

\$15MM Re-Discount Line of Credit for Sub-Prime Automobile Finance Company

TRANSACTION HIGHLIGHTS:

- 40+ years of Profitable Business Operations
- Long-Term Relationships with Dealers in the Houston Metro Area
- Consistent Deal Flow and Diversified Portfolio Consisting of 2,600+ loans
- Strengthened Balance Sheet Following \$3.5MM Subordinated Debt Raise
- Low Delinquency rates relative to industry

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Loans made or arranged pursuant to California Finance Lenders Law License No. 60DBO 67279

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➤ COMPANY DESCRIPTION

Our Client (the "Company") was founded in 1974 and is headquartered in Houston, TX. The Company is family owned and operated and has been continuously profitable for over 40 years through a variety of economic cycles. The Company is engaged in the business of providing subprime financing solutions to Houston automobile dealers and consumers. Loans are purchased at a 10-25% discount from over 176 local dealers and are serviced in-house. The Company consistently outperforms its competitors, enjoys some of the lowest delinquency rates in the subprime auto lending industry (1.5% vs an industry level of 5.13%), and is uniquely positioned based on its ability to remarket vehicles through its wholly owned used car sales subsidiary. Key credit requirements are verified, and our Client serves a specific segment of customers which has enabled strong long-term referral relationships with dealerships in its network. Loan rates range from 18% to 26% and average 23%. The average loan size is under \$10k, does not exceed 15% of a borrower's monthly income, has a monthly payment of \$375, and term of 42 months.

FINANCIAL SUMMARY

Our Client generates revenue through purchasing installment contracts from dealers at a discount, receiving interest income, and through re-selling repossessed cars through its wholly owned subsidiary which maximizes the ultimate resale value. Revenue has ranged from \$8.7MM to \$10.1MM over the past four years and averaged \$9.4MM. On average, the Company purchases ~70 contracts per month and repossesses cars on 16% of loans made, well below the industry average of 35%.

From 2016 through 2019, the Company consistently generated net profits of ~\$100k. Through October of 2020, our Client has generated \$6.4MM of revenue, \$1.5MM of adjusted EBITDA, and a net profit of \$909k by reducing operating expenses and bad debt through new credit policies. In 2019, our Client raised \$3.5MM of subordinated debt from friends and family in order to strengthen its balance sheet. Balance sheet leverage currently stands at 1.9x.

➤ OPPORTUNITY HIGHLIGHTS

Our Client is seeking a \$15MM rediscount line of credit that will be used to (i) refinance the incumbent lender with \$13.4MM outstanding and (ii) provide requisite working capital to grow its loan portfolio. The Company's incumbent bank was acquired by a larger bank and is winding down its re-discount lending business.

This credit facility will be secured by all assets of the Company (including both loan receivables and repossessed cars) and a personal guarantee from the owner. As of 10/31/20 the loan portfolio totaled \$19.1MM and consisted of 2,695 loans and current LTV is 67%. 84% of the portfolio is current while average delinquency is 1.5% (30+ days past due). The value of used cars for resale was \$360k as of 10/31/20. The owners' net worth exceeds \$4.5MM.