Consumer Loans from the dealers (called Purchased Loan) and keeps all the money collected from the consumer.

Further, Credit Acceptance through its wholly-owned subsidiary, VSC Re Company, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by dealers on vehicles financed by the company.

As of Mar 31, 2020, the company's net loans receivable totaled \$6.6 billion, cash and cash equivalents (including restricted) were \$433.8 million and total stockholders' equity was \$2 billion.



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## Reasons To Buy:

- ▲ Revenue growth remains a major positive for Credit Acceptance. The company's top line has witnessed a six-year (2014-2019) CAGR of 15.5%, with the uptrend continuing in first-quarter 2020. Growth is primarily attributable to steady rise in finance charges, which is also the main revenue component (accounting for 93% of total revenues in the first quarter of 2020). Despite the current economic crisis resulting from the coronavirus outbreak, finance charges are likely to continue improving supported by rise in demand for auto loans. This will further aid revenue growth. A decent rise in dealer enrollments and active dealers is also expected to aid the company's top line.
- ▲ Credit Acceptance believes in returning capital to shareholders through stock repurchases instead of paying dividends. In March 2020, it authorized additional 3 million shares to be repurchased (in addition to the previous authorizations). As of Mar 31, 2020, the company had 3.1 million worth of shares left to be repurchased. Despite having a substantial debt burden, its high cash flow generating business model and low capital expenditures are likely to help sustain share buybacks going forward.
- ▲ Credit Acceptance's trailing 12-month return on equity ("ROE") reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 30.52% compares favorably with 13.91% for the industry.

Growth in revenues, primarily driven by increase in consumer loans along with a rise in dealer enrollments, remains a positive for Credit Acceptance. Its share buyback policy seems impressive.

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## Reasons To Sell:

- ▼ Credit Acceptance has been witnessing a continuous increase in expenses over the past several years. Operating expenses have increased at a CAGR of 13.9% over the last six years (2014-2019). The increase has been mainly due to a rise in salaries and wages, and sales and marketing expenses. While operating expenses declined year over year in first-quarter 2020, the same is expected to remain elevated in the near term due to the company's continued efforts to hire additional team members and sales force. Higher costs will likely hurt bottom-line growth to an extent.
- ▼ Credit Acceptance's asset quality has been deteriorating over the past few years. While provision for credit losses declined in 2018, the same witnessed a six-year (2014-2019) CAGR of 42.9%. In first-quarter 2020, provisions increased significantly owing to coronavirus-related concerns. Given the rise in loan balances and the uncertainty related to the virus outbreak, provisions are expected to remain elevated.
- ▼ As of Mar 31, 2020, Credit Acceptance had total debt worth \$4.84 billion, significantly higher than the cash and cash equivalents balance of \$497 million. Moreover, its total debt to total capital of 71.1% at the end of the first quarter of 2020 increased sequentially and is also higher than the industry average of 67.7%. This shows that the company had relatively higher credit risk when compared with peers. While its times-interest-earned ratio of 3.6 is above the industry average of 2.7, it declined in the first quarter on a sequential basis. The company's current liquidity position might not be sufficient to meet debt obligations in the future if economic situation worsens.
- ▼ Shares of Credit Acceptance have outperformed the industry so far this year. Despite this favorable trend, the company's current-year earnings estimates have been revised 12.7% lower over the past 30 days. The stock seems overvalued when compared with the broader industry. Its current price-to-book and price-to-earnings (F1) ratios are higher than the respective industry averages. Given the concerns and downward estimate revisions, the stock has limited upside potential.

Continuously increasing expenses and deteriorating credit quality remain major concerns for Credit Acceptance. Additionally, a stretched valuation might limit the stock's upside potential.

## Last Earnings Report

### Credit Acceptance Incurs Q1 Loss as Provisions Jump

Credit Acceptance incurred first-quarter 2020 loss of \$4.61 per share against the Zacks Consensus Estimate of earnings of \$4.15. The figure includes certain non-recurring items.

The results were adversely impacted by a significant increase in provisions. However, an improvement in revenues and lower expenses were tailwinds.

Excluding non-recurring items, net income (non-GAAP basis) was \$175.7 million or \$9.66 per share, up from \$153.6 million or \$8.08 per share in the prior-year quarter.

Quarter Ending **03/2020**

Report Date	May 27, 2020
Sales Surprise	14.64%
EPS Surprise	-211.08%
Quarterly EPS	-4.61
Annual EPS (TTM)	21.40

### Revenues Rise, Expenses Down

Total revenues were \$389.1 million, up 10% year over year. This increase was largely driven by a rise in finance charges. Also, the figure beat the Zacks Consensus Estimate of \$339.4 million.

Operating expenses of \$79.1 million declined 2.8% from the prior-year quarter. The decline in expenses was mainly due to lower salaries and wages.

As of Mar 31, 2020, net loans receivable amounted to \$6.6 billion, down 1% from the prior quarter. Total assets were \$7.3 billion as of the same date, declining 2% sequentially. Total stockholders' equity was \$2 billion, down 16.5% from the prior quarter.

### Credit Quality Deteriorates

Provision for credit losses surged substantially from the year-ago quarter to \$354.7 million. The rise was mainly due to the adoption of CECL on Jan 1, 2020 and the impact of a reduction in expected future cash flows from its loan portfolio.

Allowance for credit losses at first quarter-end was \$3.2 billion, up significantly year over year.

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## Valuation

Credit Acceptance's shares are down 12.1% in the year-to-date period and 19.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32% and 21.4%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 27.7% and 13.6%, respectively.

The S&P 500 Index is down 5.2% in the year-to-date period but up 9.1% in the past year.

The stock is currently trading at 20.21X forward 12 months earnings, which compares to 14.10X for the Zacks sub-industry, 16.33X for the Zacks sector and 22.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.88X and as low as 8.76X, with a 5-year median of 12.97X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$408 price target reflects 21.19X forward earnings.

The table below shows summary valuation data for CACC

Valuation Multiples - CACC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.21	14.1	16.33	22.11
	5-Year High	21.88	14.1	16.33	22.11
	5-Year Low	8.76	4.39	11.57	15.23
	5-Year Median	12.97	8.73	13.96	17.49
P/TB TTM	Current	3.6	0.77	3.21	12.03
	5-Year High	6.71	1.57	4	12.77
	5-Year Low	1.87	0.47	2	5.97
	5-Year Median	4.02	1.2	3.47	9.27
P/S F12M	Current	4.45	1	5.8	3.44
	5-Year High	6.74	2	6.69	3.44
	5-Year Low	2.64	0.72	4.98	2.53
	5-Year Median	4.96	1.5	6.06	3.02

As of 06/02/2020

## Industry Analysis Zacks Industry Rank: Bottom 6% (238 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Ally Financial Inc. (ALLY)	Neutral	4
Encore Capital Group Inc (ECPG)	Neutral	2
Ford Motor Company (F)	Neutral	3
General Motors Company (GM)	Neutral	3
Huntington Bancshares Incorporated (HBAN)	Neutral	3
PRA Group, Inc. (PRAA)	Neutral	3
Santander Consumer USA Holdings Inc. (SC)	Neutral	3
CarMax, Inc. (KMX)	Underperform	3

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	CACC	X Industry	S&P 500	ALLY	HBAN	SC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	D	C	C
Market Cap	7.06 B	522.10 M	22.11 B	6.99 B	9.33 B	5.72 B
# of Analysts	3	2	14	3	11	6
Dividend Yield	0.00%	0.00%	1.93%	4.06%	6.52%	4.94%
Value Score	D	-	-	B	B	A
Cash/Price	0.07	0.77	0.06	0.95	0.22	0.47
EV/EBITDA	10.54	6.10	12.69	6.10	7.51	9.44
PEG Ratio	1.50	0.46	2.98	NA	4.34	NA
Price/Book (P/B)	3.59	0.86	3.07	0.52	0.88	1.11
Price/Cash Flow (P/CF)	10.74	3.23	11.86	2.35	5.29	2.08
P/E (F1)	23.94	9.89	21.79	37.69	21.35	NA
Price/Sales (P/S)	4.63	0.83	2.29	1.13	1.67	0.72
Earnings Yield	4.41%	6.28%	4.39%	2.67%	4.67%	-0.73%
Debt/Equity	2.42	2.30	0.76	2.30	0.93	7.82
Cash Flow (\$/share)	36.22	4.49	7.01	7.96	1.74	8.57
Growth Score	C	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	24.10%	10.98%	10.87%	15.39%	10.88%	1.28%
Proj. EPS Growth (F1/F0)	-50.35%	-38.76%	-10.74%	-86.65%	-66.07%	-104.37%
Curr. Cash Flow Growth	18.61%	17.70%	5.48%	-1.59%	-4.72%	20.07%
Hist. Cash Flow Growth (3-5 yrs)	19.03%	9.07%	8.55%	-4.75%	12.14%	25.86%
Current Ratio	28.62	3.42	1.29	0.99	0.89	63.41
Debt/Capital	70.76%	68.95%	44.75%	69.68%	45.42%	88.66%
Net Margin	26.76%	8.29%	10.59%	16.46%	19.65%	9.32%
Return on Equity	30.52%	13.91%	16.29%	6.92%	10.40%	10.95%
Sales/Assets	0.21	0.24	0.55	0.03	0.05	0.17
Proj. Sales Growth (F1/F0)	0.75%	0.00%	-2.67%	-6.62%	-1.61%	0.12%
Momentum Score	D	-	-	D	F	F
Daily Price Chg	-1.19%	0.69%	0.99%	1.57%	1.10%	-0.61%
1 Week Price Chg	10.45%	2.77%	4.60%	9.75%	9.82%	6.85%
4 Week Price Chg	27.12%	10.39%	9.15%	25.30%	11.11%	17.96%
12 Week Price Chg	-10.61%	-15.59%	4.65%	-16.47%	-7.72%	-16.28%
52 Week Price Chg	-19.45%	-29.22%	-0.30%	-37.27%	-31.19%	-23.21%
20 Day Average Volume	259,733	302,085	2,486,038	5,862,365	9,546,757	992,295
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.21%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.75%	-0.33%	24.17%	-2.47%	-259.57%
(F1) EPS Est 12 week change	-4.30%	-37.21%	-16.13%	-88.33%	-66.55%	-104.52%
(Q1) EPS Est Mthly Chg	0.00%	-7.69%	-0.55%	12.65%	-2.30%	-54.55%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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