

CarMax, Inc.(KMX)

\$98.11 (As of 01/23/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: D

Summary

Shares of CarMax have outperformed the broader industry over the past year. The company has been benefitting from an aggressive store expansion initiative in existing as well as new television markets. Strong market presence through store expansion and robust demand for used vehicles are the major drivers of year-over-year growth. Apart from store openings in new and existing markets, it is expanding presence through digital platforms. Also, strong balance sheet aids CarMax in rewarding shareholders through share buybacks and investment in technology. However, an ample supply of off-lease used vehicles may lead to lower prices. Rising SG&A expenses is another concern. Tariffs woes in China also remain a major headwind. Resultantly, investors are recommended to wait for a better entry point.

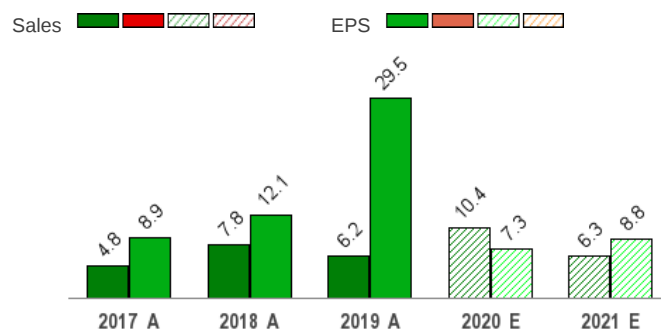
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$100.49 - \$57.98
20 Day Average Volume (sh)	1,276,935
Market Cap	\$16.0 B
YTD Price Change	11.9%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 25% (192 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.3%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	04/03/2020
Earnings ESP	0.0%
P/E TTM	19.0
P/E F1	19.1
PEG F1	1.6
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,622 E	5,570 E	5,066 E	4,923 E	21,316 E
2020	5,366 A	5,201 A	4,790 A	4,643 E	20,058 E
2019	4,793 A	4,766 A	4,296 A	4,319 A	18,173 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.63 E	\$1.50 E	\$1.18 E	\$1.26 E	\$5.59 E
2020	\$1.59 A	\$1.40 A	\$1.04 A	\$1.11 E	\$5.14 E
2019	\$1.33 A	\$1.24 A	\$1.09 A	\$1.13 A	\$4.79 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 01/23/2020. The reports text is as of 01/24/2020.

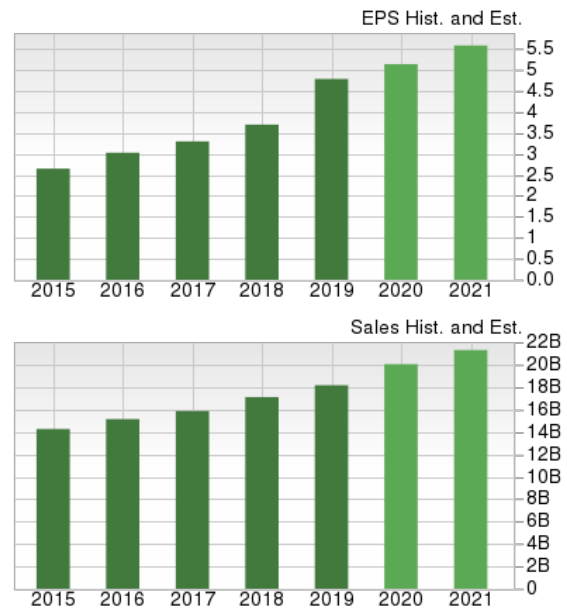
Overview

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 operates 205 used-car stores across various television markets. 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 2019, used vehicles contributed 84% while wholesale vehicles contributed 12% 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 4% to total revenues.



Reasons To Buy:

- ▲ The company follows an aggressive store expansion initiative in existing as well as new television markets. During the fiscal year 2019, it opened 15 stores. Moreover, the company plans to open stores in existing 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. In fiscal 2019, the company spent \$902.9 million to repurchase 13.6 million shares under the existing share buyback program. As of Aug 31, 2019, it had \$1.78 billion of authorization remaining under its share repurchase program.

CarMax's focus on the used-vehicle market, store expansion and share repurchases should help it outperform peers.

Reasons To Sell:

- ▼ 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 2019, CarMax's SG&A expenditure witnessed year-over-year rise of roughly 7% to \$1.73 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 easy availability of used vehicles are concerns before CarMax.

Last Earnings Report

CarMax Earnings Miss Estimates in Q3, Down Y/Y

CarMax, the specialty retailer of used and new vehicles, posted third-quarter fiscal 2020 (ended Nov 30, 2019) net earnings per share of \$1.04, missing the Zacks Consensus Estimate of \$1.16. Notably, lower-than-expected revenues across the wholesale vehicle segment resulted in the underperformance. Precisely, sales in the wholesale vehicle segment came in at \$611 million, missing the consensus mark of \$634 million.

The bottom line also compared unfavorably with a profit of \$1.09 per share reported in the year-ago quarter.

Net sales and operating revenues in the reported quarter increased 11.5% year over year to \$5,790 million. The top line beat the Zacks Consensus Estimate of \$4,709 million. Total gross profit rose 7.8% year over year to \$613.6 million.

In third-quarter fiscal 2020, CarMax opened four stores: two in existing markets —Texas andGeorgia, and two in new markets— California and Mississippi.

Segmental Performance

In the fiscal third quarter, CarMax's used-vehicle sales rose 13.6% from the prior-year period to \$4,028.8 million, on the back of higher unit sales and improved average selling price. The units sold also climbed11% year over year to 192,563 vehicles. The average selling price of used vehicles increased 2.2% from the year-ago quarter to \$20,710. Used vehicle gross profit per unit came in at \$2,145 versus \$2,133 in the year-ago period. Comparable store used-vehicle units and revenues sold rose 7.5% from the prior-year level. This robust performance reflects improved conversion and solid growth in web traffic.

Wholesale vehicle revenues inched up 1.2% from the prioryear to \$611 million in the reported quarter. Units sold also increased 3.3% year over year to 113,996 vehicles, courtesy of growth in store base and appraisal buy rate. Moreover, the average selling price of wholesale vehicles declined 2.6% from the prior-year quarter to \$5,079. Wholesale vehicle gross profit per unit came in at \$937 versus \$949 in the year-ago period.

Other sales and revenues increased 4.1% year over year in the quarter. Moreover, the extended protection plan's revenues rose 13.3% to \$97 million from the year-ago level.

CarMax Auto Finance reported a 3.9% year-over-year increase in income to \$114 million in the quarter, reflecting collective effects of 7.5% rise in average managed receivables, partly offset by a decline in total interest margin percentage.

Costs, Financials and Share Buyback

Selling, general and administrative expenses flared up 18.4% from the prior-year quarter to \$484.8 million. Store openings and spending to boost the firm's technology, along withomni-channel strategic initiatives led to the rise in SG&A costs.

CarMax had cash and cash equivalents of \$56.6 million as of Nov 30, 2019, up from \$35.05 million in the corresponding period of 2018. Long-term debt (excluding current position) amounted \$1,704.3 million, reflecting an increase from \$1,649.2 million in the year-ago comparable period. Its debt-to-capital ratio stands at 31.5%.

In the quarter, the company spent\$114.8 million to repurchase 1.3 million shares under the existing share-buyback program. As of Nov 30, 2019, it had \$1.67 billion remaining under its share-repurchase authorization.

Quarter Ending 11/2019

Report Date	Dec 20, 2019
Sales Surprise	1.73%
EPS Surprise	-10.34%
Quarterly EPS	1.04
Annual EPS (TTM)	5.16

Valuation

CarMax's shares are up 62.7% in the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale – Parts industry and the Zacks Auto sector are up 31.7% and 13.4%, respectively, over the past year.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 17.71X forward 12-month earnings, which compares to 18.36X for the Zacks sub-industry, 25.54X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.16X and as low as 11.39X, with a 5-year median of 16.3X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 18.77X 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	17.71	18.36	25.54	19.13
	5-Year High	26.16	21.41	26.23	19.34
	5-Year Low	11.39	14.08	19.07	15.17
	5-Year Median	16.3	17.88	22.95	17.44
P/B TTM	Current	4.36	11.48	5.25	4.54
	5-Year High	4.97	12.05	5.87	4.55
	5-Year Low	2.86	6.98	3.6	2.85
	5-Year Median	3.81	9.74	4.84	3.61
EV/EBITDA TTM	Current	21.39	23.22	15.6	12.38
	5-Year High	21.83	23.85	15.6	12.86
	5-Year Low	15.57	15.23	10.37	8.48
	5-Year Median	18.09	20.39	12.38	10.69

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (192 out of 255)



Top Peers

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

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	KMX Neutral	X Industry	S&P 500	GPI Outperform	LAD Neutral	SAH Outperform
VGM Score	D	-	-	A	A	B
Market Cap	16.03 B	16.03 B	24.46 B	1.93 B	3.34 B	1.34 B
# of Analysts	8	8	13	5	5	5
Dividend Yield	0.00%	0.00%	1.75%	1.12%	0.84%	1.29%
Value Score	C	-	-	A	A	A
Cash/Price	0.03	0.01	0.04	0.02	0.01	0.00
EV/EBITDA	22.30	18.42	14.11	8.24	9.10	9.17
PEG Ratio	1.55	1.56	2.04	2.58	1.20	3.52
Price/Book (P/B)	4.36	3.73	3.40	1.63	2.45	1.49
Price/Cash Flow (P/CF)	16.29	16.29	13.66	8.00	10.34	7.69
P/E (F1)	18.93	18.35	19.10	9.11	10.63	10.56
Price/Sales (P/S)	0.81	1.07	2.67	0.16	0.27	0.13
Earnings Yield	5.24%	5.24%	5.23%	10.98%	9.41%	9.46%
Debt/Equity	4.07	0.79	0.72	1.27	1.12	1.31
Cash Flow (\$/share)	6.02	10.51	6.94	13.00	13.89	4.04
Growth Score	C	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	15.43%	14.89%	10.60%	9.91%	15.43%	0.71%
Proj. EPS Growth (F1/F0)	7.39%	11.29%	7.59%	7.55%	13.83%	15.28%
Curr. Cash Flow Growth	18.60%	18.30%	13.90%	9.82%	18.93%	-0.88%
Hist. Cash Flow Growth (3-5 yrs)	10.83%	8.49%	9.00%	6.68%	20.71%	0.73%
Current Ratio	2.43	1.06	1.22	1.00	1.18	1.04
Debt/Capital	80.28%	62.27%	42.99%	55.90%	52.84%	56.62%
Net Margin	4.40%	4.58%	11.35%	1.31%	2.13%	1.16%
Return on Equity	24.53%	15.61%	17.10%	16.48%	20.95%	12.20%
Sales/Assets	1.00	1.03	0.55	2.28	2.19	2.54
Proj. Sales Growth (F1/F0)	10.37%	2.84%	4.03%	2.14%	6.51%	7.03%
Momentum Score	D	-	-	A	F	F
Daily Price Chg	0.78%	0.41%	0.26%	1.04%	1.27%	1.11%
1 Week Price Chg	7.40%	1.37%	2.29%	5.22%	2.99%	7.06%
4 Week Price Chg	10.20%	-0.69%	2.24%	3.59%	-3.14%	2.41%
12 Week Price Chg	5.30%	1.89%	7.79%	4.56%	-8.83%	-3.57%
52 Week Price Chg	65.06%	35.69%	21.61%	73.17%	66.94%	103.54%
20 Day Average Volume	1,276,935	713,150	1,536,379	181,930	165,118	278,136
(F1) EPS Est 1 week change	0.05%	-0.02%	0.00%	0.74%	-1.08%	-1.14%
(F1) EPS Est 4 week change	-1.65%	-0.28%	0.00%	1.01%	-0.03%	-0.34%
(F1) EPS Est 12 week change	-2.70%	0.42%	-0.23%	3.94%	4.11%	9.04%
(Q1) EPS Est Mthly Chg	-1.23%	0.00%	0.00%	6.00%	1.52%	-2.86%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	C
Momentum Score	D
VGM Score	D

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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