

We invest in winners. This means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Credit Acceptance Corporation

When in 1972, in Detroit, at the age of 27, Donald A. Foss founded Credit Acceptance, a provider of used car loans for sub-prime customers, he had already accumulated five years of experience as a used car salesman. At that time loans were still considered a luxury. Car makers granted them only to highly creditworthy customers, while banks would not grant them to African Americans at all. Don Foss changed the market. Everyone should be able to buy a used car. The jingle “Don Foss puts you in the driver seat; take a Don Foss ride down easy street”, sung as gospel, became a well-known advertising message. The concept of guaranteed finance still exists today (“approval for everyone”). Meanwhile Credit Acceptance works with one in five of the approximately 70,000 used car dealers in the USA. They are involved in establishing the risk profile of the loan contracts. This gives rise to an alignment of interests, to sell only functionally suitable cars based on individual finance ability. When a contract is signed, the Credit Acceptance dealer receives a cash advance. In combination with the down payment, the dealer immediately makes a small profit. After Credit Acceptance has recovered the cash advance from interest and amortisation of the loan, the dealer keeps 80% of the subsequent payments (“dealer holdback”), and Credit Ac-

ceptance keeps the remaining 20% as collection and service charges. Historically the collection rate on loans is 68%. In the event of a default, the car is sold at auction. The business model was perfected for all economic situations and competitive cycles. The deviation between the actual collection rate and that forecast in the year of origination of the loan is minimal. On average it amounts to 0.6% and is low even in times of crisis (Table).

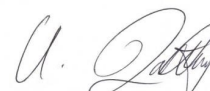
	2019	2016	2015	2009	2008	2001
Deviation	0.6%	-1.3%	-2.3%	7.6%	0.7%	-3.1%

The cash flow is invested in new business, repaying refinancing or share buybacks if the shares are undervalued. Capital allocation is excellent. In the last 20 years 66% of outstanding shares were acquired at a price equivalent to just 29% of the current stock market price. Since the IPO of 1992, EPS has increased by 21% p.a. and an average ROE of 24% has been achieved. The stock is turning into a high flyer. In 2019 it set a new record price of US\$500. In the midst of the stock market panic induced by the coronavirus crisis, it made a dramatic move. Credit Acceptance seized the favourable moment for a share buyback, and we seized it to position the fund. We bought 300,000 shares at an average price of US\$276. After a few weeks we disposed of our position with a 57% capital gain.

Sincerely yours



J. Henrik Muhle



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