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Q4 2019 General Motors Financial Company Inc Earnings Call - Pre-recorded

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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 2019 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, 2019. If one or more of these risks or uncertainties materialize or if the underlying assumptions prove incorrect, our results may vary materially.

If you have questions on the material discussed, please feel free to contact me. My contact information can be found on 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*

Thank you, Steve. I'll start out with financial and operating highlights for 2019 and our fourth quarter of that calendar year.

GMF had outstanding results with income before income taxes of $2.1 billion for the year, up from $1.9 billion in 2018. The quarterly results were also strong with quarterly earnings in 2019 of almost $500 million compared to $416 million a year ago.

Susan will explain the results in more detail, but basically, our strong results were driven by retail and commercial loan growth and greater net leased vehicle gains due to a higher level of lease terminations.

Our total origination levels were down year-over-year as well as in the fourth quarter, primarily since our retail penetration levels fell short of our 50% target due to the nature of the incentive financing programs available to us in the U.S. in the fourth quarter and really for the second half of 2019.

Our ending earning assets were actually fairly flat year-over-year. But due to the fact we had a strong first half in terms of originations, our average earning assets did increase quite a bit for the calendar year as well as quarter-over-quarter in the fourth quarter.

Credit performance remained stable, with our charge-offs and delinquencies slightly better than they were a year ago.

From a customer experience standpoint, GM Financial continues to lead the industry in overall manufacturer loyalty, and we continue to see very strong Net Promoter scores in the U.S.

Our funding platform remained active. We issued $2.4 billion in public and private debt securities and renewed 8 credit facilities totaling

$3.7 billion. And we paid an annual dividend to GM in October, which was $400 million.

Next slide, GM financial penetration statistics. As I just mentioned, we fell short of our 50% target for both the calendar year and the fourth quarter of 2019. Our retail penetration levels are dependent on the incentive financing programs available. And we also saw strong competition from banks and credit unions, particularly in the second half of the year.

Our penetration levels in Latin America remained near our 50% target for both the fourth quarter and were slightly better for the calendar year.

Next slide, drilling down on retail loan originations and our portfolio balance. Our total retail portfolio balance was up both sequentially and year-over-year and now is $42.3 billion. Our originations for the fourth quarter, however, were down compared to the fourth quarter a year ago, because our penetration levels were lower. All of that decrease happened in our financing of new GM vehicles. Our financing of non-GM new was up. And our financing of international was up sequentially, although down a bit year-over-year.

Because our financing of new GM vehicles in the fourth quarter was lower than it was a year ago, our FICO scores, on average, were 694, down sequentially and a year ago, because typically, when we finance new GM vehicles, we see more super-prime and prime customers compared to what we see in the non-GM new financing area.

Next slide. As I pointed out previously, retail loan credit performance is really quite stable. In fact, our charge-off rate for the fourth quarter year-over-year was similar. Delinquency, same story, very stable.

Finance receivables with a FICO score greater than 620 are 76% of our portfolio at year-end 2019, up a tick from where they were a year ago.

Next slide, drilling down on operating lease originations and portfolio balance. Our lease portfolio has seen a slight decline, both year-over-year and for the calendar year. Our origination levels for the fourth quarter were $5.4 billion, up a bit from a year ago when they were $5.2 billion, but down sequentially.

GM's lease mix has remained fairly constant for much of 2019, and we continue to see a very strong credit quality on our lease book with the FICO scores being in the mid- to high 700s.

As far as used car prices, we did see, for 2019, a decline of about 3% compared to 2018 due to peak lease terminations. As we look forward into 2020, we expect a similar 3% to 4% used car pricing decline compared to 2019 since we continue to see fairly high levels of off-lease supply.

Next slide, commercial lending. Our commercial lending dealer count has continued to increase steadily. That increase is coming primarily in the U.S., where our dealer count is now 1,262. Our market share in the U.S. has now reached almost 29%.

Outstandings, however, for the fourth quarter of 2019 did decrease a little over $1 billion. Primarily because of the effect of the work stoppage, there wasn't as much inventory being financed by dealers in that 3-month period.

And then finally, a few words about our China joint ventures. Our China joint ventures had very successful periods for both the fourth quarter and the calendar year. Our penetration of SGM retail sales reached a very high level in the fourth quarter of 2019 at 47.4%. And for the whole year, they were 45.1%. That led to strong retail originations, which were up sequentially from the third quarter of 2019, and the level in 2019 was very similar calendar year-wise to 2018.

We continue to see growth in both our retail loan book as a result of the strong penetration levels and in our commercial book where sequentially the outstandings went from $3.4 billion to $4.5 billion quarter-over-quarter.

Credit in China is fairly stable with the charge-off rate remaining in that 30 basis point area. And we did recognize $166 million of equity income in 2019 from our China venture, down just a bit from 2018.

And with that, I'm going to turn it over to Susan Sheffield.

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

Thank you, Dan. On Slide 10, we'll review the financial results for the year and the quarter.

Income before income taxes, as Dan mentioned, were $2.1 billion for the calendar year '19, up from $1.9 billion a year ago. Driving that increase is really a function of increased finance charge income associated with the portfolio growth, higher average earning assets, increased interest rates on our commercial portfolio and partially offset by lower-yielding assets on the retail portfolio due to the mix shift to the prime loan assets. We also enjoyed increased net leased vehicle income, as Dan mentioned, due to gains resulting from more lease terminations in the year.

All of this was partially offset by an increase in interest expenses due to higher average debt outstanding, given we had higher average earning assets in the period and higher effective interest rates overall, although we worked that down as the year progressed.

For 2020, we're expecting income before income taxes to be basically flat to slightly down compared to 2019. And really that's for 2 reasons: the first being increased provision expense associated with the earning asset growth we expect to see in 2020 and the implementation of the new accounting standard related to allowances, which I will talk about on the next page. And also, we do expect used vehicle prices in 2020 to be down compared to 2019. And that will result in lower gains in addition to fewer leases terminating in 2020.

So moving to Slide 11 and just to spend a minute on the new accounting standard as it relates to the allowance for losses, which is now going to be called the current expected credit loss based on the current expected credit loss model. Basically, what this new standard requires is that we reserve for lifetime credit losses when we book a loan compared to the previous period -- the previous provision, which required us to book allowances over a loss confirmation period.

We'll also be considering other information in our calculation of the new value, including past events, current conditions, reasonable and supportable forecast, the effect of collectibility on the reported amount, resulting in a recognition, again, as I said, of lifetime expected credit losses when we book the loan.

This -- when we adopt this January 1, the impact will be noncash. And what you will see in the first quarter results is an allowance for loan losses increasing approximately $800 million and an impact to retained earnings of a decrease of $600 million.

Now turning to the balance sheet discussion on Slide 12. As Dan mentioned, ending earning assets were $96.5 billion at the end of December. And you can see the composition there showing that retail loan has increased slightly from a year ago, up to 44% of total ending earning assets, as we did have higher origination volume in the first half of the year.

So moving to total debt. Our total debt was $88.9 billion at the end of December 31, 2019. Unsecured debt was 55% of total debt, which was up from 53% a year ago and well above our 50-50 target between secured and unsecured.

Availability liquidity at $24.1 billion was down from September and a year ago, and that was actually proactively managed down consistent with our loan origination volume as it evolved over the year, still well within our target of having 6 months worth of liquidity to support obligations over that time frame, assuming no access to the capital markets.

Turning to Slide 13. Tangible net worth was up year-over-year at December 31, 2019, at $11.5 billion, steady with September 30, and that's a result of the dividend that Dan mentioned earlier that we paid to GM. Our leverage ratio was down at 8.3x at the end of the year compared to 9.05 a year ago, and that's a function of the strong earnings over the year. And our return on average tangible common equity at 15.4% was well within our target range of low to mid-teens and down year-over-year due to a higher effective tax rate.

We do expect to continue to pay a dividend to GM in 2020 and continue the path of increasing that as we have done from '18 to '19. And as a reminder, in '18, we paid a $375 million dividend, and again, the $400 million in 2019.

Moving on to funding activity. As I mentioned earlier, our total debt outstanding was $88.9 billion. We had credit facilities totaling $27 billion at the end of the year, provided by 27 banks.

In the fourth quarter, we issued $1 billion in securitization transactions in our prime loan platform. And we issued a Canadian unsecured deal of $500 million in the quarter also. Subsequent to quarter-end, we've already obviously begun our funding activities in 2020 with a prime loan securitization for $1.2 billion earlier this month and a unsecured -- U.S. unsecured transaction of $1.25 billion also earlier this month.

We closed 2 U.S. private amortizing transactions totaling $1 billion in the quarter to support our prime loan and lease platforms.

With respect to activity for the full year and the outlook for 2020 on Slide 15, we issued a total of $18.9 billion in the calendar year, $12 billion of which was securitizations and $6.9 billion of senior unsecured. In 2020, you'll see a slight increase in both as: one, we expect our origination volume to be higher in 2020 than 2019; and with respect to the unsecured portion, we do have some more refinance activity this year than we did the past few years.

I'll remind everybody that our overall funding strategy is to fund locally, so we minimize currency and country risk. However, we like maintain flexibility to support the U.S. business as it is the largest part of our funding needs. So we will issue non-U.S. dollar-denominated and bring that back to support the U.S., principally in sterling, euros, and we did an Aussie dollar deal in 2019 for the first time.

We have 5 securitization platforms in North America, 4 in the U.S. and 1 in Canada. And we have a global senior notes platform across U.S., Canada and Latin America.

Moving to Slide 16. So just to reiterate, we had, as Dan said, a really great year in 2019. We earned, again, a record $2.1 billion in income before income taxes. We did a good job of growing our wholesale dealer penetration, getting almost to 29% with the target of 1/3 by the end of 2020. We maintained our dominant position in that segment in Latin America. We provided GM with 2 million in leads, which helped contribute to approximately 480,000 retail sales, of which GM Financial financed 69% of those.

We maintained our industry-leading manufacturer loyalty for both loan and lease customers. We managed record lease terminations and optimized disposition proceeds for all the leases that came back. We continued to have a favorable balance sheet trends, leverage -- our leverage ratio was lower, slightly higher mix of prime earning assets. And we continued to unencumber the balance sheet. We issued $23.2 billion in public and private, secured and unsecured debt globally, and as we mentioned, increased our annual dividend to GM.

So with that, I will turn the call back 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 2019 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.
