

## America's Car-Mart, Inc.

# Volumes fall short driving FY3Q:24 miss – quick take

Maintain Rating: UNDERPERFORM | PO: 55.00 USD | Price: 62.30 USD

## FY3Q24 results disappoint on lower topline growth

America's Car-Mart, Inc (CRMT) reported FY3Q24 EPS of \$(1.34) below our estimate of \$(0.25) and the Bloomberg consensus of \$(1.10). The miss in the quarter was across the board, but weaker-than-expected sales stood out entirely driven by fewer units sold, which fell short of our estimates by 23%. According to management, lower credit application volume (-8.3% YoY) drove roughly half of the sales decline. This indicates that CRMT's consumer demographic remains challenged by higher interest rates and lingering inflation. Noticeably, CRMT's used vehicle prices grew by 7.5% YoY and 2.2% QoQ, which reinforces our view that used vehicle supply remains short. Allowances for credit losses came in better than our expectations. Lower unit volumes and selection towards better credit quality consumers are likely the main drivers of this bright spot. Net charge offs increased 90bps YoY to 6.8%, but declined 40bps sequentially. Net charge offs are within the pre-pandemic range of 5.9%-8.7%. Lastly, CRMT also completed the acquisition of Central Auto Sales in Hot Springs, AK announced back in December and entered in February 2024 into a strategic partnership with Cox Automotive, which is expected to improve the activities related to vehicle acquisition, reconditioning, transportation, and remarketing.

## Used vehicle pricing & GPUs elevated, volumes miss

CRMT's average retail sales price was up 7.5% YoY to \$19,455 and increased 2.2% on a QoQ basis, which suggests that used vehicle pricing gains over the last few years remain relatively sticky. Unit sales declined (-19.6% YoY) due to lower total credit application volume likely stemming from affordability challenges for retail customers. To a lesser extent, retail unit sales were impacted by two fewer selling days and weather in January. Combined, this drove used vehicle revenue of \$300mm, down 12.4% YoY. Used vehicle gross margin increased 50bps YoY to 34.2% and declined 10bps QoQ. Gross profit per unit (GPU) was up \$670/unit YoY to \$7,043 and was up \$208/unit on QoQ basis.

## CRMT financing metrics continue to show weakness

Car-Mart's financing arm generated \$59.2mm in interest income in FY3Q:24, largely flat on a sequential basis, as interest rates remain high. Provision for credit losses as a percentage of sales increased to 37.3% in FY3Q:24 from 31.2% in FY3Q:23, while net charge-offs as a percentage of average finance receivables increased to 6.8% in FY3Q:24 from 5.9% in FY3Q:23.

## Our view

We remain cautious on CRMT since used car prices will likely remain elevated, consumer credit is still challenged, and the cost side of the equation is not expected to improve materially in the short term. In our view, inflation is a double-edge sword because it bites more aggressively into the typical CRMT's retail client's budget and creates affordability issues for the used car purchase itself. We also see the current interest rate environment as a further headwind to CRMT results since lower income consumers have a higher sensitivity to rates. We maintain our Underperform rating.

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### Stock Data

Price	62.30 USD
Price Objective	55.00 USD
Date Established	17-Oct-2023
Investment Opinion	C-3-9
52-Week Range	57.61 USD - 127.96 USD
Mkt Val (mn) / Shares Out (mn)	425 USD / 6.8
Free Float	90.5%
Average Daily Value (mn)	6.01 USD
BofA Ticker / Exchange	CRMT / NAS
Bloomberg / Reuters	CRMT US / CRMT.OQ
ROE (2024E)	3.0%
Net Dbt to Eqty (Apr-2023A)	114.4%
ESGMeter™	Medium

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### Glossary

CRMT = America's Car-Mart  
GPU = Gross profit per unit

**Exhibit 1: CRMT Quarterly results YoY and versus BofAe**

CRMT reported FY3Q:24 EPS of \$(1.34) versus BofA of \$(0.25)

	YoY % change			Variance		
	3Q:24 Feb-24	3Q:23 Feb-23	YoY %change	3Q:24 Actual	3Q:24 BofAe	% change
<b>Income Statement</b>						
Sales	\$240,401	\$274,276	-12.4%	\$240,401	\$296,016	-18.8%
Interest income	59,213	51,063	16.0%	59,213	61,564	-3.8%
Total Revenue	299,614	325,339	-7.9%	299,614	357,580	-16.2%
Cost of sales	158,250	181,823	-13.0%	158,250	192,410	-17.8%
Provision for credit losses	89,582	85,650	4.6%	89,582	116,971	-23.4%
Gross Profit	51,782	57,866	-10.5%	51,782	48,198	7.4%
Selling, general and administrative	43,562	44,737	-2.6%	43,562	31,955	36.3%
Interest expense	16,731	9,765	71.3%	16,731	16,500	1.4%
Depreciation and amortization	1,712	1,537	11.4%	1,712	1,700	0.7%
Other expense (income)	119	68	nm	119	-	nm
Income before taxes	(10,342)	1,759	-687.9%	(10,342)	(1,957)	-428.4%
Provision for income taxes	(1,800)	251	-817.1%	(1,800)	(391)	-359.8%
Net income from continuing ops	(8,542)	1,508	-666.4%	(8,542)	(1,566)	-445.5%
<b>Diluted EPS from continuing ops</b>	<b>-\$1.34</b>	<b>\$0.23</b>	<b>-683.7%</b>	<b>-\$1.34</b>	<b>-\$0.25</b>	<b>-438.9%</b>
Diluted Share Count	6,393,080	6,536,785	-2.2%	6,393,080	6,348,708	0.7%
<b>Operating Data</b>						
Retail units sold	11,664	14,508	-19.6%	11,664	15,210	-23.3%
Average # of stores in operation	154	155	-0.6%	154	154	0.0%
Average retail units sold per store per month	25.2	31.2	-19.2%	25.2	32.9	-23.5%
Average retail sales price	\$19,455	\$18,091	7.5%	\$19,455	\$18,543	4.9%
Used vehicle GPU	\$7,043	\$6,373	10.5%	\$7,043	\$6,812	3.4%
Used vehicle gross margin	34.2%	33.7%	46 bps	34.2%	35.0%	-83 bps
Same store sales growth	-9.3%	12.3%	-2160 bps	-9.3%	5.0%	-1430 bps
Net charge-offs as a % of average Fin Rec	6.8%	5.9%	90 bps	6.8%	7.0%	-20 bps
SG&A as a % of gross profit	84.1%	77.3%	681 bps	84.1%	66.3%	1783 bps

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

**Price objective basis & risk****America's Car-Mart, Inc. (CRMT)**

Our price objective of \$55 is based on a P/E multiple of approximately 15x on our FY2025 (CY2024) EPS estimates, which is about in line with an average through-cycle multiple. We believe this is appropriate given emerging macroeconomic headwinds to CRMT's business including tight inventory in the used vehicle market and weakening of lower-income consumers.

Upside risks: 1) economic conditions improve and income disparity narrows, providing an outsized benefit to CRMT's lower-income bracket consumers, 2) interest rates remain high, used vehicle prices decline and CRMT resumes its role as a lender of last resort as competitive pressures abate, 3) used vehicle supply improves, 4) greater cost containment and operating leverage than forecast, 5) credit metrics improve (collections, defaults, loss rate, etc.)

Downside risks: 1) stalled economic improvement, particularly in rural markets where CRMT is overexposed, 2) interest rates decline quickly and used vehicle values rise, keeping competitive pressure from dealers and lenders high, 3) Inflation remains elevated, 4) used vehicle supply remains restricted, 5) inability to cover fixed costs and achieve operating leverage, 6) deterioration of credit metrics (collections, defaults, loss rate, etc.) and 7) increasing scrutiny by state legislators and/or the CFPB.



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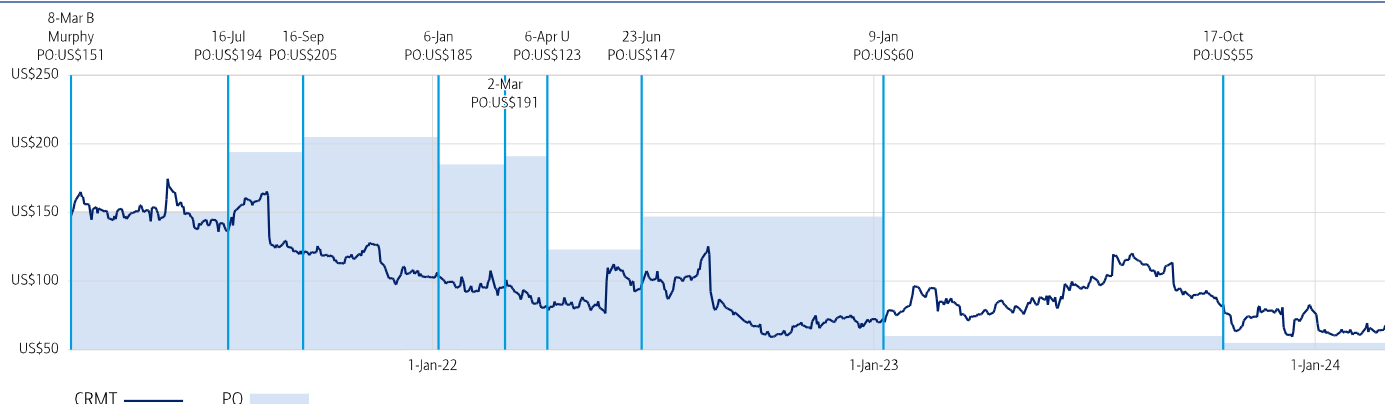
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	5	71.43%	Buy	2	40.00%
Hold	0	0.00%	Hold	0	0.00%
Sell	2	28.57%	Sell	1	50.00%

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