



CarMax, Inc. (NYSE: KMX)

Sector: Consumer Discretionary

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$76.19	\$61.34	\$81.67	\$55.24	13.69	\$10.166B	---	1.64

Business Description

CarMax Inc. is our nation's largest used car retailer. CarMax Sales Operations is the "buy-and-sell" branch of CarMax Inc. They acquire their vehicles through customer trade-in's, wholesale auctions, and fleet owners. CarMax uses a fixed price system to avoid haggling, making for a quick and easy customer experience. In order to use this system however, their vehicle must be held to a certain quality standard. If the car doesn't pass the CarMax inspection process then they will turn it around and put it back in a wholesale auction. CarMax Auto Finance is the other subsidiary of CarMax Inc. They offer competitive auto financing options for qualifying customers. These qualification's eliminate the possibility of bad debt. Much of CarMax's business strategy revolves around trying to make the used car buying process as easy as possible for all types of consumers.

Industry Trends

CarMax holds 14% market share in the American used car market. Their next highest competitor does not even hold 1% market share. This market is highly fragmented because a lot of used car buying is done at local dealerships and shops. Being the only used-car retailer in the United States, we believe that CarMax is positioned quite well maintain this market share while continuing to expand operations. CarMax has 188 active locations nationwide and plans to grow to around 300 at a rate of 15 stores per year.



Investment Thesis

CarMax Inc. can produce growth by implementing their new omnichannel system in more stores, utilizing their distribution network to prevent competition, and maintaining their reputation as the best in class used car retailer. The new omnichannel software system that CarMax has debuted in their Atlanta, GA store allows the customer to get their entire purchase and authorization completed over the phone or even online. CarMax plans to have this system implemented in 50% of their stores by February 2020.

Valuation Assumptions

WACC: 9.5%
Terminal FCF Growth Rate: 3.5%
Upside: 24.2%

Key Financials

Current stock price: \$76.19
Intrinsic Value: \$61.99
ROIC: 13.9%

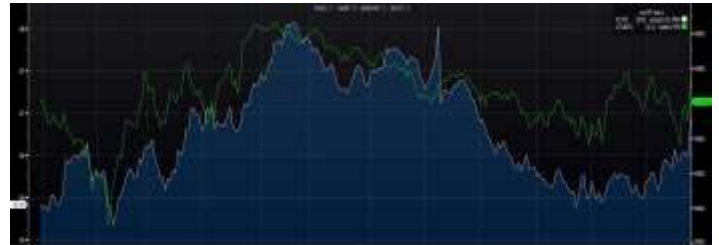
Sources: Bloomberg, Value Line, Annual Reports

Corporate Social Responsibility

CarMax is committed to maintaining a culture of integrity, community service, and environmental concern.

- Firm care placed on improving the communities in which its associates work
- The CarMax Foundation has 92,000 hours of community services completed in 2018 alone
- The CarMax Foundation has granted \$45 million in total to date

5-Year Stock Performance



Competitive Analysis

CarMax's competitors are a largely fragmented base of dealerships and local businesses. Of the used car retailing market, CarMax has 14% market share and the rest of the market is made up of these small competitors. These smaller businesses have minimal national footprints and follow different pricing and financing schemes that involve haggling and weekly financing for those with poor credit.

Competitive Advantages

CarMax has several competitive advantages setting it aside from its peers in this industry. It has a nationwide presence and a strong brand image of quality where customers know exactly how high the standards of customer service will be. In addition, its fixed pricing versus haggle pricing improves customer satisfaction. As the company begins the rollout of its omnichannel retailing platform this coming year, it will be impossible for these firms to compete as they will lack the scale and distribution network. CarMax's national footprint strongly reinforces this advantage. Additionally, given the capital requirement to match this footprint from the outside, the likelihood of new entrants to this market to match this platform is very low.

Risks

- Smaller retailers have been imitating CarMax's no-haggle pricing which could result in some margin pressure
- Vehicle information is becoming increasingly widespread online which could drive outside competitors' abilities to compete on the basis price
- The wider automobile market is constantly evolving and CarMax is subject to macro changes in this industry

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