

CarMax, Inc.(KMX)

\$74.10 (As of 04/28/20)

Price Target (6-12 Months): **\$63.00**

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: D

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.

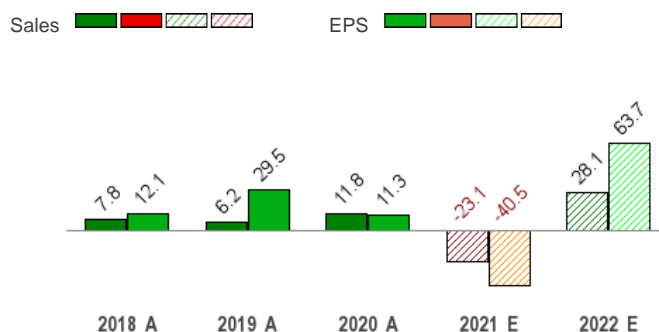
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$103.18 - \$37.59
20 Day Average Volume (sh)	2,739,282
Market Cap	\$12.0 B
YTD Price Change	-15.5%
Beta	1.46
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 23% (194 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	-41.5%
Expected Report Date	06/19/2020
Earnings ESP	-287.8%
P/E TTM	13.9
P/E F1	23.4
PEG F1	1.9
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,723 E	4,783 E	4,821 E	5,575 E	20,016 E
2021	2,347 E	3,236 E	4,445 E	4,860 E	15,620 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	\$1.41 E	\$1.29 E	\$0.94 E	\$1.33 E	\$5.19 E
2021	\$0.09 E	\$0.50 E	\$1.02 E	\$1.34 E	\$3.17 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 04/28/2020. The reports text is as of 04/29/2020.

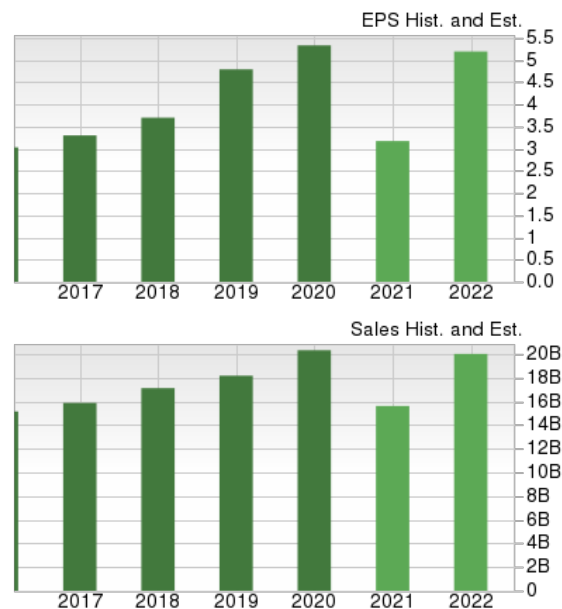
Overview

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. The firm's stretched balance sheet is also a major headwind. 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. Its total debt-to-capital ratio stands at 0.81, higher than its industry's 0.79. A high total debt-to-capital ratio often restricts the financial flexibility of the firm and limits its growth.

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 15.5% in the year-to-date period and down 4.8% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale – Parts industry and the Zacks Auto sector are down 14.8% and 10.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 4.8% and 4.4%, respectively.

The S&P 500 index is down 10.8% in the year-to-date period and down 2.7% in the past year.

The stock is currently trading at 21.15X forward 12-month earnings, which compares to 18.35X for the Zacks sub-industry, 16.77X for the Zacks sector and 20.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.51X and as low as 8.1X, with a 5-year median of 16.21X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$63 price target reflects 18X 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	21.15	18.35	16.77	20.2
	5-Year High	23.51	21.41	16.77	20.2
	5-Year Low	8.1	12.62	8.23	15.19
	5-Year Median	16.21	17.76	9.93	17.45
EV/EBITDA TTM	Current	18.56	20.78	9.38	10.52
	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	17.97	20.3	9.26	10.78
P/S F12M	Current	0.74	1.74	0.65	3.22
	5-Year High	0.95	1.96	0.76	3.44
	5-Year Low	0.34	1.15	0.5	2.54
	5-Year Median	0.68	1.7	0.62	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AutoNation, Inc. (AN)	Neutral	3
Americas Car-Mart, Inc. (CRMT)	Neutral	4
Group 1 Automotive, Inc. (GPI)	Neutral	3
Lithia Motors, Inc. (LAD)	Neutral	3
Asbury Automotive Group, Inc. (ABG)	Underperform	5
Penske Automotive Group, Inc. (PAG)	Underperform	3
Rush Enterprises, Inc. (RUSHA)	Underperform	4
Sonic Automotive, Inc. (SAH)	Underperform	5

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	KMX	X Industry	S&P 500	GPI	LAD	SAH
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	3	5
VGM Score	F	-	-	A	B	A
Market Cap	12.05 B	12.05 B	20.14 B	973.29 M	2.62 B	797.17 M
# of Analysts	8	8	14	4	5	5
Dividend Yield	0.00%	0.00%	2.13%	2.27%	1.07%	2.14%
Value Score	D	-	-	A	B	A
Cash/Price	0.05	0.02	0.06	0.03	0.02	0.04
EV/EBITDA	18.42	12.50	12.15	5.90	6.86	4.44
PEG Ratio	2.03	1.87	2.43	1.33	NA	NA
Price/Book (P/B)	3.21	6.59	2.68	0.78	1.80	0.86
Price/Cash Flow (P/CF)	10.96	11.97	10.78	3.62	7.30	3.88
P/E (F1)	24.70	20.17	19.06	7.33	12.69	12.67
Price/Sales (P/S)	0.59	0.86	2.12	0.08	0.21	0.08
Earnings Yield	4.28%	4.29%	5.11%	13.65%	7.88%	7.90%
Debt/Equity	4.08	1.06	0.72	1.31	1.02	1.04
Cash Flow (\$/share)	6.76	11.86	7.01	14.63	15.41	4.83
Growth Score	D	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	15.66%	15.11%	10.88%	10.37%	14.01%	2.43%
Proj. EPS Growth (F1/F0)	-40.48%	-7.88%	-6.33%	-33.87%	-24.57%	-44.23%
Curr. Cash Flow Growth	7.77%	7.27%	5.92%	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	1.23	1.04	1.20	0.98
Debt/Capital	80.32%	65.87%	43.90%	56.68%	50.56%	50.85%
Net Margin	4.37%	5.01%	11.13%	1.43%	2.07%	1.38%
Return on Equity	24.46%	16.41%	16.47%	17.00%	19.10%	12.96%
Sales/Assets	1.00	1.00	0.55	2.25	2.14	2.54
Proj. Sales Growth (F1/F0)	-23.13%	-1.67%	-1.35%	-17.45%	-10.39%	-12.90%
Momentum Score	F	-	-	D	D	C
Daily Price Chg	-1.16%	-0.24%	1.10%	1.67%	5.29%	3.77%
1 Week Price Chg	8.80%	5.57%	-1.74%	-2.10%	8.79%	4.64%
4 Week Price Chg	37.66%	29.63%	11.80%	19.68%	37.60%	41.04%
12 Week Price Chg	-23.41%	-6.86%	-17.28%	-47.82%	-18.76%	-42.12%
52 Week Price Chg	-4.83%	0.78%	-10.69%	-32.36%	-0.86%	-7.41%
20 Day Average Volume	2,739,282	571,098	2,660,864	331,487	337,760	424,307
(F1) EPS Est 1 week change	-9.78%	0.00%	0.00%	-4.30%	-0.56%	0.00%
(F1) EPS Est 4 week change	-41.45%	-11.76%	-6.46%	-19.67%	-17.49%	-28.87%
(F1) EPS Est 12 week change	-43.22%	-17.26%	-12.81%	-36.70%	-34.36%	-49.76%
(Q1) EPS Est Mthly Chg	-94.39%	-29.17%	-10.84%	-269.26%	-61.59%	-408.07%

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	D
Growth Score	D
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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