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Q4 2020 General Motors Financial Company Inc Earnings Call (Prerecorded)

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PRESENTATION

Stephen Jones ***General Motors Financial Company, Inc. - VP of IR***

Welcome to GM Financial's Fourth Quarter and Full Year 2020 Earnings Presentation. This is Steve Jones, Vice President of Investor Relations at GM Financial. With me today are Dan Berce, President and CEO of GM Financial; and Susan Sheffield, Chief Financial Officer.

Before we proceed, I must remind everyone that the topics we will discuss during this presentation will include forward-looking statements, which are the company's current views with respect to future events and financial performance. These forward-looking statements are subject to many assumptions, risks and uncertainties that could cause actual results to differ significantly from historical results or from those anticipated by us. The most significant of these risks are detailed from time to time in the company's filings and reports with the Securities and Exchange Commission, including the annual report on Form 10-K for the year ended December 31, 2020. If one or more of these risks or uncertainties materialize or if underlying assumptions prove incorrect, our results may vary materially.

If you have questions on the materials discussed, please feel free to contact me. My contact information can be found in both the earnings release and at the end of the presentation slides. We will be posting a transcript of this presentation to our website.

I will now turn the call over to Dan Berce. Dan?

Daniel E. Berce ***General Motors Financial Company, Inc. - President & CEO***

Thanks, Steve. I'll start out with financial and operating highlights for our fourth quarter as well as calendar year 2020. We realized earnings before taxes of $1.0 billion, more than double our result from a year ago of $498 million. For the calendar year, we reported record earnings of $2.7 billion, up from $2.1 billion a year ago. Our earnings were driven by strong used vehicle prices, better-than-expected credit performance and lower interest costs. Our loan originations for the fourth quarter were $13.6 billion, up from $10.9 billion a year ago, giving us ending earning assets at the end of the calendar year of $100.2 billion. Our originations increased primarily due to U.S. retail loan growth. Charge-offs, as you can see, were quite good. I'll talk about that in a later slide.

From a customer experience and loyalty standpoint, we generated over two million leads to GM dealers in the calendar year, contributing to more than 435,000 vehicle sales, of which 73% were financed by GM Financial. Our funding platform was also active in the fourth quarter as well as subsequent to year-end, which Susan will talk about later.

Next slide, retail loan originations and portfolio balance. As I indicated, our asset growth was mainly driven by growth in our retail loan portfolio, which reached $51.3 billion at the end of the calendar year, up from $42.3 billion a year ago. That growth was driven by increased originations of GM new vehicle loans, driven by higher GM unit sales, higher penetration by GM Financial, which reached 41.1% compared to 37.7% in the quarter a year ago as well as a higher average loan amount financed. Our weighted average FICO for the fourth quarter was 726, similar to where it was in our third quarter.

Next slide. As I indicated, retail loan credit performance was exceptional for the fourth quarter as well as for the whole calendar year. For the fourth quarter, our net charge-off rate globally was 90 basis points, half what it was a year ago when it was 1.8. Delinquencies, both 31 to 60 and 61 plus have also shown very nice declines year-over-year. Delinquencies and charge-offs were positively impacted by government support programs as well as changes in consumer spending behavior. We've seen payment rates across all FICO tiers in the fourth quarter being higher than a year ago, including those accounts we deferred earlier in the year.

Another tailwind to net charge-offs was that recovery rates on repossessed vehicles improved compared to a year ago because of strong used vehicle prices. We do expect delinquencies and net charge-offs to normalize starting in the second half of 2021 due to the expiration of government support programs. We have not included any further stimulus into our forecast, so that would be a potential tailwind if we do see additional stimulus passed here in the first half of 2021. Also, a successful and quick vaccine rollout could also result in better-than-expected credit results in 2021.

Next slide, operating lease originations and portfolio balance. Our lease portfolio was $39.8 billion at calendar year-end, down from $42.1 billion a year ago. We originated $6 billion of leases globally in the fourth quarter, up from $5.4 billion a year ago, primarily again because of higher GM unit sales and a higher average lease amount, which was offset by a lower lease mix. Our lease -- the GM lease mix was 21% in the fourth quarter of 2020, down a bit from 24% a year ago.

Our lease originations remain very high credit quality. In fact, our FICO for lease originations was 778 in the fourth quarter of 2020, very similar to where it has been the last six quarters.

Next slide, GM Financial used vehicle trends. As I said before, we experienced better-than-expected used vehicle prices in 2020. In fact, prices up for the calendar year 2020 increased approximately 3% from 2019, primarily due to low new vehicle inventory, which was driven by the suspension of manufacturing operations earlier in the year as a result of the COVID pandemic, which did create strong demand for used vehicles.

As you can see on the chart, prices in the fourth quarter did come off a bit from the peaks of the third quarter. That's what we usually see seasonally. Nevertheless, fourth quarter pricing was stronger than what we expected. For calendar 2021, we expect used vehicle prices to decline by an amount in the low single digits compared to 2020 as we see supply and demand dynamics normalize. A reminder that 2020 was a record year in terms of used vehicle prices, so a small decline from 2020 will still result in a very good year for us from a used car realization standpoint.

Next slide, commercial lending. We continue to see growth in our market share in number of U.S. dealers financed. We're up to now 1,434 U.S. dealers, which gives us a penetration of 32.9%, giving us the #1 share of GM dealers in the U.S. Outstanding balances at the end of the year globally were $9.1 billion, marginally higher from where they were at the end of September but quite a bit less than $12.1 billion a year ago, again, because of the decline in new vehicle inventories.

Our dealer health remained stable. In fact, we had a very good year in terms of credit -- commercial credit. Dealers are benefiting from lower inventory levels, which have given them higher margins on both new and used vehicle sales.

And my last slide, China joint ventures. All of our China activity has, again, gotten back quicker to normal than what we've seen in the rest of the globe. Origination volume for the fourth quarter was $4.4 billion, up from $3.5 billion a year ago. Penetration levels for SGM were similar to a year ago, but continuing a nice upward trend for SGMW. The strong originations in the second half of the year have led to ending earning asset growth. Earning assets were $23 billion at the end of the calendar year, up from $19.1 billion a year ago.

Moving to the bottom right, credit has normalized. Our losses for the fourth quarter on an annualized basis were 30 basis points, the same as where they were a year ago and off the peak of 50 basis points in the second quarter of 2020.

And finally, our equity income from our joint ventures in the fourth quarter was $41 million, slightly higher than where it was a year ago.

And with that, I'm going to turn the call over to Susan.

Susan B. Sheffield ***General Motors Financial Company, Inc. - Executive VP & CFO***

Thank you, Dan. First, let's review the drivers of our fourth quarter earnings before tax performance. As Dan mentioned, we earned just over $1 billion in the fourth quarter, really driven by strong retail loan origination, increasing our retail revenue, which was offset by lower commercial and lease revenue due to lower portfolio balances in both.

The drivers of better credit performance year-over-year are across 3 areas: one, gains on lease terminations due to higher used vehicle prices, as Dan talked about; lower provision expense, this was really driven by resilient credit performance, improved outlook on recovery rates and moderated economic forecast from previous scenarios; and lower interest expense due to lower rates.

Turning to the next slide. For the year ended December 2020, similar drivers to performance. As Dan noted, we earned for the year $2.7 billion in earnings before tax, up from $2.1 billion a year ago. Again, used vehicle prices were a strong driver, lower interest rates causing significant improvement in overall interest expense, and again, good retail origination volume but revenue off -- lower due to lower commercial and lease portfolios. With respect to calendar year 2021 earnings before taxes, we expect to be in the mid-$2 billion range.

Turning to Slide 12, the allowance for retail loan losses. On a percentage basis, the allowance was 3.7% at the end of December, down slightly from 4% in September. The change in the balance was really slight from $1.936 billion to $1.915 billion. And really, that was driven by good credit performance on the portfolio, again, better than expected.

One point of note is -- from a credit mix of assets in our retail loan portfolio, it continues to shift to predominantly prime with 64% of the retail loan portfolio at the end of December 2020 having a FICO score of 680 or greater compared to just 60% a year ago.

Moving to the balance sheet on Slide 13. Ending earning assets were just over $100 billion at the end of December. And you can see that shift in the composition to more retail loan as our retail loan originations were up $9 billion year-over-year, driving that increase of a higher percentage of retail loan and the composition of ending earning assets. Total debt at $92.4 billion, 57% of which is comprised of unsecured debt and well above our targeted objective of having at least a 50-50 split between secured and unsecured. Available liquidity at the end of the year was $27.6 billion, slightly in excess of our targeted range.

Turning to our capital position discussion. We ended the year with $12.4 billion in tangible equity, an increase of almost $1 billion year-over-year, driven by the record net income levels and issuance of preferred stock earlier in the year, partially offset by the dividend we paid to GM, the adoption of the CECL accounting standard, changes in foreign exchange rates impacting other comprehensive loss.

Our leverage ratio came down to 8x, again, driven by the strong earnings performance. And our excess capital position was $3.7 billion at the end of the quarter. Return on tangible common equity well exceeded our target range of low to mid-teens at 20.5% for the year, again, driven by the strong earnings.

Turning to funding activity on Slide 15. We issued $23.2 billion in the public markets across our securitization and unsecured -- senior unsecured notes programs. We renewed $3.5 billion in committed credit facilities in Q4 and had a total of $26.7 billion in committed credit facilities at the end of the year provided by 27 banks.

We issued $8.7 billion in public and private debt securities in Q4. And importantly, I want to note that we raised $0.8 billion of SOFR-based senior unsecured notes in the U.S. This was our first issuance on a SOFR basis. We closed six private securitizations. And subsequent to year-end, we've been very active, so far in the first quarter issuing $4.5 billion in public secured and unsecured debt, notably two senior note issuances, one in the U.S. and one in Canada.

For 2021, we expect to continue to be very active. With -- you can see $11 billion to $12 billion of issuance in senior unsecured, a little higher than last year due to more refinance activity and $15 billion to $17 billion in the securitization space.

Turning to Slide 16. To sort of wrap up comments on 2020 highlights and accomplishments, I mean, first, I'd like to say, it was obviously a very challenging year with the pandemic, social and political unrest. Having said that, our team rallied to the occasion, successfully transitioned to a work-from-home environment and just continuing to deliver outstanding results.

Again, we earned a record $2.7 billion before taxes; we eclipsed $100 billion in earning assets, increased our annual dividend to GM at $800 million; transitioned, as I said, to remote work environment and continue to execute well; accelerated our digital initiatives and investments to improve our customer experience, including the introduction of Nanci, our chatbot. We supported our retail customers and our dealers through hardship caused by COVID-19, offering payment deferrals, waivers and end of lease term options. We became the leading provider of floorplan financing for GM dealers in the U.S. in 2020, a real milestone for us as well.

We also maintained our industry-leading manufacturer loyalty on both loan and -- for both loan and lease customers. Our balance sheet remains strong. We lowered our leverage ratio and continued shifting to more prime assets and a higher percentage of unencumbered assets on the balance sheet. And lastly, again, we were very active in the public and private debt markets to support our balance sheet. So all in all, a really great result in what was a challenging year.

So I'd like to thank everybody and our team and turn it over to Steve.

Stephen Jones ***General Motors Financial Company, Inc. - VP of IR***

Thank you, Susan. This concludes GM Financial's Fourth Quarter and Full Year 2020 Earnings Presentation. If you have questions, please feel free to contact me. As mentioned, my contact information can be found on both the earnings release and at the end of the presentation slides. Thank you for your continued interest and support of GM Financial. Have a nice day.