

# Consumer Portfolio Services, Inc.

Nasdaq: CPSS

Investor Presentation

As of June 30, 2019

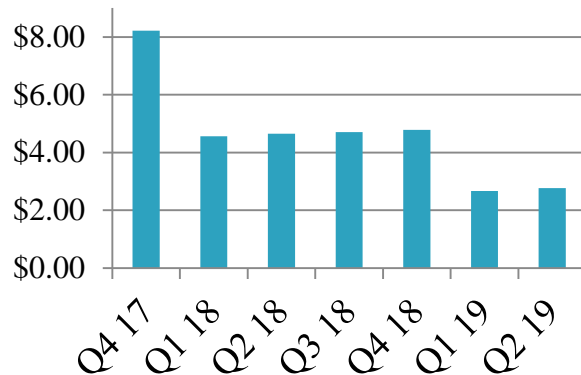


# Company Overview

- Consumer finance company focused on sub-prime auto market
- Established in 1991. IPO in 1992
- Through June 30, 2019, approximately \$15.7 billion in contracts originated
- From 2002 – 2011, four mergers and acquisitions aggregating \$822.3 million
- Irvine, California operating headquarters; Branches in Nevada, Illinois, Virginia and Florida
- Approximately 1,045 employees at June 30, 2019
- \$902.4 million contract originations in 2018; \$493.2 million contract originations in six months ended June 2019
- \$2.4 billion outstanding managed portfolio at June 30, 2019

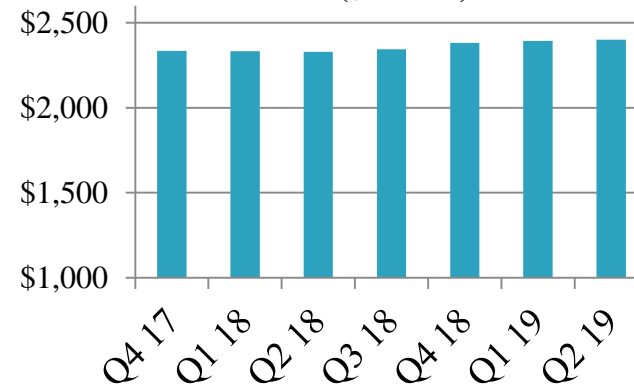
# Recent Financial and Operating Performance

**Pretax Income (\$ in mm)**



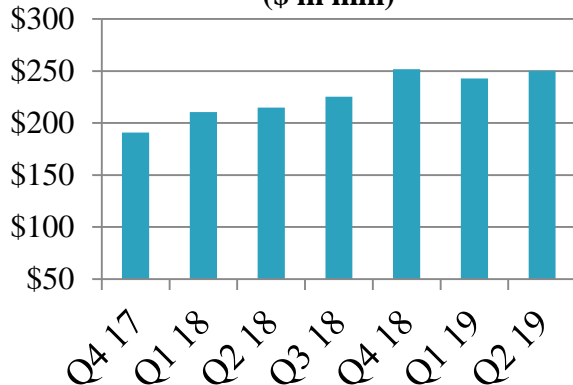
**Total Managed Portfolio**

(\$ in mm)

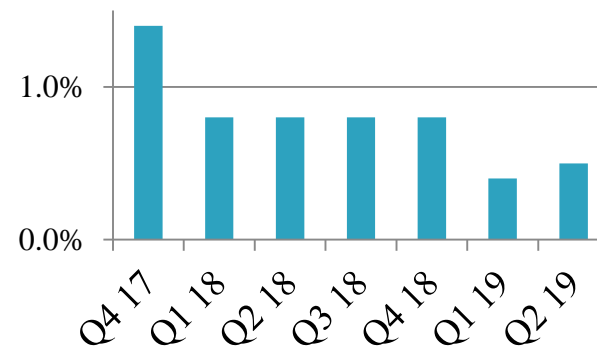


**New Contract Purchases**

(\$ in mm)

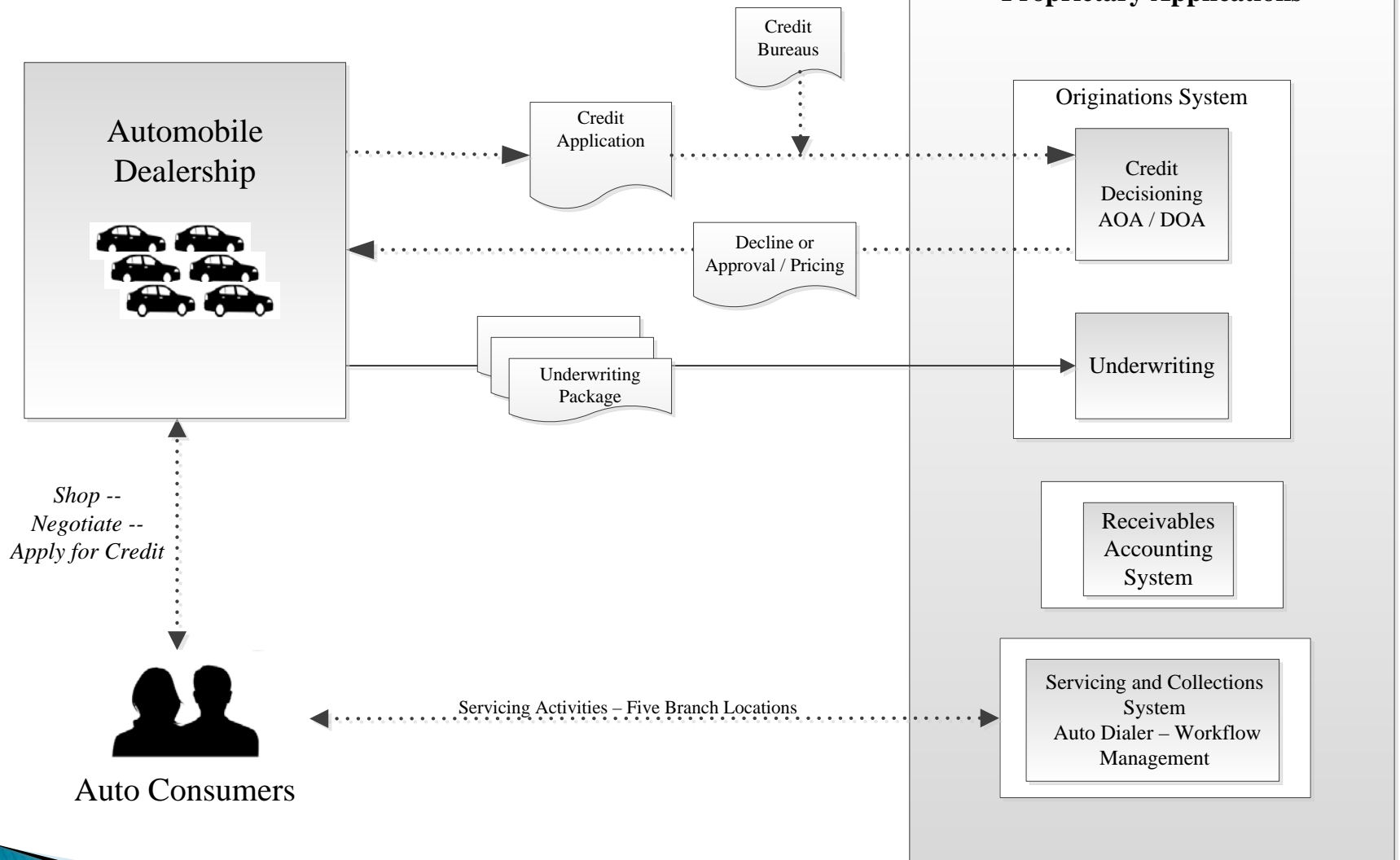


**Return on Managed Assets (1)**



(1) Equal to annualized pretax income as a percentage of the average managed portfolio.

# Operational Flow



# Economic Model

- Recent results influenced by transition to fair value accounting effective January 2018

	Quarter Ended		Twelve Months Ended	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Interest Income	14.1%	16.7%	16.2%	18.2%
Servicing and Other Income	0.3%	0.4%	0.4%	0.4%
Interest Expense	(4.6%)	(4.3%)	(4.3%)	(4.0%)
Net Interest Margin	9.8%	12.7%	12.3%	14.7%
Provision for Credit Losses	(3.4%)	(6.1%)	(5.7%)	(8.0%)
Core Operating Expenses	(5.9%)	(5.8%)	(5.8%)	(5.3%)
Pretax Return on Assets	0.5%	0.8%	0.8%	1.4%

(1) As a percentage of the average managed portfolio. Percentages may not add due to rounding.

# U.S. Auto Finance Market

## U.S. Auto Finance Market

\$1.2 trillion in auto loans outstanding as of Q1 2019 <sup>(1)</sup>

Approximately \$604.4 billion in new auto loans in 2018 <sup>(2)</sup>

Approximately 37% of Q1 2019 auto loans originated were below “prime” (credit score less than 660) <sup>(1)</sup>

Historically fragmented market

Few dominant long-term players

Significant barriers to entry

## Other National Industry Players

Santander Consumer USA

GM Financial/AmeriCredit

Capital One

Chase Custom

Wells Fargo

Westlake Financial

Credit Acceptance Corp.

Exeter Finance Corp.

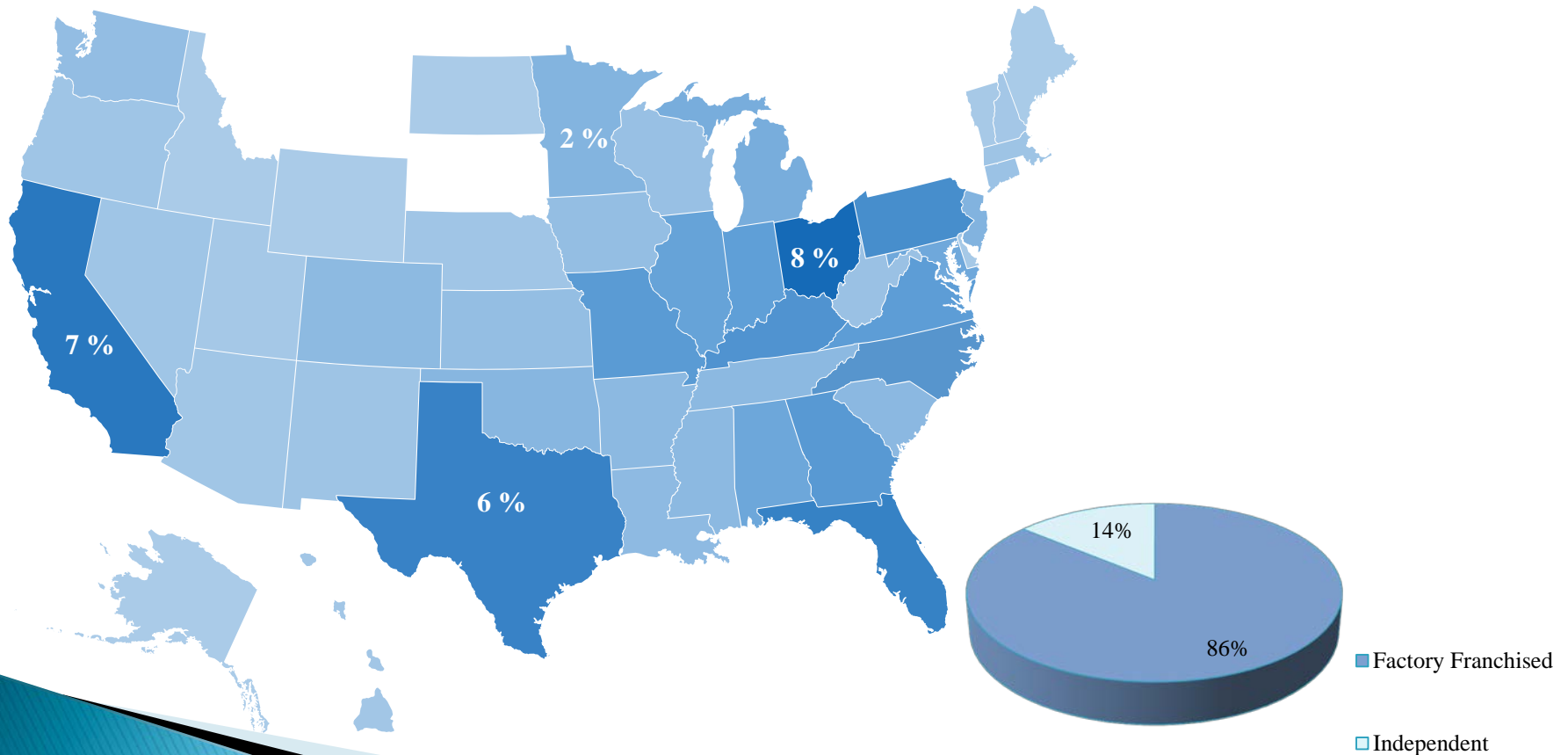
<sup>(1)</sup> According to Experian Automotive.

<sup>(2)</sup> According to Consumer Financial Protection Bureau

# Market Footprint

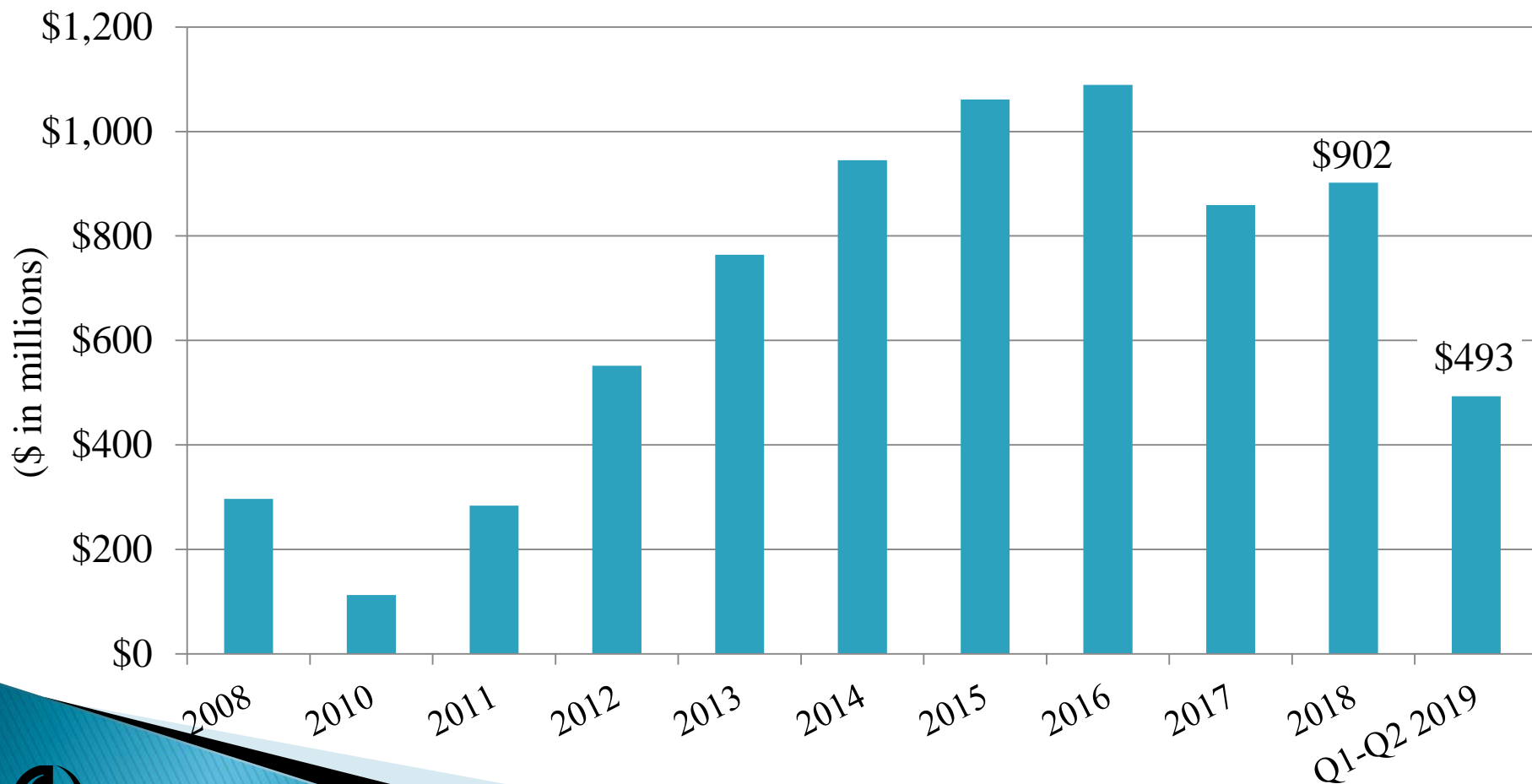
- Generally purchasing contracts from dealers in 48 states across the U.S.
- As of June 30, 2019 had 76 employee marketing representatives

*Contracts Purchased Six Months Ended June 30, 2019*



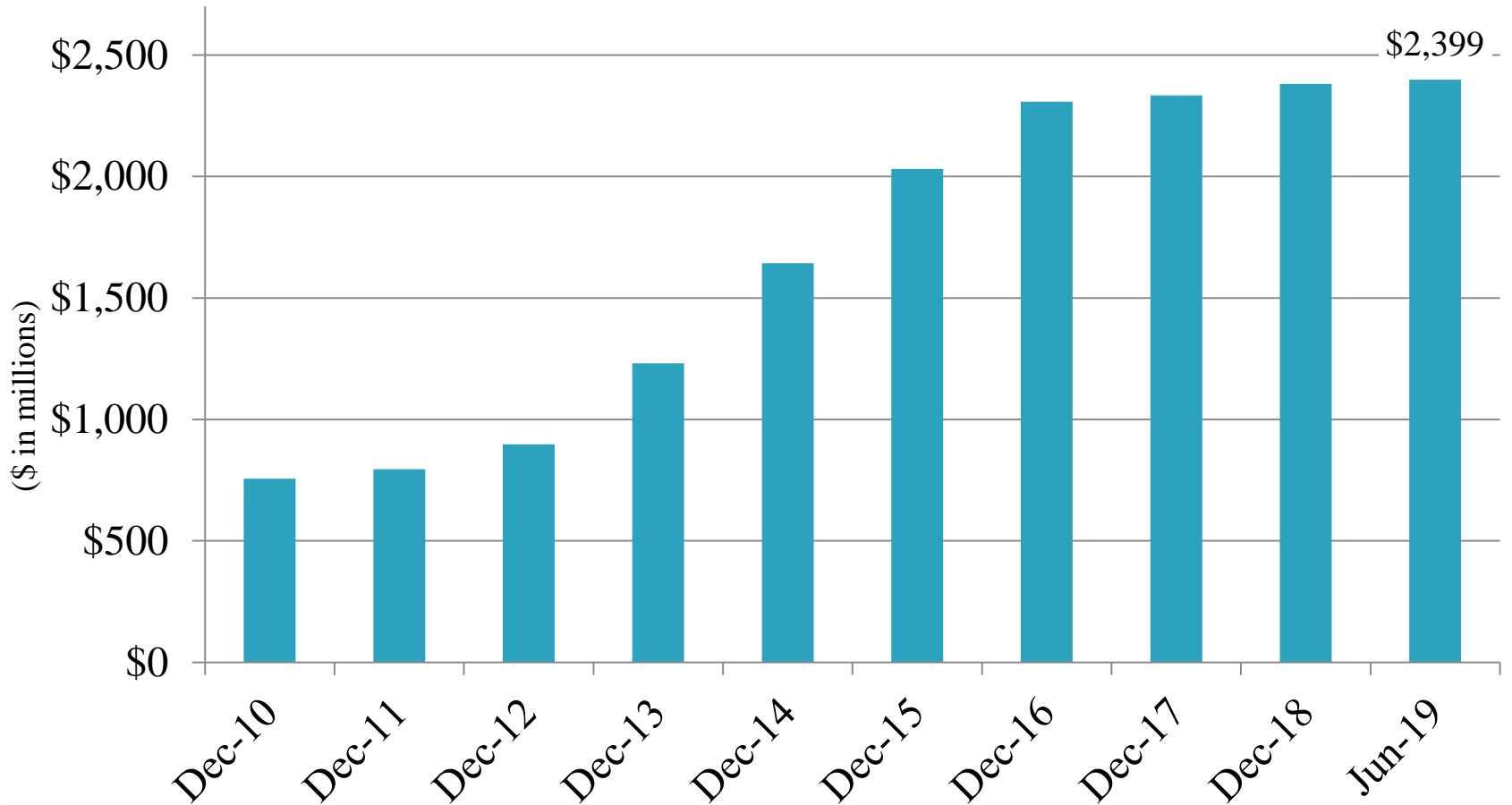
# Historical Origination Volume

- Since inception through June 30, 2019 the Company has originated approximately \$15.7 billion in contracts





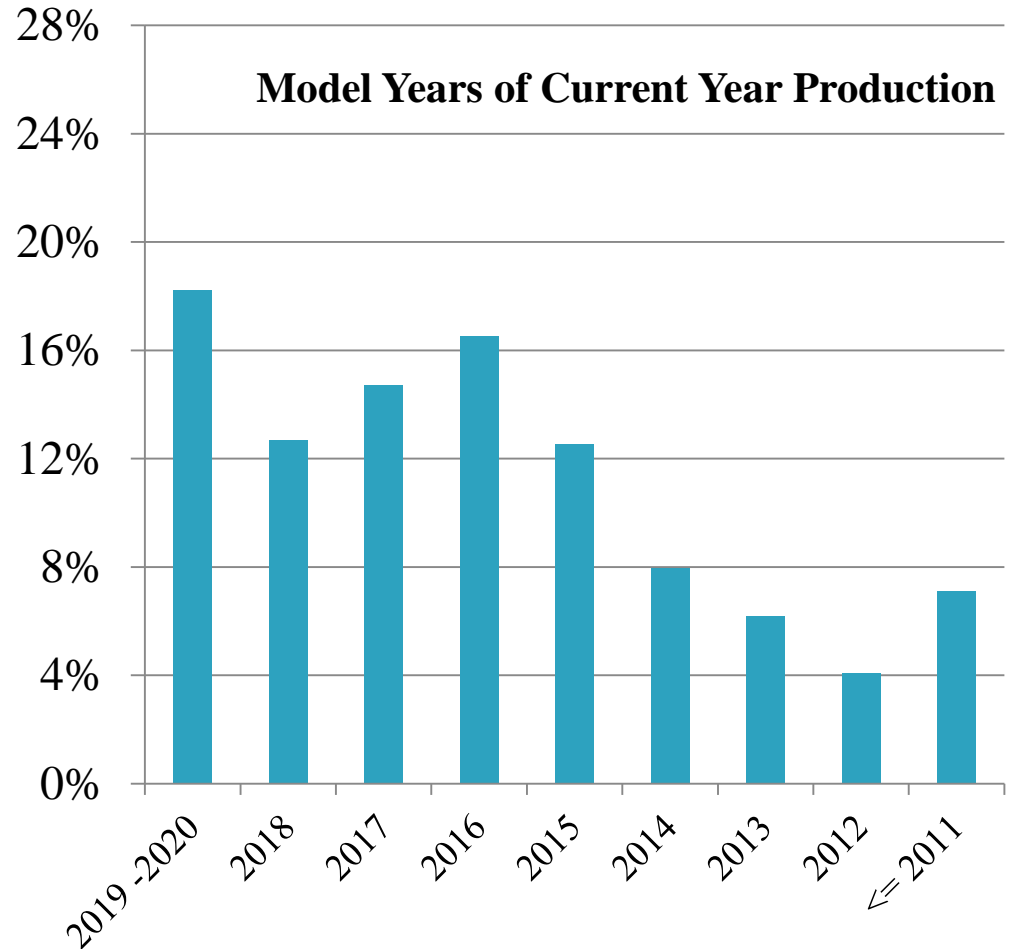
# Total Managed Portfolio



# Collateral Description (1)

## Primarily late model, pre-owned vehicles

- 23% New
- 9% Certified Pre-Owned
- 68% Pre-owned
- 46% Domestic
- 54% Imports



(1) Under the CPS programs for contracts purchased during six months ended June 30, 2019

# Overview of Lending Programs

- CPS's proprietary scoring models and risk-adjusted pricing result in program offerings covering a wide band of the sub-prime credit spectrum

<u>Program</u> <sup>(1)</sup>	<u>Avg. Yield</u> <sup>(2)</sup>	<u>Avg. Amount Financed</u>	<u>Avg. Annual Household Income</u>	<u>Avg. Time on Job (years)</u>	<u>Avg. FICO</u>	<u>% of Purchases</u>
Preferred	13.34%	\$20,797	\$82,758	8.0	583	8%
Super Alpha	15.77%	\$21,025	\$72,582	7.1	562	12%
Alpha Plus	17.30%	\$19,681	\$60,799	5.1	559	22%
Alpha	20.12%	\$17,636	\$53,669	4.5	560	34%
Standard	21.98%	\$14,599	\$50,245	3.4	558	15%
Mercury / Delta	23.34%	\$13,394	\$43,623	2.6	560	6%
First Time Buyer	22.89%	\$12,363	\$37,805	2.0	563	3%
Overall	19.00%	\$17,500	\$56,880	4.7	561	100%

# Borrower and Contract Profile<sup>(1)</sup>

## Borrower:



## Contract:



(1) Under the CPS programs for contracts purchased during six months ended June 2019.

# Operations

## Contract Originations

- Centralized contract originations at Irvine HQ
  - Maximizes control and efficiencies
  - Certain functions performed at Florida and Nevada offices
- Proprietary auto-decisioning system
  - Makes initial credit decision on over 99% of incoming applications
  - Uses both criteria and proprietary scorecards in credit and pricing decisions
- Pre-funding verification of employment, income and residency
  - Protects against potential fraud

## Servicing

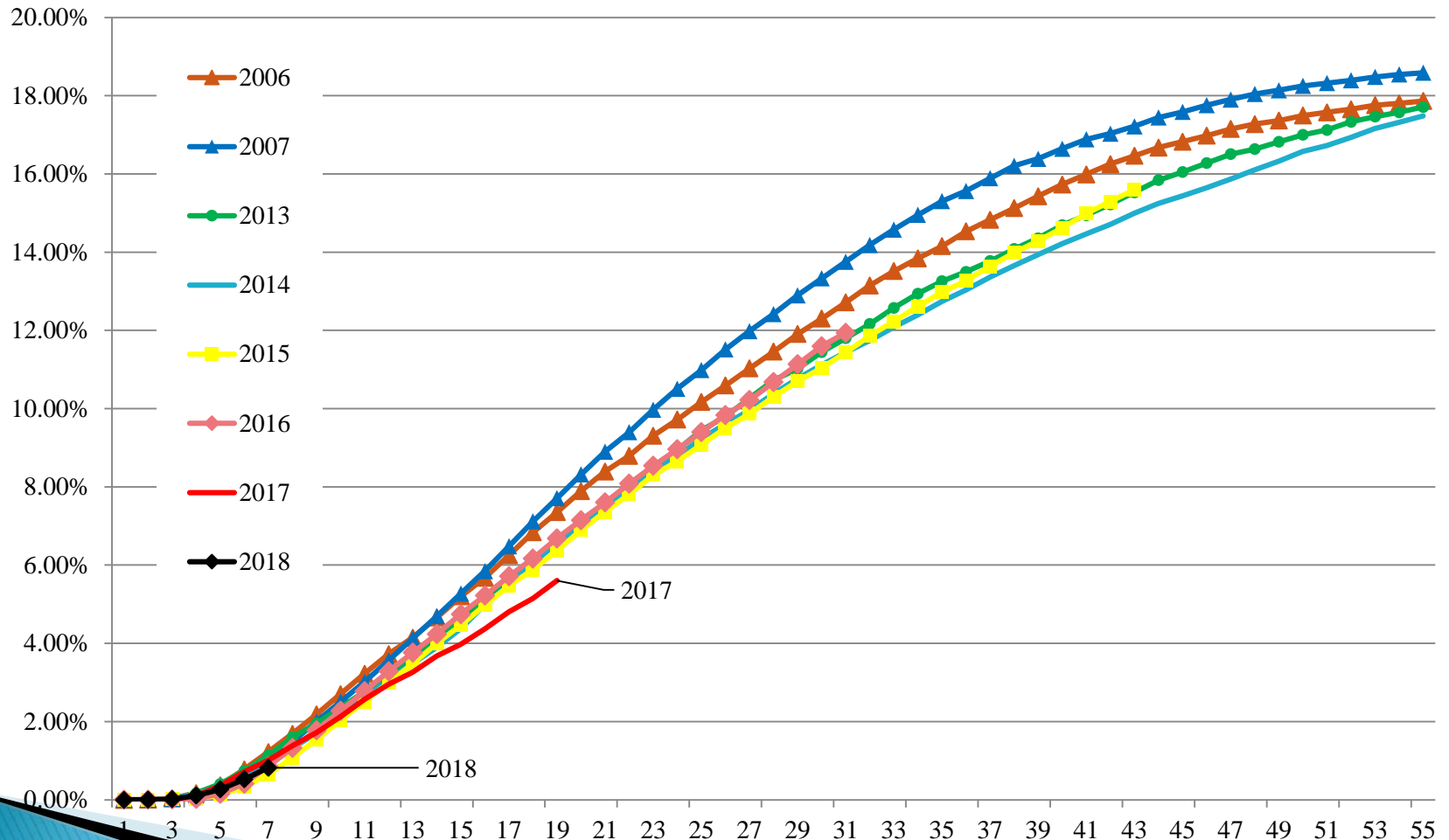
- Geographically dispersed servicing centers enhance coverage and staffing flexibility and drive portfolio performance
- Early contact on past due accounts; commencing as early as first day after due date; self-cure analytics leverages workforce
- Early stage workload supplemented by automated intelligent predictive dialer, text message reminders and two-way text message communications.
- Workloads allocated based on specialization and behavioral scorecards, which enhances efficiencies

# Portfolio Financing

- \$300 million in interim funding capacity through three credit facilities
  - \$100 million with Fortress; revolves to April 2021, due in April 2023
  - \$100 million with Citibank; revolves to August 2020, due in August 2021
  - \$100 million with Ares / Credit-Suisse; revolves to November 2019, due in November 2021
- Regular issuer of asset-backed securities, providing long-term matched funding
  - \$13.9 billion in 83 deals from 1994 through July 2019.
  - Completed 33 senior subordinated securitizations since the beginning of 2011.
  - In the July 2019 transaction, sold six tranches of rated bonds from triple “A” down to single “B” with a blended coupon of 3.36%.
- At June 30, 2019, total corporate debt of \$14.4 million in subordinated unsecured retail notes.
- May 2018, \$40 million residual financing.

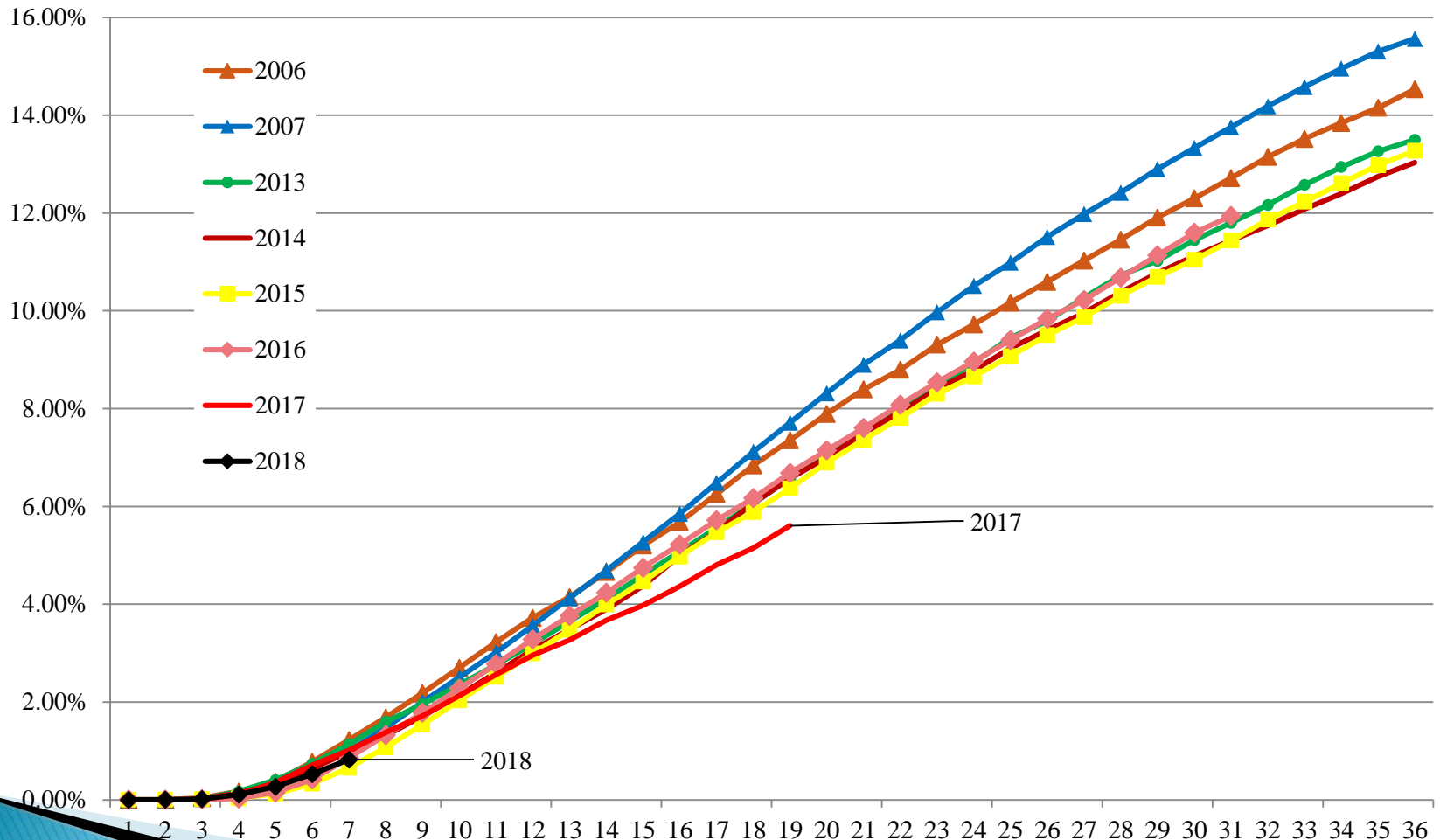
# Static Pool Performance

- Average of quarterly vintage cumulative net losses as of June 30, 2019
- Improved credit performance of more recent vintages



# Static Pool Performance

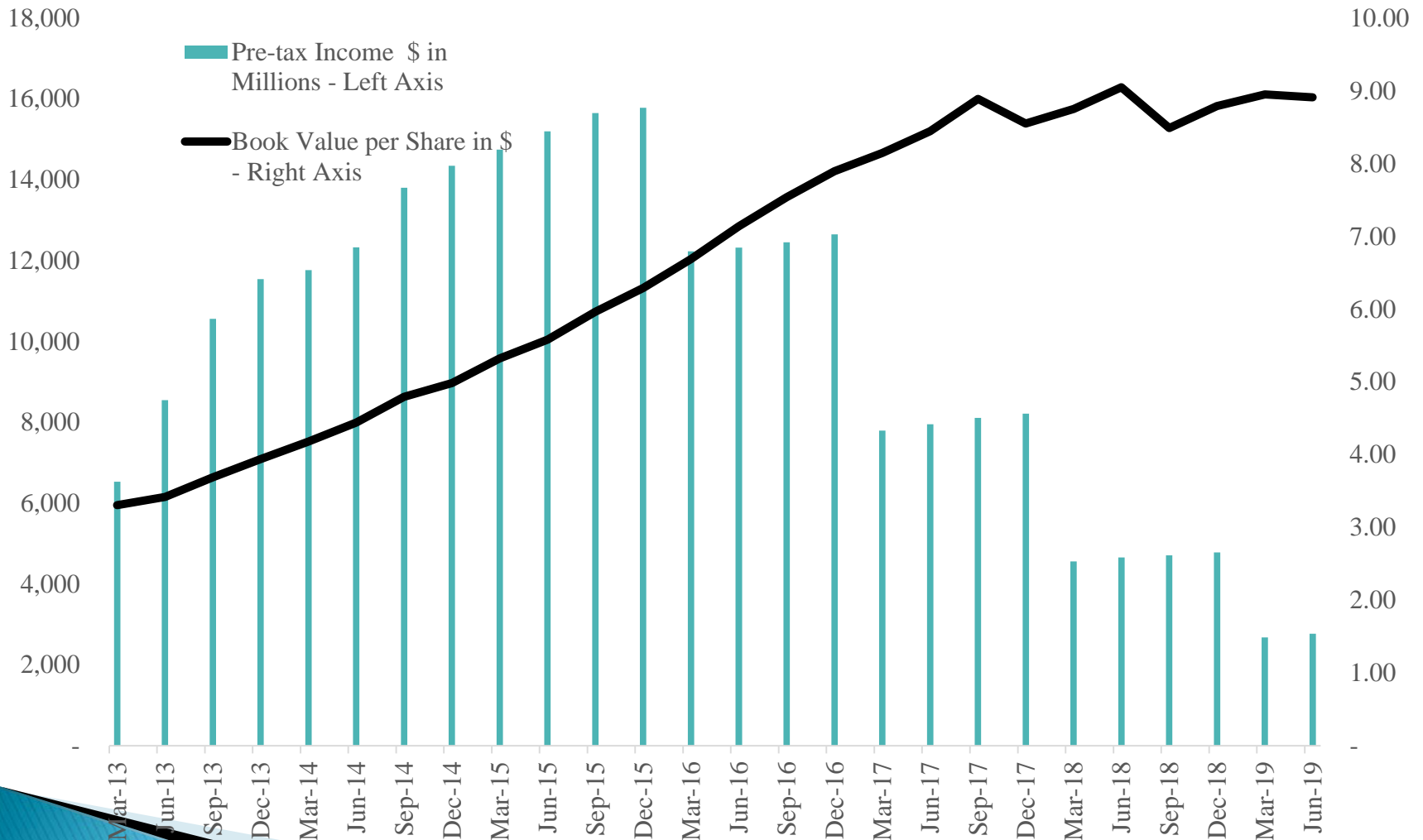
- Average of quarterly vintage cumulative net losses as of June 30, 2019
- Improved credit performance of more recent vintages





# Consumer Portfolio Services, Inc.

## Creating Shareholder Value



# Summary Balance Sheets (1)

(\$ in millions)	June 30, 2019	December 31, 2018	December 31, 2017	December 31, 2016
<u>Assets</u>				
Cash	\$ 9.7	\$ 12.8	\$ 12.7	\$ 13.9
Restricted cash	125.5	117.3	112.0	112.8
Finance receivables, net of allowance	1,147.6	1,454.7	2,195.8	2,172.4
Finance receivables, measured at fair value	1,158.4	821.1	-	-
Deferred tax assets, net	17.1	19.2	32.4	42.8
Other assets	66.5	60.6	71.9	68.5
	<u>\$ 2,524.8</u>	<u>\$ 2,485.7</u>	<u>\$ 2,424.8</u>	<u>\$ 2,410.4</u>
<u>Liabilities</u>				
Accounts payable and accrued expenses	\$ 54.0	\$ 31.7	\$ 28.7	\$ 25.0
Warehouse lines of credit	139.2	136.9	112.4	103.4
Residual interest financing	39.3	39.1	-	-
Securitization trust debt	2,077.3	2,063.6	2,083.2	2,080.9
Subordinated renewable notes	14.3	17.3	16.6	14.9
	<u>2,324.1</u>	<u>2,288.6</u>	<u>2,240.9</u>	<u>2,224.2</u>
Shareholders' equity	<u>200.7</u>	<u>197.1</u>	<u>183.9</u>	<u>186.2</u>
	<u>\$ 2,524.8</u>	<u>\$ 2,485.7</u>	<u>\$ 2,424.8</u>	<u>\$ 2,410.4</u>

(1) Numbers may not add due to rounding.

# Summary Statements of Operations (1)

(\$ in millions)	Three Months Ended		Years Ended		
	June 30, 2019	June 30, 2018	December 31, 2018	December 31, 2017	December 31, 2016
<u>Revenues</u>					
Interest income	\$ 84.4	\$ 97.0	\$ 380.3	\$ 424.2	\$ 409.0
Other income	1.9	2.4	9.5	10.2	13.3
	86.3	99.4	389.8	434.4	422.3
<u>Expenses</u>					
Employee costs	19.7	19.8	79.3	73.0	65.5
General and administrative	15.6	14.2	57.2	50.3	48.7
Interest	27.7	25.2	101.5	92.3	79.9
Provision for credit losses	20.5	35.5	133.1	186.7	178.5
	83.5	94.7	371.1	402.3	372.6
Pretax income	2.8	4.7	18.7	32.1	49.7
Income tax expense (2)	1.0	1.5	3.8	28.3	20.4
Net income	\$ 1.8	\$ 3.2	\$ 14.9	\$ 3.8	\$ 29.3
EPS (fully diluted)	\$ 0.08	\$ 0.13	\$ 0.59	\$ 0.14	\$ 1.01

(1) Numbers may not add due to rounding.

(2) Includes \$2.1 million net tax benefit related to certain tax planning strategies and other adjustments.

# Selected Financial Data

(\$ in millions)	Three Months Ended		Years Ended		
	June 30, 2019	June 30, 2018	December 31, 2018	December 31, 2017	December 31, 2016
Auto contract purchases	\$ 250.1	\$ 214.7	\$ 902.4	\$ 859.1	\$ 1,088.8
Total managed portfolio	\$ 2,399.2	\$ 2,329.2	\$ 2,380.9	\$ 2,333.5	\$ 2,308.1
Risk-adjusted margin (1)	\$ 38.1	\$ 38.6	\$ 155.2	\$ 155.3	\$ 163.8
Core operating expenses (2)					
\$ amount	\$ 35.4	\$ 34.0	\$ 136.5	\$ 123.2	\$ 114.2
% of avg. managed portfolio	5.9%	5.8%	5.8%	5.3%	5.1%
Pretax return on managed assets (3)	0.5%	0.8%	0.8%	1.4%	2.2%
Total delinquencies and repo inventory (30+ days past due)					
As a % of total owned portfolio	14.8%	10.1%	13.9%	11.3%	11.0%
Annualized net charge-offs					
As a % of total owned portfolio	7.8%	7.6%	7.7%	7.7%	7.0%

- (1) Revenues less interest expense and provision for credit losses.
- (2) Total expenses less provision for credit losses and interest expense.
- (3) Equal to annualized pretax income as a percentage of the average managed portfolio.

# Investment Considerations

- CPS has weathered multiple industry cycles to remain one of the few independent public auto finance companies
- Thirty consecutive quarters of pre-tax profits
- Attractive industry fundamentals with fewer large competitors than last cycle
- Consistent credit performance
- Growing portfolio enhances operating leverage through economies of scale
- Opportunistic, successful acquisitions
- Stable senior management team averaging 20 years of experience owns significant equity
- CPSS currently trading at a discount to book value

# Reference to Public Reports

- Any person considering an investment in securities issued by CPS is urged to review the materials filed by CPS with the U.S. Securities and Exchange Commission ("Commission"). Such materials may be found by inquiring of the Commission's EDGAR search page (<http://www.sec.gov/edgar/searchedgar/companysearch.html>) using CPS's ticker symbol, which is "CPSS." Risk factors that should be considered are described in Item 1A, "Risk Factors," of CPS's annual report on Form 10-K, which report is on file with the Commission and available for review at the Commission's website. Such description of risk factors is incorporated herein by reference.

# Safe Harbor Statement

- ▶ Information included in the preceding slides is believed to be accurate, but is not necessarily complete. Such information should be reviewed in its appropriate context. The implication that historical trends will continue in the future, or that past performance is indicative of future results, is disclaimed. To the extent that one reading the preceding material nevertheless makes such an inference, such inference would be a forward-looking statement, and would be subject to risks and uncertainties that could cause actual results to vary. Such risks include variable economic conditions, adverse portfolio performance (resulting, for example, from increased defaults by the underlying obligors), volatile wholesale values of collateral underlying CPS assets, reliance on warehouse financing and on the capital markets, fluctuating interest rates, increased competition, regulatory changes, the risk of obligor default inherent in sub-prime financing, and exposure to litigation.