

CarMax, Inc.(KMX)

\$58.01 (As of 04/07/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Coronavirus has taken a toll on the auto sector, with factory closures, low footfall at dealerships and supply chain distortions. Auto parts retailer, CarMax, is likely to bear the brunt of falling demand of vehicle purchases as the pandemic has dented consumer sentiments. Amid the COVID-19 pandemic, consumers are likely to shun big-ticket items. This is likely to put pressure on the firm's revenues and earnings in the coming quarters. Coronavirus-led uncertainty has also prompted CarMax to call off its buyback program. Further, an ample supply of off-lease used vehicles may lead to lower prices. Rising SG&A expenses on account of store expansion and digital enhancements is another concern. Tariffs woes in China also remain a headwind. As such, the stock is viewed as a risky bet at the moment.

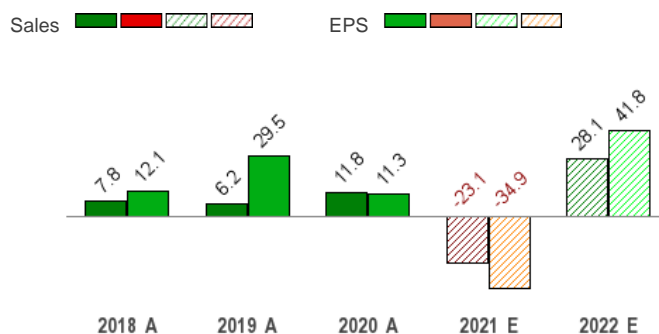
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$103.18 - \$37.59
20 Day Average Volume (sh)	3,108,562
Market Cap	\$9.5 B
YTD Price Change	-33.8%
Beta	1.46
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 12% (223 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.1%
Last Sales Surprise	6.4%
EPS F1 Est- 4 week change	-37.8%
Expected Report Date	06/19/2020
Earnings ESP	-188.8%
P/E TTM	10.9
P/E F1	16.7
PEG F1	1.4
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					20,021 E
2021	2,352 E	3,238 E	4,445 E	4,860 E	15,625 E
2020	5,366 A	5,201 A	4,790 A	4,962 A	20,320 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$4.92 E
2021	\$0.16 E	\$0.47 E	\$1.00 E	\$1.34 E	\$3.47 E
2020	\$1.59 A	\$1.40 A	\$1.04 A	\$1.30 A	\$5.33 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/07/2020. The reports text is as of 04/08/2020.

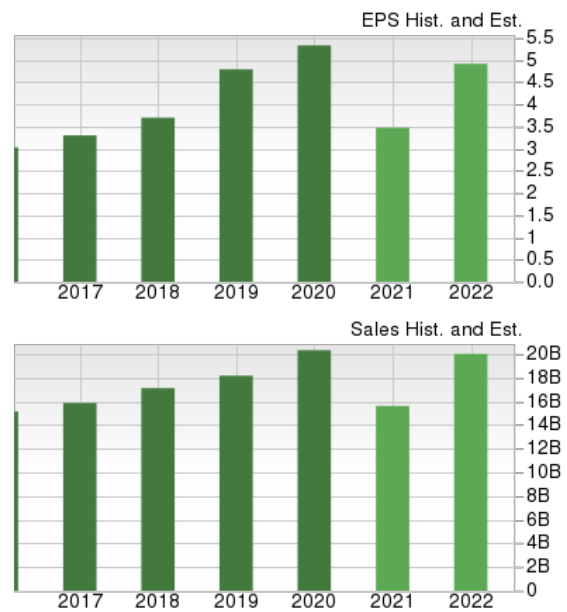
Overview

Headquartered in Richmond, VA, CarMax Inc. operates as a specialty retailer of used and new vehicles. The range of vehicles includes both cars and light trucks. It is one of the largest retailers of used vehicles in the United States. CarMax also provides customers with a full range of related services including financing of vehicle purchases and sale of extended warranties, accessories and vehicle repair services through CarMax Auto Finance (CAF).

CarMax is a holding company, which conducts its operations through wholly owned subsidiaries. The company operates under two reportable segments: CarMax Sales Operations and CAF. Under the CarMax Sales Operations segment, the company undertakes all auto merchandising and service operations, excluding financing. The CAF segment provides vehicle financing through CarMax stores.

CarMax acquires its used-vehicle inventory directly from consumers through its in-store appraisal process as well as from other sources including local and regional auctions, wholesalers, franchised and independent dealers and fleet owners, such as leasing and rental companies. The company conducts the in-store appraisal process through its car-buying centers (about five) intended to increase appraisal traffic and generate incremental vehicle purchases by individual consumers, but not sale of vehicles. Out of the vehicles purchased through the in-store appraisal process, those which do not meet the company's retail standard are sold through on-site wholesale auctions.

The company has more than 200 stores worldwide. Most of its store locations are in the Southeastern United States. Chicago, Los Angeles, Houston, Dallas and Washington D.C. are some of the cities where the company enjoys a strong presence. In fiscal 2020, used vehicles contributed 84.5% while wholesale vehicles contributed 12.3% to total revenues. Other sales and revenues (such as new vehicle sales, commission on the sale of extended service plans (ESP), service department sales and third-party finance fees) contributed 3.2% to total revenues.



Reasons To Sell:

- ▼ Coronavirus has taken a toll on the auto sector, with factory closures, low footfall at dealerships and supply chain distortions. Auto parts retailer, CarMax, is likely to bear the brunt of falling demand of vehicle purchases as the pandemic has dented consumer sentiments. This is likely to put pressure on the firm's revenues and earnings in the coming quarters. Amid the coronavirus-led uncertainty, the company has also suspended stock buybacks, dampening investors' confidence.
 - ▼ Abundant supply of off-lease used vehicles that the market cannot absorb adequately is expected to lead to higher depreciation rates and lowered prices. Selling vehicles at low prices might hamper the company's margin.
 - ▼ In fiscal 2020, CarMax's SG&A expenditure witnessed year-over-year rise of roughly 12% to \$1.9 billion. This increase was primarily due to expenses related to store openings. Increased investments to develop technology platforms and digital initiatives along with share-based compensation expenses are also increasing expenses for the company. The company is bearing the brunt of lower selling prices along with rising expenses over the past few quarters, which are weighing on the stock's performance.
 - ▼ Tariff woes in China remain a major headwind that may affect the top-line growth of CarMax. These are escalating the cost of raw materials and may eat into some of the profits of the firm.
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High SG&A expenditure and coronavirus woes are likely to weigh on CarMax's earnings in the near future.

Risks

- The company follows an aggressive store expansion initiative in existing as well as new markets. Additionally, the company is also making improvements to its digital platform to increase website traffic.
 - Unlike its peers, CarMax focuses more on the used-car market. Expensive new vehicles led to robust demand for cheaply available used vehicles. Further, the company's customer-friendly sales process, positions CarMax well.
 - CarMax's increasing cash flow and strengthening balance sheet enables it to consistently enhance shareholder value through buybacks. The company repurchased 7 million shares for \$561.6 million in fiscal 2020. As of February 29, 2020, it had \$1.55 billion remaining available for repurchase under the outstanding authorization. While the company has temporarily halted its stock repurchase program, the buyback authorization remains effective.
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Last Earnings Report

CarMax Puts Up a Stellar Q4 Show

CarMax posted fourth-quarter fiscal 2020 (ended Feb 29, 2020) net earnings per share of \$1.30, beating the Zacks Consensus Estimate of \$1.12. The bottom line also compared favorably with a profit of \$1.13 per share reported in the year-ago quarter. Notably, better-than-expected revenues across all segments contributed to this outperformance.

Net sales and operating revenues in the reported quarter increased 14.9% year over year to \$4.96 billion. The top line also beat the Zacks Consensus Estimate of \$4.66 billion. Total gross profit rose 12.3% year over year to \$672.9 million.

In fourth-quarter fiscal 2020, CarMax opened three stores — two in existing markets, in Oregon and Tennessee, and one in a new market in Indiana.

Segmental Performance

In the fiscal fourth quarter, CarMax's used-vehicle sales rose 17.2% from the prior-year period to \$4,253.7 million, on higher unit sales and improved average selling price. The units sold also climbed 14.7% year over year to 206,718 vehicles. The average selling price of used vehicles increased 2% from the year-ago quarter to \$20,380. Used vehicle gross profit per unit came in at \$2,195 compared with \$2,166 in the year-ago period. Comparable store used-vehicle units and revenues rose to 11% and 13.4%, respectively, from the prior-year level. This robust performance reflects improved conversion and solid growth in web traffic.

Wholesale vehicle revenues inched up 0.8% from the year-ago period to \$548.3 million in the reported quarter. Units sold also increased 2% year over year to 104,900 vehicles on growth in store base and appraisal buy rate. However, the average selling price of wholesale vehicles edged down 1.4% from the prior-year quarter to \$4,954. Wholesale vehicle gross profit per unit came in at \$993 versus \$977 in the year-ago period.

Other sales and revenues increased 9.6% year over year to \$160.5 million in the fiscal fourth quarter. Moreover, the extended protection plan's revenues rose 17.7% to \$115.7 million from the year-ago level.

CarMax Auto Finance reported a 7.9% year-over-year increase in income to \$111.9 million in the quarter, reflecting collective effects of 8.2% rise in average managed receivables and an improvement in the total interest margin percentage, partially offset by a higher loan loss provision.

Costs, Financials and Share Buyback

Selling, general and administrative expenses flared up 13% from the prior-year quarter to \$484.7 million. Store openings and spending to boost the firm's technology, along with omni-channel strategic initiatives, escalated SG&A costs.

CarMax had cash and cash equivalents of \$58.2 million as of Feb 29, 2020, up from \$46.93 million in the corresponding period of 2019. Long-term debt (excluding current position) amounted to \$1,778.7 million, reflecting an increase from \$1,649.2 million in the year-ago period.

In the reported quarter, the company spent \$113.6 million to repurchase 1.2 million shares under the existing share-buyback program. As of Feb 29, 2020, it had \$1.55 billion remaining under its share-repurchase authorization.

Quarter Ending **02/2020**

Report Date	Apr 02, 2020
Sales Surprise	6.37%
EPS Surprise	16.07%
Quarterly EPS	1.30
Annual EPS (TTM)	5.33

Valuation

CarMax's shares are down 33.8% in the year-to-date period and down 20.9% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale – Parts industry and the Zacks Auto sector are down 29.8% and 23.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.4% and 17.5%, respectively.

The S&P 500 index is down 17.2% in the year-to-date period and down 7.6% in the past year.

The stock is currently trading at 10.26X forward 12-month earnings, which compares to 14.7X for the Zacks sub-industry, 10.96X for the Zacks sector and 16.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.76X and as low as 8.56X, with a 5-year median of 16.23X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$49 price target reflects 8.67X forward 12-month earnings per share.

The table below shows summary valuation data for KMX:

Valuation Multiples - KMX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.26	14.7	10.96	16.91
	5-Year High	24.76	21.41	11.75	19.34
	5-Year Low	8.56	12.62	8.23	15.19
	5-Year Median	16.23	17.71	9.93	17.44
EV/EBITDA TTM	Current	16.76	18.49	8.78	9.75
	5-Year High	22.11	24.03	11.34	12.87
	5-Year Low	15.21	15.21	6.97	8.27
	5-Year Median	18	20.35	9.28	10.78
P/S F12M	Current	0.44	1.33	0.55	2.92
	5-Year High	1.01	1.96	0.76	3.43
	5-Year Low	0.37	1.15	0.5	2.54
	5-Year Median	0.68	1.69	0.61	3

As of 04/07/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (223 out of 253)



Top Peers

Asbury Automotive Group, Inc. (ABG)	Neutral
AutoNation, Inc. (AN)	Neutral
Americas Car-Mart, Inc. (CRMT)	Neutral
Penske Automotive Group, Inc. (PAG)	Neutral
Group 1 Automotive, Inc. (GPI)	Underperform
Lithia Motors, Inc. (LAD)	Underperform
Rush Enterprises, Inc. (RUSHA)	Underperform
Sonic Automotive, Inc. (SAH)	Underperform

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	KMX Underperform	X Industry	S&P 500	GPI Underperform	LAD Underperform	SAH Underperform
VGM Score	F	-	-	A	A	A
Market Cap	9.48 B	9.48 B	18.38 B	829.60 M	1.74 B	609.47 M
# of Analysts	8	8	13	4	5	5
Dividend Yield	0.00%	0.00%	2.31%	2.66%	1.61%	2.79%
Value Score	D	-	-	B	C	A
Cash/Price	0.07	0.04	0.06	0.04	0.05	0.06
EV/EBITDA	16.66	11.10	11.23	5.57	5.62	3.96
PEG Ratio	1.37	1.43	1.91	2.34	4.47	NA
Price/Book (P/B)	2.51	3.83	2.45	0.67	1.18	0.65
Price/Cash Flow (P/CF)	8.58	9.82	9.63	3.09	4.83	2.97
P/E (F1)	16.72	15.34	15.92	5.02	6.92	6.89
Price/Sales (P/S)	0.47	0.71	1.94	0.07	0.14	0.06
Earnings Yield	5.98%	5.98%	6.15%	19.93%	14.45%	14.53%
Debt/Equity	4.08	1.06	0.70	1.31	1.14	1.04
Cash Flow (\$/share)	6.76	11.86	7.01	14.63	15.41	4.83
Growth Score	F	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	15.66%	15.11%	10.92%	10.37%	14.88%	2.43%
Proj. EPS Growth (F1/F0)	-34.83%	3.06%	-0.12%	-17.68%	-8.59%	-21.58%
Curr. Cash Flow Growth	7.77%	7.27%	5.93%	8.93%	11.96%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	9.70%	9.09%	8.55%	6.43%	17.29%	5.19%
Current Ratio	2.39	1.04	1.24	1.04	1.20	0.98
Debt/Capital	80.32%	65.87%	42.36%	56.68%	53.21%	50.85%
Net Margin	4.37%	5.01%	11.64%	1.43%	2.14%	1.38%
Return on Equity	24.46%	16.41%	16.74%	17.00%	20.56%	12.96%
Sales/Assets	1.00	1.00	0.54	2.25	2.18	2.54
Proj. Sales Growth (F1/F0)	-23.11%	0.27%	0.85%	-11.30%	-0.60%	-0.27%
Momentum Score	F	-	-	B	A	B
Daily Price Chg	6.54%	2.56%	0.69%	8.82%	2.63%	10.58%
1 Week Price Chg	-17.53%	-9.94%	-4.40%	-23.08%	-19.61%	-20.27%
4 Week Price Chg	-27.30%	-26.45%	-10.67%	-31.41%	-28.27%	-40.08%
12 Week Price Chg	-36.91%	-33.21%	-23.70%	-55.01%	-47.49%	-53.45%
52 Week Price Chg	-20.87%	-15.91%	-15.92%	-33.93%	-20.82%	-4.47%
20 Day Average Volume	3,108,562	860,041	4,068,329	485,495	412,734	680,272
(F1) EPS Est 1 week change	-35.43%	-2.22%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-37.83%	-6.86%	-5.24%	-25.70%	-16.02%	-29.13%
(F1) EPS Est 12 week change	-37.86%	-8.22%	-6.86%	-20.40%	-21.36%	-30.18%
(Q1) EPS Est Mthly Chg	-90.17%	-10.96%	-8.25%	-63.91%	-34.53%	-70.48%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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