CarMax, Inc. (KMX) CEO Bill Nash on Q2 2020 Results - Earnings Call Transcript

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FQ2: 09-24-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.4 beats by $0.07 | Revenue of $5.2B (9.13% Y/Y) beats by $145.5M

Earning Call Audio

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CarMax, Inc. (NYSE:KMX) Q2 2020 Earnings Conference Call September 24, 2019 9:00 AM ET

Company Participants

Stacy Frole - Vice President, Investor Relations

Bill Nash - President and Chief Executive Officer

Tom Reedy - Executive Vice President and Chief Financial Officer

Conference Call Participants

John Murphy - Bank of America

Sharon Zackfia - William Blair

Scot Ciccarelli - RBC Capital Markets

Armintas Sinkevicius - Morgan Stanley

Seth Sigman - Credit Suisse

Derek Glynn - Consumer Edge Research

Rick Nelson - Stephens

Seth Basham - Wedbush Securities

Chris Bottiglieri - Wolfe Research

David Whiston - Morningstar

Operator

Good morning. My name is Amy, and I will be your conference operator today. At this time, I would like to welcome everyone to the CarMax Fiscal 2020 Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. Thank you. I would now like to turn the call over to Stacy Frole, Vice President, Investor Relations.

Stacy Frole

Thank you, Amy. Good morning. Thank you for joining our fiscal 2020 second quarter earnings conference call. I am here today with Bill Nash, our President and CEO; and Tom Reedy, our Executive Vice President and CFO.

Let me remind you that our statements today regarding the company's future business plans, prospects and financial performance are forward-looking statements that we make pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current knowledge and assumptions about future events that involve risks and uncertainties that could cause actual results to differ materially from our expectations. In providing projections and other forward-looking statements, the company disclaims any intent or obligation to update them. For additional information on important factors that could affect these expectations, please see the company's annual report on Form 10-K for the fiscal year ended February 28, 2019 filed with the SEC.

Lastly, let me thank you in advance for asking only one question and getting back in the queue for more follow-ups. Bill?

Bill Nash

Great. Thank you, Stacy. Good morning, everyone. As you read in our earnings release this morning, we delivered another solid performance this quarter, with revenues up 9.1%, net earnings up 5.8%, and EPS up 12.9%. We achieved a 3.2% increase in used unit comps and a 6.2% increase in total used units sold. The retail performance was driven by strong conversion and continued growth in web traffic.

In the second quarter, our website traffic grew 16% year-over-year, which was up slightly from our first quarter. On average, we saw more than 25 million visits per month. Gross profit per used unit for the quarter was consistent with prior year at $2,183. In addition, we reported higher wholesale units with volume up 4.7% versus the same quarter a year ago. This was primarily due to an increase in buy rate. Gross profit per wholesale unit was $928, a 1% increase compared with last year. As a percentage of sales, 0- to 4-year-old vehicles increased to 78% versus 77% a year ago. Total SUVs and trucks accounted for about 47% of our sales, up from 44% last year.

This quarter, we also made significant progress on the rollout of our omni-channel experience and remain confident that this is the future of car buying. This experience, which allows customers to move seamlessly between online channels and physical locations, is now offered to approximately one-third of our customer base, and we remain on track to reach the majority of our customers by the end of this fiscal year. In addition, during the second quarter, we opened two customer experience centers or as we refer to them CECs in Atlanta and Kansas City. These centers are a key component to our new customer-driven buying experience providing help on demand as they serve customers nationwide. Currently, our Atlanta CEC is fully staffed, and our Kansas City location continues to ramp as it begins to support more stores.

We also continue to be relentlessly focused on the customer experience and rolling out new capabilities on a regular basis. During the second quarter, we tested and launched new customer progression offerings and enhanced selling tools for our associates. These investments are essential to our vision for the future as they focus on providing a seamless transition between online and in-store interactions, enhancing the experience for both our associates and our customers.

At this point, I will turn the call over to Tom, and he can provide some additional color on our second quarter financial performance.

Tom Reedy

Thank you. Good morning, everyone. As Bill mentioned earlier, we posted solid second quarter results, including a double-digit increase in earnings per share. This reflects strength across our business, including growth in used, wholesale, and CAF operations along with our ongoing share repurchases. In the quarter, other gross profit increased 8.2%. This was largely driven by a 15% increase in extended protection plan net revenues reflecting the combined effects of our used unit growth, increased margin, and higher product penetration rates. In addition, we recognized $6.5 million of estimated EPP profit sharing revenues. Last year, in Q2, if you recall, we've recognized $4.4 million.

On the SG&A front, expenses for the quarter increased 6% to $480.8 million or a year-over-year decrease of $4 per unit. Factors impacting our SG&A spend included the opening of 18 stores since the beginning of the second quarter of last year, which represented a 9% growth in our store base, higher costs associated with our sales growth and continued spending to advance our technology platforms and support our core and omni-channel strategic initiatives. Similar to the first quarter, SG&A was light due to timing of advertising expense, which we expect to step up in the back half of the year. In Q3, we are launching a new marketing campaign reinforcing the strength of our brand and highlighting our differentiated omni-channel experience. Additionally, we expect omni-channel investments in the second half will continue to increase as we open our CEC in Phoenix and our other contact centers continue to ramp up. As we mentioned in Q1, we believe it will take comps in the range of 5% to 8% to leverage SG&A for the full year. In the quarter, our provision for income taxes benefited from the impact of stock option settlements by $4.8 million.

Now, I will discuss customer finance and CAFs. We continue to be pleased with the performance of our third-party lenders. Tier 2 had strong conversion year-over-year accounting for 19.7% of used unit sales compared with 17% last year. Tier 3 was up slightly to 9.6% and CAF penetration net of 3-day payoffs was 42.2% compared with 43.9% in last year's second quarter. Year-over-year, CAF's net loans originated grew by 5.6% to $1.8 billion as the increase in used cars sold and the average amount financed was somewhat offset by the decrease in CAF's net penetration rate. For loans originated during the quarter, the weighted average contract rate charged to customers was 8.6%, up slightly from 8.5% a year ago. CAF income for the quarter was $114 million, up 4.1% versus last year. The impact of our growth in average managed receivables was slightly offset by the increase in provision for loan losses.

Portfolio interest margin for the quarter was 5.7% comparable with the same quarter a year ago. The provision for loan losses was $45.5 million in Q2 versus $40 million in the prior-year period. The increase arises from portfolio growth and a modest increase in the allowance based on loss experienced. The allowance at $150.4 million represents 1.15% of ending managed receivables versus 1.14% in the first quarter and 1.13% the year ago. This remains well within our range of expectations given the origination strategy and our portfolio mix.

To reiterate Bill's earlier comments, we remain committed to aggressively investing in our business, to enhance the experience for our associates and customers, and to expand our market share. During Q2, we opened 3 stores, one in a new market, Lubbock, Texas, and two in existing markets, San Francisco, California; and Phoenix, Arizona. We also anticipate opening 13 more stores over the next 12 months. In addition, we continue to enhance shareholder returns through our stock buyback program. During the quarter, we repurchased approximately 1.5 million shares for $128 million, and we have $1.8 billion remaining in current authorizations from the board.

Now, I will turn the call back over to Bill.

Bill Nash

Thank you, Tom. Customers continue to tell us they value an omni-channel experience empowering them to shop on their terms whenever and wherever it is most convenient for them. The unique and powerful integration of our in-store and online capabilities provides us with a significant competitive advantage that no other used car retailer can offer at our size and scale. As I mentioned earlier, our CECs play a vital role in supporting our customers with the selection and purchase of their vehicle. We will be opening another CEC in Phoenix in the fourth quarter. As we transition our store e-offices to a more centralized function at the CECs, we expect inefficiencies in the near-term but remain confident in our ability to optimize over time as omni-markets mature and CECs become fully utilized. We continue to believe that this will be a more efficient model than our current.

When we launched the omni-channel experience in a new market, the first 4 to 6 weeks are focused on our operational capabilities and ensuring our exceptional customer experience is being fully delivered. After operating capabilities are in place, we bring in marketing and promotional support for the new experience. From that point, we allow a few weeks for our leads to mature from these activities before performance measurements begin. While we are pleased with the experiences our stores are providing in the new omni markets, it is too early to talk about their performance at this time. We understand there has been an appreciation for Atlanta omni updates as it was the first market to launch. I am pleased to say for the third consecutive quarter we saw double-digit comps and the market continues to outperform the overall company in both comp sales and appraisal buys.

This is the last quarter we will report Atlanta on a standalone basis. It becomes increasingly more difficult to compare Atlanta's performance with that of other markets as more stores begin their omni-channel journey and new digital initiatives are introduced nationwide to support the omni experience. Going forward, we will talk about omni more holistically rather than a market-by-market basis.

Finally, we continue to focus on leveraging our data to improve our execution and our experiences. For example, this quarter, we focused on vehicle recommendations both online and in-store to help our customers make the right buying decisions. Remember, on an annual basis, we have more than 250 million digital interactions. We process more than 1 million credit applications. We value more than 6 million cars, transport more than 2 million and recondition more than 750,000. This generates a significant amount of data available only to us, a competitive advantage we will continue to leverage.

While we are excited about our ongoing initiatives, the key to our success will ultimately come from our interactions and feedback from our customers. Let me share a recent example. This customer lives about 60 miles outside of Atlanta and has a newborn daughter. She didn't want to waste time traveling with a baby into the city to shop. She is the perfect example of a customer who needed the option to shop on her terms. She started with one of our competitors, but said, she wasn't getting the help she needed. Then she tried carmax.com and completed an online finance application. A consultant at our CEC immediately reached out to her and on that very same day, we delivered the car to her driveway with a surprise gift for her newborn. She was blown away and said it was the best customer service she has ever received, not the best car buying experience she has had, but the best experience ever. That is exactly what we are going after with omni-channel. It's our ability to personalize each customer's journey, whether in person, online, by phone or a combination of channels that provides a truly unique retail experience. We have always been about an exceptional customer experience and I am proud we are continuing to evolve to exceed our customers' needs.

With that, we will be glad to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of John Murphy with Bank of America. John, your line is open.

John Murphy

Good morning, guys and thank you very much for the detail, particularly about the omni-channel efforts, and that's kind of what I wanted to focus on. You gave us that one example of a customer 15 miles away from your store, but just trying to gauge if there is – I know you are going to be short on details here, if there is any way for us to gauge sort of the potential productivity uplift from stores? Give us any metrics around that or maybe simply talk about sort of that customer who was 50 miles away from your store, what is the farthest customer that you have reached with these omni-channel efforts, and how far is that – I mean, how far do your typical sort of in-store customer typically drive, just trying to gauge sort of the circumference and potentially productivity uplift?

Bill Nash

Sure, John. So, first of all, on the mile radius, early on in this, we set a limit on 60 miles, no more than 60 miles from any given store. Obviously, as we continue to expand the experience, stores will start to overlap within 60 miles of each other, so the 60 miles becomes less relevant. That's kind of where we started with. As far as giving more detail at this point, like I said, it is really early. If you think about it, although we have progressed it to make it available, the experience available to a third of our customers, only a third of those markets has any type of advertising at this point and the other ones that do have advertising has been very short-lived. The other thing that I would tell you is that the connection over to our CECs, there are some inefficiencies there. If you think about it, the first CEC that we turned on was Atlanta, the most tenured associates that we have in there taking calls, they first started taking calls in June. So, it's a little early to talk about any specific results. But as I said, we plan to continue to update as we go forward.

John Murphy

And maybe if I could follow-up, I mean, you said that 60-mile radius, I mean, what is the typical distance that somebody would drive in-store without sort of that defined new area that you are looking at?

Bill Nash

There isn't a typical – I mean we will have folks that are leveraging test drives that are very close to the store, and then we will have some that are further out, it's kind of all over.

Tom Reedy

Yes, John, when we look at end markets in penetration, we look at 5-mile bandwidth of the store. And as you would imagine, the penetration is significantly higher the closer you are to the stores, and a lot of it's within a 10-mile band, but we do have customers, as Bill said, that will -- you won't drive that far for service, but you will drive to get the car you want at the price you want. But as I said, it's just a lot less –further out you get the thinner the penetration gets.

John Murphy

Got it. So, it almost seems like you are looking at something that's like a 10-mile opportunity going to a 60-mile opportunity? Just seems like – I mean it seems like that's generally what your thought process is, that's my reading?

Bill Nash

Yes. Well, we don't really put the mileage bands. We think omni can help us reach – we have put 60, but we think it's going to help us reach a lot of other customers that maybe we weren't a viable option for them before.

John Murphy

Okay, great. Thank you very much.

Bill Nash

Thank you.

Operator

Your next question comes from the line of Sharon Zackfia with William Blair. Sharon, your line is open.

Sharon Zackfia

Yes. Hi, good morning. Can you hear me okay?

Bill Nash

Good morning Sharon.

Sharon Zackfia

Great. I guess just a follow-up question on that, I mean as you have been rolling out omni-channel, what has been the most surprising feature? I mean it seems as if you are really just striving to kind of create a more frictionless environment. So, of the options for the consumer, where have you seen like the biggest uptake in that, and that is – is it in online appraisals or financing or the delivery? And then corollary to that, when you think about Atlanta, is that comp driven by increased traffic, because people are – you are kind of lowering the veto factor, because people know what they are going to get when they come in or is that increased conversion, just curious where you are really seeing that comp uplift come from?

Bill Nash

Okay, Sharon. So, first of all, on what's kind of been the biggest, I don't know if I would necessarily call it a surprise, but as far as what the customers seem to appreciate a lot, I think it really is as we roll omni and we have these new, the new customer hub out that allows the customer to progress on their terms, so they can – once they decide on the car that they are interested in, it generates – it puts them into the customer hub at which point they can do pretty much anything that they want to do and be able to do that on their own speed. They also are assisted at any point in the transaction by our customer experience consultants. So, I think that has been very well received obviously with the test drives delivered to their – to folks home, that's a new feature. Customers are – they utilize that, are highly engaged, really appreciated. Keep in mind, it's still a very, very small percent of overall sales. As far as the Atlanta comps, keep in mind when we rolled it into Atlanta, it was a pure market with very good controls, because when we rolled in there there was nothing omni anywhere else in the U.S. So not only do we put the new omni experience in there, we did some additional advertising, we opened up some transfers, we continue to do pricing tests. And I think the comps are being generated by all of that. Now, from that point, we have taken pieces of this and I have talked about this in the first quarter, we have taken components of omni. So for example, the new website, we moved that into the rest of the country in the first quarter, some of the new technology improvements that we made to the website, the rest of the country has been able to get to that benefit. So, some of the new markets, and it's the reason why as we go forward, it gets harder and harder to compare Atlanta to a control, because there really is no control anymore.

Sharon Zackfia

Okay, thank you.

Bill Nash

Sure.

Operator

Your next question comes from the line of Scot Ciccarelli with RBC Capital Markets. Scot, your line is open.

Scot Ciccarelli

Good morning, guys.

Bill Nash

Good morning Scot.

Scot Ciccarelli

Hi. Can we talk about loan origination distribution? I guess the way we are looking at, it seems like comps that were originated through CAF were actually down low single-digits with over 100% of your growth coming from your Tier 2 and Tier 3 lenders. Can you just help us understand especially with the – I know early, but rollout of omni-channel, why comp growth appears to be negative through the CAF channel and maybe what's changed with your financing partners to accelerate growth there?

Tom Reedy

Yes, Scot, I don't know about comp growth, but if we look at specific units financed by CAF, it's actually up year-over-year even though it's down as a percentage of the mix. So in a lot of ways we feel CAF is just going to be a product of the credit quality of the application volume. So, I wouldn't read anything into omni at this point, because it's only in limited markets. As far as Tier 2 and Tier 3, we did see strong performance from them. I don't think it has anything to do with omni as much as the lenders and some factors going on there. In Tier 2, we observed improved conversion from them, which as a reminder, that's how we evaluate our third-party lenders is of the applications that they see how many convert to a sale. And over the course of last year, particularly in the back half of the year, we saw Tier 2 conversion improve significantly and it's held strong into this year. So we are looking at a kind of a year-over-year more aggressive lending practice in Tier 2. Tier 3, if you recall in Q3 last year, we made the deliberate activity to switch application volume away from an underperforming lender and more towards a better performing lender and so that's benefiting us as far as Tier 3 volume this year, but we will probably anniversary that in the upcoming quarter.

Scot Ciccarelli

But Tom, in the Tier 2, is there anything that – was there an addition of new lenders to that program or is it just kind of across the board that, that group of lenders that you use there are becoming more aggressive in terms of seeking to provide financing for you guys?

Tom Reedy

Yes, I would say that across the board, it's not a fair characterization. The reason we maintain a portfolio of lenders is because their behavior has changed. We did see one in particular get a little bit weaker, but a few of them got more aggressive over the course of the year and net-net, the conversion in Tier 2 was up significantly versus last year.

Scot Ciccarelli

Got it. Thanks guys.

Tom Reedy

Yes, thank you.

Operator

Your next question comes from the line of Armintas Sinkevicius with Morgan Stanley. Armintas, your line is open.

Armintas Sinkevicius

Great. Much appreciated. You mentioned that to leverage SG&A you need to grow same-store sales about 5% to 8%. That's different than the previous mid single-digit growth, but it does seem like the filings callout this year in particular. So can you talk to me about how the plan to leverage SG&A beyond 2020?

Bill Nash

Yes. So, I think first of all, the 5% to 8%, we have been talking about that the last couple of quarters, certainly last quarter and again this quarter. We came in a little bit favorable to Tom's point earlier in his opening remarks, we have advertising spend slated for the second half of the year. So you will see that jump up. The way to think about advertising we think about it on a whole year, because it gets a little dicey from quarter to quarter depending on timing. But as a whole year, we would expect to see advertising on a per-car basis be a little bit higher as we support our omni rollout. As we go forward, we think there is lots of ways to continue to leverage and one of the things we haven't talked about, you saw little bit of leverage this period, some of that is coming from initiatives that we have done in-house to make sure we are managing control, optimizing our staffing, eliminating waste. So for example, in our merchandising department to make sure we are leveraging our buyers in different ways than we have before, same thing with sales managers in the store. So what you are seeing is some goodness that's coming from that, that's offsetting some of the incremental expense that we are investing in the business. I think as we go forward through the next year, I think we have a lot of opportunity to still leverage our CECs, because again, they are just ramping up. I see that as an area of opportunity, because I don't think we will need to grow the CECs as quickly as we would for sales consultants in stores if we continue the growth by having to staff e-offices, which we won't continue to do. So, I think there is still a lot of good things that are ahead in-store for us.

Armintas Sinkevicius

Okay. So would you expect to get back to that mid single-digit same-store sales growth to leverage SG&A going forward then or is 5% to 8% the new norm?

Bill Nash

Well, I think what we said is 5% to 8% is what you should expect this year. Next year I think you can expect a little bit of a step up in investment, but not as big a step up at this year or at the last year. So, I would expect to get a little bit better next year. And then I think what you will see is it will assuming that we don't have new initiatives, you will see it start to plateau off – plateau and then maybe even come down a little bit.

Armintas Sinkevicius

Okay. Much appreciated.

Bill Nash

Sure.

Operator

Your next question comes from the line of Seth Sigman with Credit Suisse. Seth, your line is open.

Seth Sigman

Hey, guys. Good morning. I just wanted to follow-up on a couple of those last points. So just in terms of the timing of the advertising expense, are you guys able to quantify how much actually shifted out of this quarter into Q3, Q4?

Bill Nash

Again, Seth, I would think about it more on an annual basis. If you look at what we spend on an annual basis on a per unit, I would expect it to be up a little bit over what it was last year. So I think last year was running around $220 all-in per unit and I would expect to be above that at the end of this year.

Seth Sigman

Got it, okay. And then just two related follow-ups here, just in terms of the initial inefficiencies as you are rolling out the CECs, obviously, it's very early, but just curious your thoughts on maybe how long does it take to ramp. When do you start to see it breakeven from a cost perspective as you reallocate that labor and experience? I think you have talked about store attrition and waiting for that to happen. And then just related to that, can you just talk about your ability to preserve that top experience that you provide consumers in the store while that labor is being reallocated, just remind us how that all is playing out as you reallocate that labor to CEC? Thanks.

Bill Nash

Okay. On the first part of the question about the inefficiency, so a couple of areas that we see inefficiencies right now, when we convert over a new market, keep in mind our stores are staffed currently to handle e-office shifts. So when we turn on omni, they no longer have to do e-offices. So we are overstaffed. We are subsidizing our associates to make sure that we can hold them whole with an opportunity to make more as we allow normal attrition to work through and get us to the right staffing level. Each store in each market is going to be a little different depending on what they go into the omni rollout, where they are from a staffing standpoint, but I would think within a few months, the staffing should be right-sized in those stores if you are looking for a timeframe. As far as CECs, again I go back to something I said earlier, our most tenured person in the Atlanta CEC has only been taking call since June. That is a little bit of a headwind for us right now because there are some stores where they are very effective in their e-office shifts. Well, you are not going to be as effective Day 1 as you will be Day 30 or 60 or 1 year. So I think the e-office as they continue to ramp up, as we continue to train those folks and get more reps that will continue to provide goodness over time. And one of the learnings that we have had coming out of this is we have revamped our training program for the CECs and made it even more robust than what it's been in the past. And what was the second part of your question, was it about the customer experience in the store?

Seth Sigman

Yes, that's what we are talking about. Just your ability to preserve that experience in the store as consumers still come in, but I think you sort of addressed that?

Bill Nash

Yes. We put a lot of focus not only we are turning to CECs, but when we go into an omni market we work with the stores for 6 to 8 weeks before we roll omni, because one of the big things is that we want to make sure this is a seamless integration for the customer. So as they do more online when they come to the store, they don't want to have to repeat that. They want the credit for what they have done previously. So leveraging the new technology stack that we have that integrates into our CRM system has been critical and so it's about making sure that our floor sales consultants that are interacting with the customers face to face take the value-add of the system and make sure they understand how far the customer has progressed and give them credit for what they have already done.

Seth Sigman

Got it. Alright. Thanks, Bill. Appreciate it.

Bill Nash

Thank you, Seth.

Operator

Your next question comes from the line of Derek Glynn with Consumer Edge Research. Derek, your line is open.

Derek Glynn

Good morning. Thanks for taking my question. Just as it relates to the recent hiring initiative for auto techs and detailers, can you provide an update on how that's going, do you think there is ample supply in the labor pool right now to fill all those openings or are you perhaps being a technician shortage in the industry similar to what some of your franchise dealer peers have discussed over the last year or so?

Bill Nash

No, I think it's absolutely – there is absolutely a shortage of technicians. When I think about the challenging positions that we hire for right now, I would say technicians and fleet drivers are probably at the top. But I would tell you for us, one, our employment brand and being the fact we have been on the 100 best places to work for 15 years certainly helps. We have got great working conditions. We got great benefit. So it's a great place for technicians to come work. In addition to that, with our whole flow operations, we can grow apprentice techs all the way through the cycle. And so we are starting to grow our own technicians. So we don't have to rely solely on what's coming out of trade schools that kind of thing. So we feel good about where we are. We do have a push right now to make sure that we can meet growth as whether that be additional stores or growth that we would expect to see from omni-channel.

Derek Glynn

Got it. That's helpful. And if I could just squeeze one more in, just quickly, any impact to call out either late in the second quarter or here early in the third quarter from recent weather events such as Dorian or more recently in Texas?

Bill Nash

Yes. So, Dorian did impact obviously our East Coast stores, because it hung out there for a while. We had towards the end of the quarter, at one point in time, I think we had about 14 stores that were closed and it kind of varied there for over a week period as the number of stores we closed as it threatened north of Florida started out, okay, it's coming to Florida, then you know how it went. So, we did have an impact, but what I would tell you what we believe and what we have seen in the past is although that straddled the quarter, it had a small impact on the quarter results, we would expect to get that back in the third quarter. As far as Imelda, we closed some stores for Houston for a partial day, but really that was less significant than Dorian.

Derek Glynn

Understood. Thank you.

Bill Nash

Sure.

Operator

Your next question comes from the line with Rick Nelson from Stephens. Rick, your line is open.

Rick Nelson

Bill, can you talk about GPU as an omni-channel market specifically, Atlanta, how that compares to non-omni channel markets? I know you have talked about some pricing tests in that market specifically?

Bill Nash

Sure, Rick. First of all, in general, I view omni and GPU as two separate decisions that we make. They are not necessarily dependent on each other. We can rollout omni and not have to do anything with GPU. As far as it relates to Atlanta, like I said in the past with Atlanta, we did open up some more free transfers, we did some pricing tests. So there was a little bit of pressure on GPUs in that market, but we have pulled back on some of those things. And seriously, as we go forward in omni, we are going to be pulling different levers for different markets. So again, I feel good about where we are in GPU and I do think about them as separate decisions.

Rick Nelson

Okay, great. Thanks and good luck.

Bill Nash

Thanks, Rick.

Operator

Your next question comes from the line of Seth Basham with Wedbush Securities. Seth, your line is open.

Seth Basham

Thanks a lot and good morning. My question is around trends in omni-channel markets as well. I appreciate the fact that you are not going to speak to performance in omni-channel markets outside of Atlanta, but when you look at Atlanta's really strong results to-date, where are your projections for the rest of the omni-channel markets, what type of lift you expect from rolling out omni-channel outside of Atlanta?

Bill Nash

Yes, Seth. It's – look, as I have been saying every market is going to be a little bit different as far as what we expect on lift. We absolutely expect a lift. Do I expect to get double-digit comps in every single market? No, I don't expect to get it. Do I expect to be getting that in the early stages of these markets? Absolutely not, for all the reasons that I have cited previously, but it's really – it's too early to tell exactly where we think we are going to land ultimately. But as we progress through the next few quarters, we will be able to talk about it more holistically in what we are seeing.

Seth Basham

Okay. And I have a follow-up. As it relates to Tier 2 and Tier 3 penetration, you just spoke to the fact that you will be – you are going to be annualizing some of the strength in Tier 3 in the upcoming quarters. Tier 2 as well you will be annualizing some of the improved conversion you saw there in the second half. Would you expect to see more limited comp contribution from Tier 2 going forward as a result?

Bill Nash

No, I can't predict what the lenders will do over the course of the next year. So, it's hard to say what will happen going forward. But as I mentioned, we did see improvement over that course, mostly the back half of last year and it was more of a trend unlike Tier 3 which was a step function, because we changed our policy of allocation.

Seth Basham

Understood. Thank you very much.

Bill Nash

Okay.

Operator

[Operator Instructions] Your next question comes from the line of Chris Bottiglieri with Wolfe Research. Chris, your line is open.

Chris Bottiglieri

Hi, thanks for taking my question. Wanted to talk about like the supply environment, wondering if you are funding – obviously comps are very strong right now, so that wasn't the case, but wanted to get a sense for what you are seeing in terms of inventory availability, if you had a more difficult time yet sourcing productive units that fit your standards? And then two how do you think about that backdrop given off-lease growth beginning to decelerate in the back half and then kind of plateauing into the next couple of years? Thank you.

Tom Reedy

Sure, Chris. As far as auction supply, we think there is a good supply. I cited that as the strength in Q1. I think the supply is still good. We don't see an issue there. When I look at the comps from Q1 to now obviously in Q1 there were a lot of different factors that I cited the tax refunds. You had the – the lending environment is good. We had great execution. We have rolled out some of the digital things that we had gotten from omni. The other thing that was interesting about Q1 was not only do we see a good supply, but the acquisition price for the first time was fairly flat year-over-year and we hadn't seen that probably in a year and a half or more. When I go to the comps of this quarter, there certainly was a headwind, because our acquisition price actually went up a few hundred bucks over last year which was already up $400 to $500. So that was a headwind and a headwind that we worked through. As far as the question on the lease ship, I think the leases from every measure that you look at and what I read, sounds like the leases may peak this year and then start to decline, but truthfully we have seen this cycle before where leases make up a decent share of what's being sold and then they gets pulled back. And generally what happens is there is something else that fills that void. So maybe dealer consignment will go up, the SAR staying relatively flat, which means instead of leases, people are buying cars. So we will just skip those vehicles through other channels. We have been able to work through that historically and I think we are in a great position, because we have done it before that this time will be no different.

Chris Bottiglieri

Got it. That's helpful. And then a follow-up, when I think like the strength of your model, I think one of the underappreciated assets is kind of, I think your CAF book and then like your lending partners. I have historically observed that when like the auto environment credit conditions tighten, your comps accelerate. I guess, a) do you see this in your own data and then b) how would you characterize the overall auto lending environment currently? Thank you.

Tom Reedy

Yes. We haven't looked at whether – how our comps trend with the overall auto lending environment, but – and we really concern ourselves with our sales and our partners and what they are doing. In CAF, we worked really hard to maintain a book of business that's highly financeable that securitization market will appreciate and we lend to the standards that allow that – that will allow that to happen. We haven't seen anything in the current environment that's made us want to tighten our standards; no red flags at this point. So, I feel good about that. I feel great about our Tier 2 partners and their performance over the past year. That's why we have a portfolio of them and we haven't had a tight lending environment in a while, but when we did on an ongoing basis, we heard from our partners that they preferred the business coming out of our system than other places and actually took volume down in other places in order to keep doing CarMax business. So we continue to focus on those partnerships and hopefully it pays off in the long run like it has in the past.

Bill Nash

Hey, Chris. The only other thing I would add to that is it really is about affordability. So as prices go up, customers are focused on their monthly payment. So, changes in interest rate and acquisition prices, all that kind of plays together. I don't think it's one versus the other. So if new cars are going up faster than used cars and even if the financing environment isn't as tight, customers are focused on that monthly payment, what does that equate to from a monthly payment standpoint?

Chris Bottiglieri

Yes, so that's really helpful. Thank you for the context.

Bill Nash

Sure.

Operator

Your next question comes from the line of David Whiston with Morningstar. David, your line is open.

David Whiston

Thanks. Good morning. Can you talk at all in terms of your self sufficiency ratio? Is there anything in the digital – on the technology front that might help you guys meaningfully increase that ratio over time?

Bill Nash

Sure. So we have talked about our self-sufficiency ratio is usually in the 40% to 50%. We are a little bit less than that for this quarter. That certainly is a focus area. We continue to advance some of our tests with online appraisals, online estimates, trying to figure out what resonates best with the companies, but it certainly is a large focus and we will continue to buy as much as we can through outside channels other than the auctions.

David Whiston

Okay. And on the CAF penetration being down in the first half of the year, about 230 bps is that – Tom, is that primarily with the more aggressive lending from the channels that you were talking about earlier or is there another factor driving that?

Tom Reedy

No. As you guys probably know, we did first look at all of the loans. So, CAF runs its business as a key fit to try to optimize its profits and CarMax's profits. So a change in our third-party lender behavior would not impact our book at all. It's really a matter of what kind of customer application credit mix is coming through the door and our ability to convert those folks. And actually we are doing a good job on a year-over-year basis of converting them. It's just a matter of what's coming through the door.

David Whiston

Okay, thanks.

Tom Reedy

Or the web. I am sorry I was antiquating myself here.

David Whiston

Yes, right.

Operator

Your next question comes from the line of Scot Ciccarelli with RBC Capital Markets. Scot, your line is open.

Scot Ciccarelli

Hey, guys. Just a quick follow-up on the financing side here, is there any kind of difference in the distribution that you are seeing from the omni-channel than the stores on the financing, like is CAF I don't know, because I am not actually in the CarMax store, for example, maybe I am choosing a bigger bank or a lender that maybe I am more familiar with?

Bill Nash

Yes. I think Scot, at this point, we have seen similar whether it's in the store or through omni-channel, we have seen a kind of a similar credit makeup. Really the only difference that we have seen is when you start doing online finance, I think the folks that utilize on-finance is more skewed towards lower credit customers. But outside of that, it's pretty similar to the stores.

Scot Ciccarelli

But Bill, does that mean that as we expand the omni-channel, more people are using the web to do their credit apps, because that's obviously a growing trend, you would naturally tier more, shift more towards those kind of second and your Tier 2 and Tier 3 lenders rather than CAF?

Tom Reedy

No. Scot, I think what Bill is trying to articulate is people that are leading with the credit app as their first interaction with us that volume is significantly lower credit than our overall transactions in omni. If you look at people who transact with us in omni, it's similar to the mix that we see in the rest of the system. I think it's just the folks that have good credit don't lead with that, because they know it's not an issue and they will deal with it later in the process.

Bill Nash

Right. Online financing has been available for quite a while, even before omni. My point was just more specific of the folks that use that feature, it's generally lower credit.

Scot Ciccarelli

Okay, got it. Alright. Thanks, guys.

Bill Nash

Alright. Thank you.

Operator

This concludes our question-and-answer session. I will now turn the call back over to Bill Nash for closing remarks.

Bill Nash

Thank you. Listen, we are excited about the future. We are a 26-year old company. We just hit $5 billion in revenue for the second quarter in a row. Revenues were up 9%. EPS is up almost 13%. Comps are north of 3%. We are investing heavily in the business for the future. We are buying back stock. We are managing costs. So we are very excited about where we are today. We are excited about the future. But it all goes to our associates. They are the ones that are enabling this. None of this would be possible without their dedication and drives. They are delivering that exceptional customer service and living our values day-in and day-out. They are the ones that are driving what's possible for us. I want to thank them. For everyone else on the call, I want to thank you for your continued support of CarMax and we look forward to talking with you again next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.