

Vickie Judy, America's Car-Mart CFO

Thank you. Good morning, and welcome to America's Car-Mart's third quarter fiscal year 2024 earnings call for the period ending January 31, 2024. Joining me today is Doug Campbell, our company's President & CEO.

We've issued our earnings release earlier this morning and it is available on our website, along with a slide of supplemental material. We will post the transcript of our prepared remarks following this call, and the Q&A session will be available through the webcast after the call.

During today's call, certain statements we make may be considered forward-looking and inherently involve risks and uncertainties that could cause actual results to differ materially from management's present view. These statements are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. The Company cannot guarantee the accuracy of any forecast or estimate, nor does it undertake any obligation to update such forward-looking statements. For more information, including important cautionary notes, please see Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2023, and our current and quarterly reports furnished to or filed with the Securities Exchange Commission on Forms 8-K and 10-Q.

I will now turn it over to Doug now for his introductory comments about our third quarter.

Doug Campbell, President & CEO

Good morning and thank you for joining us and for your interest in our Company. I mentioned in our earnings release that sales volumes fell short of our internal expectations during the quarter. There are times when the results that you produce don't align with your level of effort or output and this was one of those quarters. I want to acknowledge the hard work of our associates because they do so much to take care of our customers and keep them on the road. I'm very appreciative of the effort put out by our team.

I'll start by highlighting some positive items that occurred during the quarter and discuss in more detail the drivers of the sales decrease. Last quarter, there was speculation about the direction

of the credit loss and whether it would continue to degrade, flatten, or improve. Our associates have worked tirelessly to assist our consumers in navigating an ongoing challenging environment. Throughout the quarter, we reduced the number of unit losses taken when compared sequentially by 9%. As an industry backdrop, delinquency trends worsened in the quarter. However, we improved our 30+ day delinquencies by 30 basis points. This drove a \$3.9 million favorable adjustment in the provision for credit loss.

We have completed the planned rollout of our loan origination system. As with the implementation of any large-scale system that is built on change management, there were some challenges with getting it fully in place. We're happy that those implementation challenges are now behind us. We now have two quarters with the LOS originations driving more money down, stronger consumer profiles, and shortened term lengths. Let me make this point clear: The LOS is a game changer for Car-Mart and we are excited about the system leaving its imprint on the fourth quarter and into the future.

As mentioned in the press release, we entered into a strategic partnership with Cox Automotive, which will aid in vehicle movement, repairs, acquisitions, and remarketing. I'll cover this in more detail but let me start with revenue and sales.

Revenue was down 7.9% for the third quarter, driven by several factors.

- First, a 19.6% decrease in unit volume was the primary driver. Overall industry softness accounted for roughly half of the sales volume decline. Recall that in our second quarter report, we said that August and September volumes were up or flat, with October contributing to the decline.
- Those October trends persisted into the third quarter, with overall application volumes softening by 8.3%. The LOS implementation challenges mentioned, along with balancing volume and deal structure, also contributed to the sales decrease. The benefits of system updates to LOS, along with an augmented marketing plan for the fourth quarter, are expected to win back volume and deliver stronger outcomes.
- We had two fewer selling days in the quarter because of holiday shifts. Our stores are always closed on Sundays, but the shift in days for Christmas Day and New Year's Day

landing on a Monday added 2 more closure days to the quarter when compared to last year's third quarter.

- Additionally, severe winter weather necessitated closures of up to three days at roughly one-third of our 154 dealerships in January, which kept customers from vehicle shopping.

The revenue headwinds were partially offset by a 16% increase in interest income and a 7.5% increase in the average retail sales price. That increase in the average retail sales price was driven equally by the mix of ancillary products sold and vehicle prices.

You'll hear more from Vickie on the specifics from LOS shortly. But, let me comment on the results of our deal structure. The credit losses that we're seeing on our LOS originations are very positive when compared to the legacy system. However, I want to caution that these results are very preliminary in nature. That's rapidly changing, with now 10,000 originations performing materially different than loans generated in our legacy system. We plan to share more specifics in the future, but words like substantial and material come to mind when we start to quantify its effect on both frequency and severity of loss.

We've mentioned numerous times the importance of acquisitions being one of our strongest uses of capital for our Company. We're proud to announce that the purchase of Central Auto in Hot Springs is complete and are actively pursuing other opportunities which we expect to close in the calendar year.

I want to provide more detail on a critical initiative we teased in last quarter's report. As noted in our release this morning, we have entered into a strategic partnership with Cox Automotive to aid in driving efficiencies within our vehicle supply chain process. I personally have a long history with Cox and their leadership team across several organizations driving large scale projects that have driven value. We've begun to leverage their digital and physical assets, as well as their logistics services. This initiative will be centrally managed, removing the day-to-day burden of processing and overseeing the disposal and reconditioning of assets from our operations team. Strategically, we expect this change to allow our dealership teams to have more time selling and helping customers navigate vehicle ownership. We believe this partnership will help us address some of the affordability challenges that exist in our industry. We expect this will lead to greater value creation for our shareholders and customers alike.

Now, I'll turn it over to Vickie for more details on our financials. Vickie ...

Vickie Judy:

Thank you, Doug.

In my commentary, the comparisons that I will cover will be third quarter of 2024 versus the third quarter of 2023 unless otherwise noted.

As Doug mentioned, LOS has allowed us to improve upon our deal structure, with average down payments for the quarter trending up 30 basis points to 5.1%, and also up sequentially by 20 basis points. Our originating term was 43.3 months, improved from 44.1 months sequentially and for the second quarter in a row, they were up from 42.5 months for the prior year third quarter. The weighted average total contract term for the portfolio is 47.6 months, including modifications. The average age of the portfolio also improved to nearly 12 months, or almost 2 months better compared to last year.

Our total collections increased 9.3%. The monthly average total collected per active customer rose to \$540 from \$519. This metric also improved sequentially. We originated contracts in the third quarter that are expected to produce cash-on-cash returns of over 66%, and an IRR over 41%. We provided a table in the earnings release and a supplemental chart on our website that demonstrates our positive cash-on-cash returns over time. This data reflects our history of earning strong cash-on-cash returns in various market and macro-economic conditions. We're very focused on quality of originations and deal structure to maximize these returns and ultimately our profitability.

The gross profit dollars per retail unit improved by 10.5% and the gross profit percentage increased 50 basis points compared to the prior year quarter, primarily due to improved pricing discipline and repair expenses. There was also an increase in profit dollars sequentially, and we expect further improvements in our gross margin as volumes rise, and we have more affordable vehicles in our supply chain from the initiatives underway.

Net charge-offs as a percentage of average finance receivables were 6.8% vs. 5.9% last year, and down sequentially 40 basis points. We were pleased with this especially when considering

our sales decline. We experienced an increase in the frequency of losses compared to prior year (which was about 55% of the increase), as well as an increase in severity. Severity continues to be impacted by the longer-term lengths, although that has begun to stabilize. Recovery values for the quarter were approximately 24% for the third quarter.

Accounts over 30 days past due improved in Q3, dropping 40 basis points to 3.3%. This was also a 30-basis point improvement sequentially. Our customers continue to face ongoing pressures related to the increased costs for housing, energy, childcare, and auto insurance; however, that's slightly offset by lower inflation in some groceries and fuel.

Sequentially, the Company decreased the allowance for credit loss from 26.04% to 25.74%, resulting in a benefit of \$3.9 million to the provision. The key drivers of the adjustment were lower delinquencies at quarter end and a lower overall inflationary outlook.

In summary, the improvements we've made in deal structure, the higher average age of the receivables portfolio, lower delinquencies, and our operational initiatives are expected to lead to better customer success and lower credit losses in the future.

Moving on to SG&A ... Sequentially we were able to lower SG&A dollars by \$1.3 million. The steps we took in the second quarter to reduce expenses contributed to this sequential improvement, which was slightly offset by increased collections costs related to repossessions. Our SG&A per average account was down 6.7% from \$451 to \$421. We're very focused on cost efficiency while continuing to serve over 102,000 customers in providing quality service.

Interest expense as a percentage of sales increased to 7.0% for the quarter, compared to 3.6%. In dollar terms, interest expense increased \$7.0 million due to increasing interest rates and an increase in the average borrowings of approximately \$145.2 million over the prior year.

Our funding and financing program remains strong. In December, we called our 2022-1 notes and paid them off during the quarter. In January, Kroll upgraded all tranches of our 2023-1 notes. And the Company completed its fourth asset-backed non-recourse term securitization at the end of the quarter, issuing \$250 million in bonds, with a weighted average fixed coupon rate of 9.5%. In February, we renewed and extended our revolving credit agreement to September 2025, with a \$340 million revolver, along with access to a \$100-million accordion feature.

At quarter-end, we had \$4.2 million in unrestricted cash and approximately \$126 million in additional availability under our revolving credit facilities based on our borrowing base of receivables and inventory. Access to capital, with our revolving credit facility and a successful securitization program, gives us flexibility and a distinct advantage over many competitors. Our non-recourse securitized notes represent the bulk of our funding, and our cost of funds fluctuates with the level of interest rates and credit spreads.

We remain committed to growth, thoughtful capital allocation and financial management, as well as improving profits and shareholder returns. Now I'll let Doug close us out.

Doug Closing:

Thank you, Vickie.

February was off to a better start than last quarter. We are closely monitoring our consumer and the tax season. Initial refunds are up slightly year over year but they're running a little behind last year. Affordability continues to be the biggest challenge in our industry. We are all competing for a similarly priced asset to provide customers with reliable and affordable transportation. Initiatives like the ones we have put in place will aid in addressing these issues and enhance our ability to grow as a company.

We have near-term challenges that we're addressing, such as the ability to strike the right balance between origination volumes and our cost structure. We reported progress in the third quarter on key metrics including gross profit, credit losses and loan originations, and we expect to make additional progress on these and other areas. We believe that our agility and underlying cash generative nature of our Company continues to position us for long-term profitable growth. We're bullish about Car-Mart's future because our initiatives will be accretive to earnings and shareholder returns.

Now, we'll open up the line for questions. Operator, please provide instructions to do so.

Note: For Q&A, please listen to the webcast replay.