**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**

# FORM 8-K

**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): May 1, 2023

# CREDIT ACCEPTANCE CORPORATION

(Exact name of registrant as specified in its charter)

| Michigan | 000-20202 | 38-1999511 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| 25505 West Twelve Mile Road<br>Southfield, Michigan | 48034-8339 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant’s telephone number, including area code: (248) 353-2700

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $.01 par value | CACC | The Nasdaq Stock Market |

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

**Item 2.02. Results of Operations and Financial Condition.**

On May 1, 2023, Credit Acceptance Corporation (the "Company") issued a press release announcing its financial results for the three months ended March 31, 2023 and details for the related May 1, 2023 webcast. The press release is attached as Exhibit 99.1 to this Form 8-K and incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

| Exhibit No. | Description |
|---|---|
| 99.1 | Press Release dated May 1, 2023. |
| 104 | Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CREDIT ACCEPTANCE CORPORATION

Date: May 1, 2023

By: /s/ Jay D. Martin
Jay D. Martin
Senior Vice President, Finance and Accounting

**Credit Acceptance**
**25505 West Twelve Mile Road**
**Southfield, MI 48034-8339**
**(248) 353-2700**
**creditacceptance.com**

**NEWS RELEASE**

**FOR IMMEDIATE RELEASE**

**Date: May 1, 2023**

**Investor Relations: Douglas W. Busk**
**Chief Treasury Officer**
**(248) 353-2700 Ext. 4432**
**IR@creditacceptance.com**

**Nasdaq Symbol: CACC**

# CREDIT ACCEPTANCE ANNOUNCES FIRST QUARTER 2023 RESULTS

**Southfield, Michigan – May 1, 2023 – Credit Acceptance Corporation (Nasdaq: CACC)** (referred to as the "Company", "Credit Acceptance", "we", "our", or "us") today announced consolidated net income of $99.5 million, or $7.61 per diluted share, for the three months ended March 31, 2023 compared to consolidated net income of $214.3 million, or $14.94 per diluted share, for the same period in 2022.

Adjusted net income, a non-GAAP financial measure, for the three months ended March 31, 2023 was $127.0 million, or $9.71 per diluted share, compared to $197.3 million, or $13.76 per diluted share, for the same period in 2022.
Our results for the first quarter of 2023 included:

- Forecasted profitability per Consumer Loan assignment for Consumer Loans assigned in 2020 through 2022 that was lower than our estimates at March 31, 2022, due to a decline in forecasted collection rates during the last three quarters of 2022 and slower net cash flow timing during the first quarter of 2023, primarily as a result of a decrease in Consumer Loan prepayments.
- Stable forecasted collection rates during the first quarter of 2023, with forecasted net cash flows from our loan portfolio increasing by $9.4 million, or 0.1%. In comparison, our results for the first quarter of 2022 reflected elevated Consumer Loan performance that followed the distribution of federal stimulus payments and enhanced unemployment benefits.
- Growth in Consumer Loan assignment volume, as unit and dollar volumes grew 22.8% and 18.6%, respectively, as compared to the first quarter of 2022. The average balance of our loan portfolio on a GAAP and adjusted basis for the first quarter of 2023 increased 0.8% and 5.1%, respectively, as compared to the first quarter of 2022. The average balance of our loan portfolio on a GAAP and adjusted basis for the first quarter of 2023 increased 1.0% and 1.3%, respectively, as compared to the fourth quarter of 2022.
- Initial spread on Consumer Loans assigned in the first quarter of 2023 was 21.0% compared to 19.4% on Consumer Loans assigned in the first quarter of 2022 and 20.9% on Consumer Loans assigned in the fourth quarter of 2022.
- Growth in operating expenses of 14.4% as compared to the first quarter of 2022 primarily due to an increase in the number of team members in our engineering department as we are investing in our business to enhance our product and transform our technology systems to be more dealer- and customer-focused.

**Consumer Loan Metrics**

Dealers assign retail installment contracts (referred to as "Consumer Loans") to Credit Acceptance. At the time a Consumer Loan is submitted to us for assignment, we forecast future expected cash flows from the Consumer Loan. Based on the amount and timing of these forecasts and expected expense levels, an advance or one-time purchase payment is made to the related dealer at a price designed to maximize economic profit, a non-GAAP financial measure that considers our return on capital, our cost of capital, and the amount of capital invested.

We use a statistical model to estimate the expected collection rate for each Consumer Loan at the time of assignment. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. By comparing our current expected collection rate for each Consumer Loan with the rate we projected at the time of assignment, we are able to assess the accuracy of our initial forecast. The following table compares our forecast of Consumer Loan collection rates as of March 31, 2023, with the forecasts as of December 31, 2022 and at the time of assignment, segmented by year of assignment:

| | Forecasted Collection Percentage as of (1) | | | Current Forecast Variance from | |
|---|---|---|---|---|---|
| Consumer Loan Assignment Year | March 31, 2023 | December 31, 2022 | Initial Forecast | December 31, 2022 | Initial Forecast |
| 2014 | 71.7 % | 71.7 % | 71.8 % | 0.0 % | -0.1 % |
| 2015 | 65.2 % | 65.2 % | 67.7 % | 0.0 % | -2.5 % |
| 2016 | 63.8 % | 63.8 % | 65.4 % | 0.0 % | -1.6 % |
| 2017 | 64.7 % | 64.7 % | 64.0 % | 0.0 % | 0.7 % |
| 2018 | 65.3 % | 65.2 % | 63.6 % | 0.1 % | 1.7 % |
| 2019 | 66.8 % | 66.6 % | 64.0 % | 0.2 % | 2.8 % |
| 2020 | 67.9 % | 67.8 % | 63.4 % | 0.1 % | 4.5 % |
| 2021 | 66.0 % | 66.2 % | 66.3 % | -0.2 % | -0.3 % |
| 2022 | 66.0 % | 66.3 % | 67.5 % | -0.3 % | -1.5 % |
| 2023 | 67.2 % | — | 67.1 % | — | 0.1 % |

(1) Represents the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.

Consumer Loans assigned in 2018 through 2020 have yielded forecasted collection results significantly better than our initial estimates, while Consumer Loans assigned in 2015, 2016, and 2022 have yielded forecasted collection results significantly worse than our initial estimates. For all other assignment years presented, actual results have been close to our initial estimates. For the three months ended March 31, 2023, forecasted collection rates improved for Consumer Loans assigned in 2019, declined for Consumer Loans assigned in 2021 and 2022, and were generally consistent with expectations at the start of the period for all other assignment years presented.

The changes in forecasted collection rates for the three months ended March 31, 2023 and 2022 impacted forecasted net cash flows (forecasted collections less forecasted dealer holdback payments) as follows:

| (In millions) | For the Three Months Ended March 31, | |
|---|---|---|
| Increase (Decrease) in Forecasted Net Cash Flows | 2023 | 2022 |
| Dealer loans | $ (7.2) | $ 33.9 |
| Purchased loans | 16.6 | 76.3 |
| Total | $ 9.4 | $ 110.2 |

The following table presents information on the average Consumer Loan assignment for each of the last 10 years:

| | Average | | |
|---|---|---|---|
| Consumer Loan Assignment Year | Consumer Loan (1) | Advance (2) | Initial Loan Term (in months) |
| 2014 | $ 15,692 | $ 7,492 | 47 |
| 2015 | 16,354 | 7,272 | 50 |
| 2016 | 18,218 | 7,976 | 53 |
| 2017 | 20,230 | 8,746 | 55 |
| 2018 | 22,158 | 9,635 | 57 |
| 2019 | 23,139 | 10,174 | 57 |
| 2020 | 24,262 | 10,656 | 59 |
| 2021 | 25,632 | 11,790 | 59 |
| 2022 | 27,242 | 12,924 | 60 |
| 2023 | 26,592 | 12,268 | 61 |

(1) Represents the repayments that we were contractually owed on Consumer Loans at the time of assignment, which include both principal and interest.
(2) Represents advances paid to dealers on Consumer Loans assigned under our portfolio program and one-time payments made to dealers to purchase Consumer Loans assigned under our purchase program. Payments of dealer holdback and accelerated dealer holdback are not included.

The profitability of our loans is primarily driven by the amount and timing of the net cash flows we receive from the spread between the forecasted collection rate and the advance rate, less operating expenses and the cost of capital. Forecasting collection rates accurately at loan inception is difficult. With this in mind, we establish advance rates that are intended to allow us to achieve acceptable levels of profitability, even if collection rates are less than we initially forecast.

The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that had been realized as of March 31, 2023, as well as the forecasted collection rates and spread at the time of assignment. All amounts, unless otherwise noted, are presented as a percentage of the initial balance of the Consumer Loan (principal + interest). The table includes both dealer loans and purchased loans.

| | Forecasted Collection % as of | | | Spread % as of | | |
|---|---|---|---|---|---|---|
| **Consumer Loan Assignment Year** | **March 31, 2023** | **Initial Forecast** | **Advance % (1)** | **March 31, 2023** | **Initial Forecast** | **% of Forecast Realized (2)** |
| 2014 | 71.7 % | 71.8 % | 47.7 % | 24.0 % | 24.1 % | 99.6 % |
| 2015 | 65.2 % | 67.7 % | 44.5 % | 20.7 % | 23.2 % | 99.2 % |
| 2016 | 63.8 % | 65.4 % | 43.8 % | 20.0 % | 21.6 % | 98.8 % |
| 2017 | 64.7 % | 64.0 % | 43.2 % | 21.5 % | 20.8 % | 97.8 % |
| 2018 | 65.3 % | 63.6 % | 43.5 % | 21.8 % | 20.1 % | 94.1 % |
| 2019 | 66.8 % | 64.0 % | 44.0 % | 22.8 % | 20.0 % | 86.4 % |
| 2020 | 67.9 % | 63.4 % | 43.9 % | 24.0 % | 19.5 % | 73.8 % |
| 2021 | 66.0 % | 66.3 % | 46.0 % | 20.0 % | 20.3 % | 53.9 % |
| 2022 | 66.0 % | 67.5 % | 47.4 % | 18.6 % | 20.1 % | 22.4 % |
| 2023 | 67.2 % | 67.1 % | 46.1 % | 21.1 % | 21.0 % | 2.5 % |

(1) Represents advances paid to dealers on Consumer Loans assigned under our portfolio program and one-time payments made to dealers to purchase Consumer Loans assigned under our purchase program as a percentage of the initial balance of the Consumer Loans. Payments of dealer holdback and accelerated dealer holdback are not included.

(2) Presented as a percentage of total forecasted collections.

The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2018 and prior Consumer Loan assignments, the risk of a material forecast variance is modest, as we have currently realized in excess of 90% of the expected collections. Conversely, the forecasted collection rates for more recent Consumer Loan assignments are less certain as a significant portion of our forecast has not been realized.

The spread between the forecasted collection rate as of March 31, 2023 and the advance rate ranges from 18.6% to 24.0%, on an annual basis, for Consumer Loans assigned over the last 10 years. The spreads with respect to 2019 and 2020 Consumer Loans have been positively impacted by Consumer Loan performance, which has exceeded our initial estimates by a greater margin than the other years presented. The higher spread for 2023 Consumer Loans relative to 2022 Consumer Loans as of March 31, 2023 is primarily due to Consumer Loan performance, as the performance of the 2022 Consumer Loans has been significantly lower than our initial estimates. Additionally, 2023 Consumer Loans had a higher initial spread, due to the advance rate decreasing by a greater margin than the initial forecast.

The following table compares our forecast of Consumer Loan collection rates as of March 31, 2023 with the forecasts at the time of assignment, for dealer loans and purchased loans separately:

| | Dealer Loans | | | Purchased Loans | | |
|---|---|---|---|---|---|---|
| | Forecasted Collection Percentage as of (1) | | | Forecasted Collection Percentage as of (1) | | |
| Consumer Loan Assignment Year | March 31, 2023 | Initial Forecast | Variance | March 31, 2023 | Initial Forecast | Variance |
| 2014 | 71.6 % | 71.9 % | -0.3 % | 72.5 % | 70.9 % | 1.6 % |
| 2015 | 64.5 % | 67.5 % | -3.0 % | 68.9 % | 68.5 % | 0.4 % |
| 2016 | 63.0 % | 65.1 % | -2.1 % | 66.0 % | 66.5 % | -0.5 % |
| 2017 | 64.0 % | 63.8 % | 0.2 % | 66.3 % | 64.6 % | 1.7 % |
| 2018 | 64.8 % | 63.6 % | 1.2 % | 66.6 % | 63.5 % | 3.1 % |
| 2019 | 66.5 % | 63.9 % | 2.6 % | 67.5 % | 64.2 % | 3.3 % |
| 2020 | 67.7 % | 63.3 % | 4.4 % | 68.1 % | 63.6 % | 4.5 % |
| 2021 | 65.8 % | 66.3 % | -0.5 % | 66.5 % | 66.3 % | 0.2 % |
| 2022 | 65.4 % | 67.3 % | -1.9 % | 67.4 % | 68.0 % | -0.6 % |
| 2023 | 66.8 % | 66.8 % | 0.0 % | 68.2 % | 68.0 % | 0.2 % |

(1) The forecasted collection rates presented for dealer loans and purchased loans reflect the Consumer Loan classification at the time of assignment. The forecasted collection rates represent the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.

The following table presents forecasted Consumer Loan collection rates, advance rates, and the spread (the forecasted collection rate less the advance rate) as of March 31, 2023 for dealer loans and purchased loans separately. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

| | Dealer Loans | | | Purchased Loans | | |
|---|---|---|---|---|---|---|
| Consumer Loan Assignment Year | Forecasted Collection % (1) | Advance % (1)(2) | Spread % | Forecasted Collection % (1) | Advance % (1)(2) | Spread % |
| 2014 | 71.6 % | 47.2 % | 24.4 % | 72.5 % | 51.8 % | 20.7 % |
| 2015 | 64.5 % | 43.4 % | 21.1 % | 68.9 % | 50.2 % | 18.7 % |
| 2016 | 63.0 % | 42.1 % | 20.9 % | 66.0 % | 48.6 % | 17.4 % |
| 2017 | 64.0 % | 42.1 % | 21.9 % | 66.3 % | 45.8 % | 20.5 % |
| 2018 | 64.8 % | 42.7 % | 22.1 % | 66.6 % | 45.2 % | 21.4 % |
| 2019 | 66.5 % | 43.1 % | 23.4 % | 67.5 % | 45.6 % | 21.9 % |
| 2020 | 67.7 % | 43.0 % | 24.7 % | 68.1 % | 45.5 % | 22.6 % |
| 2021 | 65.8 % | 45.1 % | 20.7 % | 66.5 % | 47.7 % | 18.8 % |
| 2022 | 65.4 % | 46.4 % | 19.0 % | 67.4 % | 50.1 % | 17.3 % |
| 2023 | 66.8 % | 44.9 % | 21.9 % | 68.2 % | 49.0 % | 19.2 % |

(1) The forecasted collection rates and advance rates presented for dealer loans and purchased loans reflect the Consumer Loan classification at the time of assignment.
(2) Represents advances paid to dealers on Consumer Loans assigned under our portfolio program and one-time payments made to dealers to purchase Consumer Loans assigned under our purchase program as a percentage of the initial balance of the Consumer Loans. Payments of dealer holdback and accelerated dealer holdback are not included.

Although the advance rate on purchased loans is higher as compared to the advance rate on dealer loans, purchased loans do not require us to pay dealer holdback.

The spread as of March 31, 2023 on 2023 dealer loans was 21.9%, as compared to a spread of 19.0% on 2022 dealer loans, primarily as a result of Consumer Loan performance, as the performance of 2022 Consumer Loans in our dealer loan portfolio has been significantly lower than our initial estimates. Additionally, 2023 Consumer Loans in our dealer loan portfolio had a higher initial spread, due to the advance rate decreasing by a greater margin than the initial forecast. The spread as of March 31, 2023 on 2023 purchased loans was 19.2%, as compared to a spread of 17.3% on 2022 purchased loans, primarily as a result of a higher initial spread on 2023 Consumer Loans in our purchased loan portfolio, due to the lower advance rate on 2023 purchased loans relative to the advance rate on 2022 purchased loans. Additionally, the performance of 2022 Consumer Loans in our purchased loan portfolio has been lower than our initial estimates.

**Consumer Loan Volume**

The following table summarizes changes in Consumer Loan assignment volume in each of the last five quarters as compared to the same period in the previous year:

| | Year over Year Percent Change | |
|---|---|---|
| **Three Months Ended** | **Unit Volume** | **Dollar Volume (1)** |
| March 31, 2022 | -22.1 % | -10.5 % |
| June 30, 2022 | 5.1 % | 22.0 % |
| September 30, 2022 | 29.3 % | 32.1 % |
| December 31, 2022 | 25.6 % | 26.2 % |
| March 31, 2023 | 22.8 % | 18.6 % |

(1) Represents advances paid to dealers on Consumer Loans assigned under our portfolio program and one-time payments made to dealers to purchase Consumer Loans assigned under our purchase program. Payments of dealer holdback and accelerated dealer holdback are not included.

Consumer Loan assignment volumes depend on a number of factors including (1) the overall demand for our financing programs, (2) the amount of capital available to fund new loans, and (3) our assessment of the volume that our infrastructure can support. Our pricing strategy is intended to maximize the amount of economic profit we generate, within the confines of capital and infrastructure constraints.

Unit and dollar volumes grew 22.8% and 18.6%, respectively, during the first quarter of 2023 as the number of active dealers grew 18.1% and the average unit volume per active dealer grew 4.5%. Dollar volume increased less than unit volume during the first quarter of 2023 due to a decrease in the average advance paid, primarily due to a decrease in the average advance rate. Unit volume for April 2023 grew 13.9% compared to unit volume for April 2022. April 2023 was negatively impacted as it had one less business day as compared to the same period in 2022 (26 business days in April 2022 compared to 25 business days in April 2023).

The following table summarizes the changes in Consumer Loan unit volume and active dealers:

| | For the Three Months Ended March 31, | | |
|---|---|---|---|
| | 2023 | 2022 | % Change |
| Consumer Loan unit volume | 89,821 | 73,116 | 22.8 % |
| Active dealers (1) | 9,775 | 8,275 | 18.1 % |
| Average volume per active dealer | 9.2 | 8.8 | 4.5 % |
| | | | |
| Consumer Loan unit volume from dealers active both periods | 68,543 | 62,998 | 8.8 % |
| Dealers active both periods | 6,090 | 6,090 | — |
| Average volume per dealer active both periods | 11.3 | 10.3 | 8.8 % |
| | | | |
| Consumer loan unit volume from dealers not active both periods | 21,278 | 10,118 | 110.3 % |
| Dealers not active both periods | 3,685 | 2,185 | 68.6 % |
| Average volume per dealer not active both periods | 5.8 | 4.6 | 26.1 % |

(1) Active dealers are dealers who have received funding for at least one Consumer Loan during the period.

The following table provides additional information on the changes in Consumer Loan unit volume and active dealers:

| | For the Three Months Ended March 31, | | |
|---|---|---|---|
| | 2023 | 2022 | % Change |
| Consumer Loan unit volume from new active dealers | 5,268 | 2,613 | 101.6 % |
| New active dealers (1) | 1,158 | 688 | 68.3 % |
| Average volume per new active dealer | 4.5 | 3.8 | 18.4 % |
| | | | |
| Attrition (2) | -13.8 % | -14.1 % | |

(1) New active dealers are dealers who enrolled in our program and have received funding for their first dealer loan or purchased loan from us during the period.
(2) Attrition is measured according to the following formula: decrease in Consumer Loan unit volume from dealers who have received funding for at least one dealer loan or purchased loan during the comparable period of the prior year but did not receive funding for any dealer loans or purchased loans during the current period divided by prior year comparable period Consumer Loan unit volume.

The following table shows the percentage of Consumer Loans assigned to us as dealer loans and purchased loans for each of the last five quarters:

| | Unit Volume | | Dollar Volume (1) | |
|---|---|---|---|---|
| Three Months Ended | Dealer Loans | Purchased Loans | Dealer Loans | Purchased Loans |
| March 31, 2022 | 72.7 % | 27.3 % | 68.6 % | 31.4 % |
| June 30, 2022 | 74.0 % | 26.0 % | 70.4 % | 29.6 % |
| September 30, 2022 | 74.3 % | 25.7 % | 70.5 % | 29.5 % |
| December 31, 2022 | 73.1 % | 26.9 % | 69.6 % | 30.4 % |
| March 31, 2023 | 72.1 % | 27.9 % | 68.1 % | 31.9 % |

(1) Represents advances paid to dealers on Consumer Loans assigned under our portfolio program and one-time payments made to dealers to purchase Consumer Loans assigned under our purchase program. Payments of dealer holdback and accelerated dealer holdback are not included.

As of March 31, 2023 and December 31, 2022, the net dealer loans receivable balance was 65.2% and 64.7%, respectively, of the total net loans receivable balance.

## Financial Results

| (Dollars in millions, except per share data) | For the Three Months Ended March 31, | | |
|---|---|---|---|
| | 2023 | 2022 | % Change |
| GAAP average debt | $ 4,594.7 | $ 4,589.4 | 0.1 % |
| GAAP average shareholders' equity | 1,673.3 | 1,828.1 | -8.5 % |
| Average capital | $ 6,268.0 | $ 6,417.5 | -2.3 % |
| GAAP net income | $ 99.5 | $ 214.3 | -53.6 % |
| Diluted weighted average shares outstanding | 13,073,316 | 14,341,523 | -8.8 % |
| GAAP net income per diluted share | $ 7.61 | $ 14.94 | -49.1 % |

The decrease in GAAP net income for the three months ended March 31, 2023, as compared to the same period in 2022, was primarily the result of the following:

- An increase in provision for credit losses of 489.7% ($114.1 million), primarily due to an increase in provision for credit losses on forecast changes of $123.6 million, primarily due to an improvement in Consumer Loan performance during the first quarter of 2022. During the first quarter of 2023, we increased our estimate of future net cash flows by $9.4 million, or 0.1%, to reflect stable forecasted collection rates during the period; however, we recognized a $44.3 million provision for credit losses on forecast changes due to slower net cash flow timing primarily as a result of a decrease in Consumer Loan prepayments. Historically, Consumer Loan prepayments have been lower in periods with less availability of consumer credit. During the first quarter of 2022, we increased our estimate of future net cash flows by $110.2 million, or 1.2%, to reflect an improvement in Consumer Loan performance during the period. The results for the first quarter of 2022 included the impact of forecasting methodology changes, which upon implementation increased our estimate of future net cash flows by $95.7 million and reduced our provision for credit losses by $70.6 million. The following table summarizes each component of provision for credit losses:

| (In millions) | For the Three Months Ended March 31, | | |
|---|---|---|---|
| Provision for Credit Losses | 2023 | 2022 | Change |
| New Consumer Loan assignments | $ 93.1 | $ 102.6 | $ (9.5 |
| Forecast changes | 44.3 | (79.3) | 123. |
| Total | $ 137.4 | $ 23.3 | $ 114. |

- An increase in interest expense of 49.0% ($17.9 million), primarily due to an increase in our average cost of debt, which was primarily the result of higher interest rates on recently-completed secured financings.
- An increase in operating expenses of 14.4% ($14.8 million), primarily due to an increase in salaries and wages expense of 19.9% ($12.8 million). The increase was primarily due to an increase in the number of team members in our engineering department as we are investing in our business to enhance our product and transform our technology systems to be more dealer- and customer-focused.
- An increase in provision for claims of 101.1% ($9.0 million), primarily due to an increase in claims paid per reinsured vehicle service contract and an increase in the size of our reinsurance portfolio.
- A decrease in provision for income taxes of 61.1% ($42.9 million), primarily due to a decrease in taxable income.

Adjusted financial results are provided to help shareholders understand our financial performance. The financial data below is non-GAAP, unless labeled otherwise. We use adjusted financial information internally to measure financial performance and to determine certain incentive compensation. We also use economic profit as a framework to evaluate business decisions and strategies, with the objective to maximize economic profit over the long term. In addition, effective January 1, 2020, certain debt facilities utilize adjusted financial information for the determination of loan collateral values. The table below shows our results following adjustments to reflect non-GAAP accounting methods. Material adjustments are explained in the table footnotes and the subsequent "Floating Yield Adjustment" and "Senior Notes Adjustment" sections. Measures such as adjusted average capital, adjusted net income, adjusted net income per diluted share, adjusted interest expense (after-tax), adjusted net income plus interest expense (after-tax), adjusted return on capital, adjusted revenue, operating expenses, adjusted loans receivable, economic profit, and economic profit per diluted share are all non-GAAP financial measures. These non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

Adjusted financial results for the three months ended March 31, 2023, compared to the same period in 2022, include the following:

| (Dollars in millions, except per share data) | For the Three Months Ended March 31, | | |
|---|---|---|---|
| | 2023 | 2022 | % Change |
| Adjusted average capital | $ 6,551.8 | $ 6,488.2 | 1.0 % |
| Adjusted net income | $ 127.0 | $ 197.3 | -35.6 % |
| Adjusted interest expense (after-tax) | $ 42.4 | $ 28.6 | 48.3 % |
| Adjusted net income plus interest expense (after-tax) | $ 169.4 | $ 225.9 | -25.0 % |
| Adjusted return on capital | 10.3 % | 13.9 % | -25.9 % |
| Cost of capital | 6.6 % | 5.2 % | 26.9 % |
| Economic profit | $ 61.4 | $ 141.6 | -56.6 % |
| Diluted weighted average shares outstanding | 13,073,316 | 14,341,523 | -8.8 % |
| Adjusted net income per diluted share | $ 9.71 | $ 13.76 | -29.4 % |
| Economic profit per diluted share | $ 4.70 | $ 9.87 | -52.4 % |

Economic profit decreased 56.6% for the three months ended March 31, 2023, as compared to the same period in 2022. Economic profit is a function of the return on capital in excess of the cost of capital and the amount of capital invested in the business. The following table summarizes the impact each of these components had on the changes in economic profit for the three months ended March 31, 2023, as compared to the same period in 2022:

| (In millions) | Year over Year Change in Economic Profit |
|---|---|
| | For the Three Months Ended March 31, 2023 |
| Decrease in adjusted return on capital | $ (58.8) |
| Increase in cost of capital | (22.8) |
| Increase in adjusted average capital | 1.4 |
| Decrease in economic profit | $ (80.2) |

The decrease in economic profit for the three months ended March 31, 2023, as compared to the same period in 2022, was primarily the result of the following:

- A decrease in our adjusted return on capital of 360 basis points, primarily due to:
  - A decrease in the yield used to recognize adjusted finance charges on our loan portfolio decreased our adjusted return on capital by 250 basis points, primarily due to a decline in forecasted collection rates during the last three quarters of 2022, slower net cash flow timing during the first quarter of 2023, primarily as a result of a decrease in Consumer Loan prepayments, and lower yields on more recent Consumer Loan assignments.
  - An increase in operating expenses decreased our adjusted return on capital by 70 basis points as operating expenses increased by 14.4% while adjusted average capital increased by 1.0%. The increase in operating expenses was primarily due to an increase in the number of team members in our engineering department as we are investing in our business to enhance our product and transform our technology systems to be more dealer- and customer-focused.
- An increase in our cost of capital, primarily due to an increase in the 30-year Treasury rate, which is used in the average cost of equity calculation, and an increase in our cost of debt.

The following table shows adjusted revenue and operating expenses as a percentage of adjusted average capital, the adjusted return on capital, and the percentage change in adjusted average capital for each of the last eight quarters, compared to the same period in the prior year:

| | For the Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar. 31, 2023** | **Dec. 31, 2022** | **Sept. 30, 2022** | **Jun. 30, 2022** | **Mar. 31, 2022** | **Dec. 31, 2021** | **Sept. 30, 2021** | **Jun. 30, 2021** |
| Adjusted revenue as a percentage of adjusted average capital (1) | 20.6 % | 22.0 % | 23.4 % | 24.9 % | 24.4 % | 25.3 % | 24.0 % | 22.4 % |
| Operating expenses as a percentage of adjusted average capital (1) | 7.2 % | 6.4 % | 6.4 % | 7.3 % | 6.3 % | 6.3 % | 5.5 % | 3.8 % |
| Adjusted return on capital (1) | 10.3 % | 12.0 % | 13.1 % | 13.6 % | 13.9 % | 14.6 % | 14.2 % | 14.3 % |
| Percentage change in adjusted average capital compared to the same period in the prior year | 1.0 % | -2.4 % | -8.2 % | -12.8 % | -10.7 % | -7.3 % | -2.2 % | 4.1 % |

(1) Annualized.

The decrease in adjusted return on capital for the three months ended March 31, 2023, as compared to the three months ended December 31, 2022, was primarily due to:

- Faster growth in operating expenses, which decreased adjusted return on capital by 60 basis points, as operating expenses increased 12.9% while adjusted average capital grew 0.9%. The $13.4 million increase in operating expenses was primarily due to the seasonal impact of the following:
  - An increase in fringe benefits, primarily due to an increase in accrued paid time off.
  - An increase in payroll taxes as a result of both taxes that are subject to income limitations and the taxes on the annual vesting of equity awards during the first quarter of the year.
  - An increase in sales commissions driven by higher Consumer Loan assignment unit volume during the first quarter of the year.
- A decrease in adjusted revenue, which decreased our adjusted return on capital by 80 basis points, primarily due to:
  - A decrease in other income of 40.9% ($10.6 million), which decreased our adjusted return on capital by 50 basis points, primarily due to a decrease in ancillary product profit-sharing on Guaranteed Asset Protection ("GAP") contracts, due to:
    - A decrease of $5.9 million in the first quarter of 2023 due to income recognized in the fourth quarter of 2022 related to an inception-to-date adjustment to our premium recognition timing based on historical claims experience.
    - A decrease of $4.8 million in GAP profit sharing income in the first quarter of 2023 compared to the fourth quarter of 2022, due to increases in average claim rates and the number of claims on GAP contracts.
  - A decrease in the yield used to recognize adjusted finance charges on our loan portfolio, which decreased our adjusted return on capital by 30 basis points, primarily due to a decline in forecasted collection rates during the fourth quarter of 2022, slower net cash flow timing during the first quarter of 2023, primarily as a result of a decrease in Consumer Loan prepayments, and lower yields on more recent Consumer Loan assignments.

The following tables provide a reconciliation of non-GAAP measures to GAAP measures. Certain amounts do not recalculate due to rounding.

| (Dollars in millions, except per share data) | For the Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar. 31, 2023 | Dec. 31, 2022 | Sept. 30, 2022 | Jun. 30, 2022 | Mar. 31, 2022 | Dec. 31, 2021 | Sept. 30, 2021 | Jun. 30, 2021 |
| **Adjusted net income** | | | | | | | | |
| GAAP net income | $ 99.5 | $ 127.3 | $ 86.8 | $ 107.4 | $ 214.3 | $ 217.6 | $ 250.0 | $ 288.6 |
| Floating yield adjustment (after-tax) | (75.9) | (69.3) | (53.7) | (34.3) | (39.2) | (26.1) | (29.8) | (37.9) |
| GAAP provision for credit losses (after-tax) | 105.8 | 100.4 | 138.7 | 113.6 | 18.0 | 20.0 | (6.4) | (23.5) |
| Senior notes adjustment (after-tax) | (0.5) | (0.5) | (0.5) | (0.6) | (0.5) | (0.5) | (0.5) | (0.6) |
| Income tax adjustment (1) | (1.9) | (1.8) | 7.2 | 2.1 | 4.7 | 1.6 | 5.8 | 3.7 |
| Adjusted net income | $ 127.0 | $ 156.1 | $ 178.5 | $ 188.2 | $ 197.3 | $ 212.6 | $ 219.1 | $ 230.3 |
| | | | | | | | | |
| Adjusted net income per diluted share (2) | $ 9.71 | $ 11.74 | $ 13.36 | $ 13.92 | $ 13.76 | $ 14.26 | $ 13.84 | $ 13.71 |
| Diluted weighted average shares outstanding | 13,073,316 | 13,294,506 | 13,364,160 | 13,517,979 | 14,341,523 | 14,904,836 | 15,829,166 | 16,794,279 |
| | | | | | | | | |
| **Adjusted revenue** | | | | | | | | |
| GAAP total revenue | $ 453.8 | $ 459.0 | $ 460.3 | $ 457.4 | $ 455.7 | $ 463.2 | $ 470.1 | $ 471.7 |
| Floating yield adjustment | (98.4) | (90.0) | (69.8) | (44.5) | (50.9) | (33.9) | (38.5) | (49.4) |
| GAAP provision for claims | (17.9) | (12.4) | (12.9) | (12.2) | (8.9) | (9.5) | (10.0) | (10.3) |
| Adjusted revenue | $ 337.5 | $ 356.6 | $ 377.6 | $ 400.7 | $ 395.9 | $ 419.8 | $ 421.6 | $ 412.0 |
| | | | | | | | | |
| **Adjusted average capital** | | | | | | | | |
| GAAP average debt | $ 4,594.7 | $ 4,591.1 | $ 4,705.9 | $ 4,772.9 | $ 4,589.4 | $ 4,671.2 | $ 4,676.6 | $ 4,750.3 |
| Deferred debt issuance adjustment | 21.2 | 21.3 | 22.6 | 22.5 | 24.9 | 27.8 | 28.6 | 30.4 |
| Senior notes debt adjustment | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Adjusted average debt | 4,619.3 | 4,615.8 | 4,731.9 | 4,798.8 | 4,617.7 | 4,702.4 | 4,708.6 | 4,784.1 |
| GAAP average shareholders' equity | 1,673.3 | 1,635.2 | 1,547.8 | 1,538.8 | 1,828.1 | 1,865.7 | 2,224.5 | 2,443.6 |
| Senior notes equity adjustment | 4.0 | 4.5 | 5.0 | 5.5 | 6.0 | 6.6 | 7.1 | 7.6 |
| Income tax adjustment (3) | (118.5) | (118.5) | (118.5) | (118.5) | (118.5) | (118.5) | (118.5) | (118.5) |
| Floating yield adjustment | 373.7 | 353.2 | 290.5 | 204.7 | 154.9 | 192.0 | 208.1 | 253.3 |
| Adjusted average equity | 1,932.5 | 1,874.4 | 1,724.8 | 1,630.5 | 1,870.5 | 1,945.8 | 2,321.2 | 2,586.0 |
| Adjusted average capital | $ 6,551.8 | $ 6,490.2 | $ 6,456.7 | $ 6,429.3 | $ 6,488.2 | $ 6,648.2 | $ 7,029.8 | $ 7,370.1 |
| | | | | | | | | |
| Adjusted revenue as a percentage of adjusted average capital (4) | 20.6 % | 22.0 % | 23.4 % | 24.9 % | 24.4 % | 25.3 % | 24.0 % | 22.4 % |
| | | | | | | | | |
| **Adjusted loans receivable** | | | | | | | | |
| GAAP loans receivable, net | $ 6,500.3 | $ 6,297.7 | $ 6,311.6 | $ 6,323.7 | $ 6,327.2 | $ 6,336.3 | $ 6,582.6 | $ 6,768.1 |
| Floating yield adjustment | 509.2 | 470.2 | 429.9 | 319.4 | 216.5 | 244.1 | 251.3 | 299.1 |
| Adjusted loans receivable | $ 7,009.5 | $ 6,767.9 | $ 6,741.5 | $ 6,643.1 | $ 6,543.7 | $ 6,580.4 | $ 6,833.9 | $ 7,067.2 |
| | | | | | | | | |
| **Adjusted interest expense (after-tax)** | | | | | | | | |
| GAAP interest expense | $ 54.4 | $ 49.4 | $ 41.8 | $ 38.9 | $ 36.5 | $ 38.6 | $ 39.8 | $ 42.0 |
| Senior notes adjustment | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 |
| Adjusted interest expense (pre-tax) | 55.1 | 50.1 | 42.5 | 39.6 | 37.2 | 39.2 | 40.5 | 42.7 |
| Adjustment to record tax effect (1) | (12.7) | (11.5) | (9.8) | (9.1) | (8.6) | (9.0) | (9.3) | (9.8) |
| Adjusted interest expense (after-tax) | $ 42.4 | $ 38.6 | $ 32.7 | $ 30.5 | $ 28.6 | $ 30.2 | $ 31.2 | $ 32.9 |

(1) Adjustment to record taxes at our estimated long-term effective income tax rate of 23%.

(2) Net income per diluted share is computed independently for each of the quarters presented. Therefore, the sum of quarterly net income per diluted share information may not equal year-to-date net income per diluted share.

(3) The enactment of the Tax Cuts and Jobs Act in December 2017 resulted in the reversal of $118.5 million of provision for income taxes to reflect the new federal statutory income tax rate. This adjustment removes the impact of this reversal from adjusted average capital. We believe the income tax adjustment provides a more accurate reflection of the performance of our business as we are recognizing provision for income taxes at the applicable long-term effective tax rate for the period.

(4) Annualized.

| (Dollars in millions) | For the Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar. 31, 2023 | Dec. 31, 2022 | Sept. 30, 2022 | Jun. 30, 2022 | Mar. 31, 2022 | Dec. 31, 2021 | Sept. 30, 2021 | Jun. 30, 2021 |
| **Adjusted return on capital** | | | | | | | | |
| Adjusted net income | $ 127.0 | $ 156.1 | $ 178.5 | $ 188.2 | $ 197.3 | $ 212.6 | $ 219.1 | $ 230.3 |
| Adjusted interest expense (after-tax) | 42.4 | 38.6 | 32.7 | 30.5 | 28.6 | 30.2 | 31.2 | 32.9 |
| Adjusted net income plus interest expense (after-tax) | $ 169.4 | $ 194.7 | $ 211.2 | $ 218.7 | $ 225.9 | $ 242.8 | $ 250.3 | $ 263.2 |
| **Reconciliation of GAAP return on equity to adjusted return on capital (4)** | | | | | | | | |
| GAAP return on equity (1) | 23.8 % | 31.1 % | 22.4 % | 27.9 % | 46.9 % | 46.7 % | 45.0 % | 47.2 % |
| Non-GAAP adjustments | -13.5 % | -19.1 % | -9.3 % | -14.3 % | -33.0 % | -32.1 % | -30.8 % | -32.9 % |
| Adjusted return on capital (2) | 10.3 % | 12.0 % | 13.1 % | 13.6 % | 13.9 % | 14.6 % | 14.2 % | 14.3 % |
| **Economic profit** | | | | | | | | |
| Adjusted return on capital | 10.3 % | 12.0 % | 13.1 % | 13.6 % | 13.9 % | 14.6 % | 14.2 % | 14.3 % |
| Cost of capital (3) (4) | 6.6 % | 6.6 % | 5.8 % | 5.5 % | 5.2 % | 5.1 % | 5.3 % | 5.6 % |
| Adjusted return on capital in excess of cost of capital | 3.7 % | 5.4 % | 7.3 % | 8.1 % | 8.7 % | 9.5 % | 8.9 % | 8.7 % |
| Adjusted average capital | $ 6,551.8 | $ 6,490.2 | $ 6,456.7 | $ 6,429.3 | $ 6,488.2 | $ 6,648.2 | $ 7,029.8 | $ 7,370.1 |
| Economic profit | $ 61.4 | $ 88.1 | $ 116.9 | $ 130.0 | $ 141.6 | $ 158.1 | $ 156.9 | $ 159.6 |
| **Reconciliation of GAAP net income to economic profit** | | | | | | | | |
| GAAP net income | $ 99.5 | $ 127.3 | $ 86.8 | $ 107.4 | $ 214.3 | $ 217.6 | $ 250.0 | $ 288.6 |
| Non-GAAP adjustments | 27.5 | 28.8 | 91.7 | 80.8 | (17.0) | (5.0) | (30.9) | (58.3) |
| Adjusted net income | 127.0 | 156.1 | 178.5 | 188.2 | 197.3 | 212.6 | 219.1 | 230.3 |
| Adjusted interest expense (after-tax) | 42.4 | 38.6 | 32.7 | 30.5 | 28.6 | 30.2 | 31.2 | 32.9 |
| Adjusted net income plus interest expense (after-tax) | 169.4 | 194.7 | 211.2 | 218.7 | 225.9 | 242.8 | 250.3 | 263.2 |
| Less: cost of capital | 108.0 | 106.6 | 94.3 | 88.7 | 84.3 | 84.7 | 93.4 | 103.6 |
| Economic profit | $ 61.4 | $ 88.1 | $ 116.9 | $ 130.0 | $ 141.6 | $ 158.1 | $ 156.9 | $ 159.6 |
| Economic profit per diluted share (5) | $ 4.70 | $ 6.63 | $ 8.75 | $ 9.62 | $ 9.87 | $ 10.61 | $ 9.91 | $ 9.50 |
| **Operating expenses** | | | | | | | | |
| GAAP salaries and wages | $ 77.2 | $ 65.3 | $ 66.9 | $ 65.4 | $ 64.4 | $ 67.2 | $ 63.2 | $ 38.4 |
| GAAP general and administrative | 18.0 | 20.9 | 16.6 | 32.3 | 18.9 | 20.4 | 16.9 | 16.9 |
| GAAP sales and marketing | 22.1 | 17.7 | 19.7 | 19.0 | 19.2 | 16.9 | 16.3 | 14.9 |
| Operating expenses | $ 117.3 | $ 103.9 | $ 103.2 | $ 116.7 | $ 102.5 | $ 104.5 | $ 96.4 | $ 70.2 |
| Operating expenses as a percentage of adjusted average capital (4) | 7.2 % | 6.4 % | 6.4 % | 7.3 % | 6.3 % | 6.3 % | 5.5 % | 3.8 % |
| Percentage change in adjusted average capital compared to the same period in the prior year | 1.0 % | -2.4 % | -8.2 % | -12.8 % | -10.7 % | -7.3 % | -2.2 % | 4.1 % |

(1) Calculated by dividing GAAP net income by GAAP average shareholders' equity.
(2) Adjusted return on capital is defined as adjusted net income plus adjusted interest expense (after-tax) divided by adjusted average capital.
(3) The cost of capital includes both a cost of equity and a cost of debt. The cost of equity capital is determined based on a formula that considers the risk of the business and the risk associated with our use of debt. The formula utilized for determining the cost of equity capital is as follows: (the average 30-year Treasury rate + 5%) + [(1 – tax rate) x (the average 30-year Treasury rate + 5% – pre-tax average cost of debt rate) x average debt/(average equity + average debt x tax rate)]. For the periods presented, the average 30-year Treasury rate and the adjusted pre-tax average cost of debt were as follows:

| | For the Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar. 31, 2023 | Dec. 31, 2022 | Sept. 30, 2022 | Jun. 30, 2022 | Mar. 31, 2022 | Dec. 31, 2021 | Sept. 30, 2021 | Jun. 30, 2021 |
| Average 30-year Treasury rate | 3.8 % | 4.0 % | 3.3 % | 2.9 % | 2.2 % | 1.9 % | 2.0 % | 2.3 % |
| Adjusted pre-tax average cost of debt (4) | 4.8 % | 4.3 % | 3.6 % | 3.3 % | 3.2 % | 3.3 % | 3.4 % | 3.6 % |

(4) Annualized.
(5) Economic profit per diluted share is computed independently for each of the quarters presented. Therefore, the sum of quarterly economic profit per diluted share information may not equal year-to-date economic profit per diluted share.

**Floating Yield Adjustment**

The net loan income (finance charge revenue less provision for credit losses expense) that we recognize over the life of a loan equals the cash we collect from the underlying Consumer Loan less the cash we pay to the dealer. We believe the economics of our business are best exhibited by recognizing loan revenue on a level-yield basis over the life of the loan based on expected future net cash flows. The purpose of this non-GAAP adjustment is to provide insight into our business by showing this level yield measure of income. Under GAAP, contractual amounts due in excess of the loan receivable balance at the time of assignment will be reflected as interest income, while contractual amounts due that are not expected to be collected are reflected in the provision for credit losses. Our non-GAAP floating yield adjustment recognizes the net effects of contractual interest income and expected credit losses in a single measure of finance charge revenue, consistent with how we manage our business. The floating yield adjustment recognizes revenue on a level-yield basis based upon expected future net cash flows, with any changes in expected future net cash flows, which are recognized immediately under GAAP as provision for credit losses, recognized over the remaining forecast period (up to 120 months after the origination date of the underlying Consumer Loans) for each individual dealer loan and purchased loan. The floating yield adjustment does not accelerate revenue recognition. Rather, it reduces revenue by taking amounts that are reported under GAAP as provision for credit losses and instead treating them as reductions of revenue over time.

On January 1, 2020, we adopted CECL, which changed our GAAP methodology. Under the GAAP methodology we employed prior to January 1, 2020, net loan income was based on expected future net cash flows and was recognized on a level-yield basis over the estimated life of the loan. Favorable changes in expected future net cash flows were treated as increases to the yield and were recognized over time, while unfavorable changes were recorded as current period provision for credit losses expense. We do not believe the GAAP methodology we employed prior to January 1, 2020 provided sufficient transparency into the economics of our business due to its asymmetrical treatment of favorable and unfavorable changes to expected future net cash flows. While CECL eliminated that asymmetrical treatment of changes in expected future net cash flows from the GAAP methodology we employ by requiring both favorable and unfavorable changes to expected future net cash flows to be immediately recognized as current period provision for credit losses expense, it introduced a different asymmetry by requiring us to recognize at the time of the loan's assignment to us a significant provision for credit losses expense for amounts we never expect to realize and to recognize in subsequent periods finance charge revenue that is significantly in excess of our expected yields. Our floating yield adjustment enables us to provide measures of income that are not impacted by GAAP's asymmetrical treatments of estimates.

We believe the floating yield adjustment is presented in a manner which reflects both the economic reality of our business and how the business is managed and provides valuable supplemental information to help investors better understand our business, executive compensation, liquidity, and capital resources.

**Senior Notes Adjustment**

The purpose of this non-GAAP adjustment is to modify our GAAP financial results to treat the issuance of certain senior notes as a refinancing of certain previously-issued senior notes.

On December 18, 2019, we issued $400.0 million of 5.125% senior notes due 2024 (the "2024 senior notes"). We used a portion of the net proceeds from the 2024 senior notes to repurchase or redeem all of the $300.0 million outstanding principal amount of our 6.125% senior notes due 2021 (the "2021 senior notes"), of which $148.2 million was repurchased on December 18, 2019 and the remaining $151.8 million was redeemed on January 17, 2020. We used the remaining net proceeds from the 2024 senior notes, together with borrowings under our revolving credit facility, to redeem in full the $250.0 million outstanding principal amount of our 7.375% senior notes due 2023 (the "2023 senior notes") on March 15, 2020. Under GAAP, the fourth quarter of 2019 included (i) a pre-tax loss on extinguishment of debt of $1.8 million related to the repurchase of 2021 senior notes in the fourth quarter of 2019 and the redemption of the remaining 2021 senior notes in the first quarter of 2020 and (ii) additional interest expense of $0.3 million on $160.0 million of additional outstanding debt caused by the one month lag from the issuance of the 2024 senior notes and repurchase of 2021 senior notes in the fourth quarter of 2019 to the redemption of the remaining 2021 senior notes in the first quarter of 2020. Under GAAP, the first quarter of 2020 included (i) a pre-tax loss on extinguishment of debt of $7.4 million related to the redemption of 2023 senior notes in the first quarter of 2020 and (ii) additional interest expense of $0.4 million on $160.0 million of additional outstanding debt caused by the one month lag from the issuance of the 2024 senior notes and repurchase of 2021 senior notes in the fourth quarter of 2019 to the redemption of the remaining 2021 senior notes in the first quarter of 2020.

On January 22, 2014, we issued the 2021 senior notes. On February 21, 2014, we used the net proceeds from the 2021 senior notes, together with borrowings under our revolving credit facilities, to redeem in full the $350.0 million outstanding principal amount of our 9.125% senior notes due 2017 (the "2017 senior notes"). Under GAAP, the first quarter of 2014 included (i) a pre-tax loss on extinguishment of debt of $21.8 million related to the redemption of the 2017 senior notes in the first quarter of 2014 and (ii) additional interest expense of $1.4 million on $276.0 million of additional outstanding debt caused by the one month lag from the issuance of the 2021 senior notes to the redemption of the 2017 senior notes.

Under our non-GAAP approach, the loss on extinguishment of debt and additional interest expense that were recognized for GAAP purposes were in each case deferred as debt issuance costs and are being recognized ratably as interest expense over the term of the newly issued notes. In addition, for adjusted average capital purposes, the impact of additional outstanding debt related to the lag from the issuance of the new notes to the redemption of the previously issued notes was in each case deferred and is being recognized ratably over the term of the newly issued notes. Upon the issuance of the 2024 senior notes in the fourth quarter of 2019, the outstanding unamortized balances of the non-GAAP adjustments related to the 2021 senior notes were deferred and are being recognized ratably over the term of the 2024 senior notes.

We believe the senior notes adjustment provides a more accurate reflection of the performance of our business, since we are recognizing the costs incurred with these transactions in a manner consistent with how we recognize the costs incurred when we periodically refinance our other debt facilities.

**Cautionary Statement Regarding Forward-Looking Information**

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of our forward-looking statements. Statements in this release that are not historical facts, such as those using terms like "may," "will," "should," "believe," "expect," "anticipate," "assume," "forecast," "estimate," "intend," "plan," "target," or similar expressions, and those regarding our future results, plans, and objectives, are "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements represent our outlook only as of the date of this release. Actual results could differ materially from these forward-looking statements since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include, but are not limited to, the factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (the "SEC") on February 10, 2023, and Item 1A in Part II of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023, filed with the SEC on May 1, 2023, and other risk factors discussed herein or listed from time to time in our reports filed with the SEC and the following:

***Industry, Operational, and Macroeconomic Risks***

- Our inability to accurately forecast and estimate the amount and timing of future collections could have a material adverse effect on results of operations.
- Due to competition from traditional financing sources and non-traditional lenders, we may not be able to compete successfully.
- An outbreak of contagious disease, such as the COVID-19 pandemic, or other public health emergency could materially and adversely affect our business, financial condition, liquidity, and results of operations.
- Reliance on third parties to administer our ancillary product offerings could adversely affect our business and financial results.
- We are dependent on our senior management and the loss of any of these individuals or an inability to hire additional team members could adversely affect our ability to operate profitably.
- Our reputation is a key asset to our business, and our business may be affected by how we are perceived in the marketplace.
- The concentration of our dealers in several states could adversely affect us.
- Reliance on our outsourced business functions could adversely affect our business.
- Our ability to hire and retain foreign engineering personnel could be hindered by immigration restrictions.
- We may be unable to execute our business strategy due to current economic conditions.
- Adverse changes in economic conditions, the automobile or finance industries, or the non-prime consumer market could adversely affect our financial position, liquidity, and results of operations, the ability of key vendors that we depend on to supply us with services, and our ability to enter into future financing transactions.
- Natural disasters, climate change, military conflicts, acts of war, terrorist attacks and threats, or the escalation of military activity in response to terrorist attacks or otherwise may negatively affect our business, financial condition, and results of operations.
- Governmental or market responses to climate change and related environmental issues could have a material adverse effect on our business.
- A small number of our shareholders have the ability to significantly influence matters requiring shareholder approval and such shareholders have interests which may conflict with the interests of our other security holders.

***Capital and Liquidity Risks***

- We may be unable to continue to access or renew funding sources and obtain capital needed to maintain and grow our business.
- The terms of our debt limit how we conduct our business.
- A violation of the terms of our asset-backed secured financings or revolving secured warehouse facilities could have a material adverse impact on our operations.
- Our substantial debt could negatively impact our business, prevent us from satisfying our debt obligations, and adversely affect our financial condition.
- We may not be able to generate sufficient cash flows to service our outstanding debt and fund operations and may be forced to take other actions to satisfy our obligations under such debt.

- Interest rate fluctuations may adversely affect our borrowing costs, profitability, and liquidity.
- The phaseout of the London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with a different reference rate, could result in a material adverse effect on our business.
- Reduction in our credit rating could increase the cost of our funding from, and restrict our access to, the capital markets and adversely affect our liquidity, financial condition, and results of operations.
- We may incur substantially more debt and other liabilities. This could exacerbate further the risks associated with our current debt levels.
- The conditions of the U.S. and international capital markets may adversely affect lenders with which we have relationships, causing us to incur additional costs and reducing our sources of liquidity, which may adversely affect our financial position, liquidity, and results of operations.

***Technology and Cybersecurity Risks***

- Our dependence on technology could have a material adverse effect on our business.
- Our use of electronic contracts could impact our ability to perfect our ownership or security interest in Consumer Loans.
- Failure to properly safeguard confidential consumer and team member information could subject us to liability, decrease our profitability, and damage our reputation.

***Legal and Regulatory Risks***

- Litigation we are involved in from time to time may adversely affect our financial condition, results of operations, and cash flows.
- Changes in tax laws and the resolution of uncertain income tax matters could have a material adverse effect on our results of operations and cash flows from operations.
- The regulations to which we are or may become subject could result in a material adverse effect on our business.

Other factors not currently anticipated by management may also materially and adversely affect our business, financial condition, and results of operations. We do not undertake, and expressly disclaim any obligation, to update or alter our statements whether as a result of new information, future events, or otherwise, except as required by applicable law.

**Webcast Details**

We will host a webcast on May 1, 2023 at 5:00 p.m. Eastern Time to discuss our first quarter results. The webcast can be accessed live by visiting the "Investor Relations" section of our website at ir.creditacceptance.com or by telephone as described below. Only persons accessing the webcast by telephone will be able to pose questions to the presenters during the webcast. A replay and transcript of the webcast will be archived in the "Investor Relations" section of our website.

To participate in the webcast by telephone, you must pre-register at https://register.vevent.com/register/BI967aff52e09b4d20a39034694ec2abf3, or through the link posted on the "Investor Relations" section of our website at ir.creditacceptance.com. Upon registration you will be provided with the dial-in number and a unique PIN to access the webcast by telephone.

**Description of Credit Acceptance Corporation**

Since 1972, Credit Acceptance has offered financing programs that enable automobile dealers to sell vehicles to consumers, regardless of their credit history. Our financing programs are offered through a nationwide network of automobile dealers who 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 our financing programs, but who actually end up qualifying for traditional financing.

Without our financing programs, consumers are often unable to purchase vehicles or they purchase unreliable ones. Further, as we report to the three national credit reporting agencies, an important ancillary benefit of our programs is that we provide consumers with an opportunity to improve their lives by improving their credit score and move on to more traditional sources of financing. Credit Acceptance is publicly traded on the Nasdaq Stock Market under the symbol CACC. For more information, visit creditacceptance.com.

**CREDIT ACCEPTANCE CORPORATION**
**CONSOLIDATED STATEMENTS OF INCOME**
**(UNAUDITED)**

| (Dollars in millions, except per share data) | For the Three Months Ended March 31, | |
|---|---|---|
| | **2023** | **2022** |
| **Revenue:** | | |
| Finance charges | $ 421.1 | $ 424.1 |
| Premiums earned | 17.4 | 13.8 |
| Other income | 15.3 | 17.8 |
| Total revenue | 453.8 | 455.7 |
| **Costs and expenses:** | | |
| Salaries and wages | 77.2 | 64.4 |
| General and administrative | 18.0 | 18.9 |
| Sales and marketing | 22.1 | 19.2 |
| Total operating expenses | 117.3 | 102.5 |
| | | |
| Provision for credit losses on forecast changes | 44.3 | (79.3) |
| Provision for credit losses on new Consumer Loan assignments | 93.1 | 102.6 |
| Total provision for credit losses | 137.4 | 23.3 |
| | | |
| Interest | 54.4 | 36.5 |
| Provision for claims | 17.9 | 8.9 |
| Total costs and expenses | 327.0 | 171.2 |
| Income before provision for income taxes | 126.8 | 284.5 |
| Provision for income taxes | 27.3 | 70.2 |
| Net income | $ 99.5 | $ 214.3 |
| | | |
| Net income per share: | | |
| Basic | $ 7.62 | $ 15.02 |
| Diluted | $ 7.61 | $ 14.94 |
| | | |
| Weighted average shares outstanding: | | |
| Basic | 13,057,617 | 14,268,518 |
| Diluted | 13,073,316 | 14,341,523 |

**CREDIT ACCEPTANCE CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
**(UNAUDITED)**

| (Dollars in millions, except per share data) | As of | |
|---|---|---|
| | **March 31, 2023** | **December 31, 2022** |
| **ASSETS:** | | |
| Cash and cash equivalents | $ 8.1 | $ 7.7 |
| Restricted cash and cash equivalents | 480.0 | 410.0 |
| Restricted securities available for sale | 76.4 | 72.3 |
| | | |
| Loans receivable | 9,384.3 | 9,165.5 |
| Allowance for credit losses | (2,884.0) | (2,867.8) |
| Loans receivable, net | 6,500.3 | 6,297.7 |
| | | |
| Property and equipment, net | 50.1 | 51.4 |
| Income taxes receivable | 11.0 | 8.7 |
| Other assets | 29.0 | 56.9 |
| Total Assets | $ 7,154.9 | $ 6,904.7 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY:** | | |
| **Liabilities:** | | |
| Accounts payable and accrued liabilities | $ 257.3 | $ 260.8 |
| Revolving secured line of credit | 145.1 | 30.9 |
| Secured financing | 3,771.8 | 3,756.4 |
| Senior notes | 795.0 | 794.5 |
| Mortgage note | 8.8 | 8.9 |
| Deferred income taxes, net | 451.2 | 426.7 |
| Income taxes payable | 2.3 | 2.5 |
| Total Liabilities | 5,431.5 | 5,280.7 |
| | | |
| **Shareholders' Equity:** | | |
| Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued | — | — |
| Common stock, $.01 par value, 80,000,000 shares authorized, 12,836,907 and 12,756,885 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively | 0.1 | 0.1 |
| Paid-in capital | 252.1 | 245.7 |
| Retained earnings | 1,473.3 | 1,381.1 |
| Accumulated other comprehensive loss | (2.1) | (2.9) |
| Total Shareholders' Equity | 1,723.4 | 1,624.0 |
| Total Liabilities and Shareholders' Equity | $ 7,154.9 | $ 6,904.7 |