America's Car-Mart, Inc.
Management Script Final as Recorded 3/5/2025

Vickie Judy, America's Car-Mart CFO

Good morning, I'm Vickie Judy, the Company's Chief Financial Officer. Welcome to America's Car-Mart's third quarter fiscal year 2025 earnings call for the period ending January 31, 2025. Joining me on the call today is Doug Campbell, our Company's President & CEO and Jamie Fischer, our COO.

We issued our earnings release earlier this morning and it is available on our website, along with supplemental slides detailing our cash-on-cash returns and our Loan Origination System ("LOS") performance improvements. We will post the transcript of our prepared remarks following this call, and the Q&A session will be available through the webcast.

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, 2024, and our current and quarterly reports furnished to or filed with the Securities Exchange Commission on Forms 8-K and 10-Q.

As a note, the comparisons that we will cover will be the third quarter of fiscal 2025 versus the third quarter of fiscal 2024, unless otherwise stated. Doug will start off with highlights of the quarter and share updates on our progress towards our strategic goals. Doug, I'll turn it over to you now.

Doug Campbell, President & CEO

Thank you, Vickie.

Over the past 18 months, we've been hard at work improving our operations and strengthening our foundation and this only happens when you have the right talent, and we've continued to invest in this area. Speaking of talent, I'm joined by Jamie for the first time here on the call. The environment for our customers is challenging, highlighted by persistent inflationary trends, higher used car prices, and elevated interest rates. Throughout this period, we have maintained our position on the importance of originating better quality credit, while never losing focus of the core values we provide our employees, customers, and communities.

As mentioned on the last call, our recent focus has been to improve and diversify our balance sheet by adding new capital and lenders, as well as improving our highly successful securitization program. Our ABL facility has been a core source of funding for over four decades and I am pleased to report that on February 28, 2025, we completed an extension and upsizing of the facility to $350 million which now matures in March of 2027. The transaction represents an important milestone for the Company, and we deeply appreciate the support of our existing and new relationships with our ABL partners.

We also completed our sixth ABS transaction in January. This transaction was $200 million in size and was more than ten times oversubscribed. We believe the capital markets are recognizing the success of the contracts underwritten by our enhanced LOS. This enabled us to have the tightest spreads we've had to date and resulted in an overall weighted average life adjusted coupon of 6.49%, a 95-basis point improvement from our October transaction. The ABS market is an important source for us given its material improvement in the advance rate relative to the ABL and access to additional capital.

Combined, our new ABL facility and recently closed ABS transaction have further improved our capital position, allowing us to turn our attention to other capital sources that will make our capital structure more competitive and efficient. We are focused on the next steps of our funding toolkit, and eager to pass these savings onto our customers and shareholders.

In January, we hired Sam Smith as our Vice President of Capital Markets and Treasury to help support our growing ABS platform and capital market strategy. Sam is a proven leader with over 20 years of experience in investment banking and the securitization markets. Additionally,

during the quarter Josh Smith joined our team as Chief Technology Officer and brings a wealth of knowledge and technical skills to our leadership team, having served in various technology-focused leadership roles over the last 27 years. I have continually talked about the importance of developing and attracting proven leaders to Car-Mart and I am pleased with the progress we are making.

With this overview, let's turn to the third quarter operating results…. Jamie:

Jamie Fischer:

Thanks Doug, and good morning, everyone. I'm pleased to report on the progress we are making, including the successful actions we have taken to strengthen our operations. Before I begin, I just want to take a moment to express my gratitude. I joined the team approximately five months ago and I'm incredibly thankful to work alongside such an amazing leadership team and dedicated associates. I'm thrilled to part of the Car-Mart family not only because there are great people here but also because there is so much potential to better help a customer base that needs it the most. I look forward to all that we will accomplish together. Now let's dive into the details of this quarter's operational results.

Revenues:

I will start off with revenue. Total revenue increased by 8.7% despite average selling prices declining by 90 basis points. The primary driver was higher sales volume which I will cover in more detail in a moment. Secondly a 5.1% increase in interest income was driven by overall receivables growth of $31 million year over year and the portfolio's weighted average interest rate was approximately 50 basis points higher. Finally, we made a price increase to our service contract product suite during the quarter. Our intention is to better cover the rising costs of both parts and labor repair rates seen throughout our industry. These price increases have had no meaningful change in the product's penetration rate to date.

Sales volumes:

Switching over to Sales. Sales volumes were up 13.2% for the quarter. The operations team did an incredible job executing on the plan this quarter. This plan included an acceleration of the launch of our annual tax season promotion in December, rather than January, which led to a

3.6% increase in pre-qualified leads coupled with stronger conversion year over year. This was due in part to utilization of our new customer relationship management tool that rolled out late summer of last year and improved lead management. We also proactively increased the volume of inventory, as we expanded our frontlines much earlier than last year, putting us in a better inventory position as we head into our spring selling and tax season. Additionally, the underperformance in the prior year quarter was driven by intentionally tightened lending policies established during the roll out and implementation of the Company's LOS that appropriately reduced risk but negatively impacted volumes. Vickie will speak more in a little bit about how those lending policies have continually contributed to improved portfolio performance.

Gross Margin:

Looking at gross margin, Gross margin was 35.7%, compared to 34.2%. The initiatives around vehicle procurement and vehicle disposal continue to drive improvements on affordability, wholesale retention and the resulting gross margin percentage. These improvements were partially offset by increased accident protection plan claims primarily related to recent weather events.

We're pleased with the continuing progress in improving the gross margin percentage, and we'll continue to be focused on driving to the 37% to 38% annualized gross margin that we've mentioned in prior quarters. I'll now turn it over to Vickie to cover our financial results.

Vickie Judy:

Thanks Jamie.

Net Charge-offs:

As mentioned in the press release, we had improved net charge-offs as a percentage of average finance receivables for the quarter at 6.1% compared to 6.8% in the prior year quarter and 6.6% sequentially. On a relative basis, we saw overall improvements in the frequency of losses as well as a slight improvement in severity. In the finance receivable pools originated in fiscal years 2022 and 2023 we continue to experience increases in the frequency of losses as can be seen in the cash-on-cash return table included in the release. The fiscal year 2024 pool

performance, while improved over the fiscal 2022 and 2023 pools, also experienced a higher frequency of losses particularly related to contracts originated prior to the rollout of the LOS system and the tightened underwriting. Receivables originated in fiscal 2023 and prior account for approximately 21% of the total portfolio at January 31, 2025.

The allowance for credit losses as a percentage of finance receivables net of deferred revenue and accident protection plan claims was 24.31% at quarter end, improved from 24.72% at October 31, 2024, and 25.74% at January 31, 2024. This reduction in the allowance is primarily a result of the continued performance of the receivables originated under the LOS which now accounts for 58% of the total portfolio balance, excluding acquisition receivables.

Our average originating term was 44.6 months, up from 43.3 compared to the prior year quarter and up slightly from 44.2 sequentially. We continue to optimize the distribution of the term by customer score, shortening term for our highest credit risk customers and allowing additional term for our best credit scoring customers.

At the end of the quarter, the weighted average total contract term for the portfolio was 48.3 months. The weighted average age was 12.6 months, a 7% improvement over the prior year quarter. We continue to make progress on boosting overall collections, which are up 5.2% over last year. This was also a sequential improvement from the second quarter. The monthly average total collected per active customer was $568 compared to $540 at the same period last fiscal year.

Delinquencies or accounts over 30 days past due increased 40 basis points to 3.7% at quarter end and were 20 basis points higher than the second quarter of fiscal 2025. Winter weather late in the month of January contributed to the delinquencies as our customers work was impacted; however, delinquencies have improved since quarter end. Recency was 81.3% for the quarter, compared to 80.4% for the same period last fiscal year.

SG&A:

SG&A expense was up $2.9 million, an increase of 6.7%. This was primarily driven by a $1.8 million increase related to the two acquisitions completed since last year and higher stock compensation.

In the short-term, these two acquisitions create headwinds in our ability to leverage SG&A on a per customer basis while they build out a portfolio of customers. These acquisitions are expected to add 5,000 or more accounts over the next 18 to 24 months. Sequentially, SG&A decreased $947,000. We continue to stay focused on the efficiencies we can find in the business while continuing to build a foundation of people and technology to support a growing customer base.

Interest Expense:

Interest expense increased by $192,000, or 1.1%. Sequentially, we had a decrease of $1.1 million in interest expense as we begin to benefit from the improvement in benchmark rates as well as the positive impacts from our recent improvements in securitization rates.

At January 31, 2025, we had $8.5 million in unrestricted cash and approximately $75 million drawn on the ABL facility. With the amended and extended ABL facility now in place, our priority will be to continue to further diversify our capital structure.

Now, I'll turn the call back to Doug.

Doug:

Before moving to Q&A, I want to provide more color on the health of our consumer, our perspective on macro factors impacting our industry, and how Car-Mart is uniquely positioned to serve customers in this type of environment.

Used car affordability is a major concern for both our customers and our industry and has been for some time. In addition, recent developments out of Washington related to tariffs and other

potential impacts has created further uncertainties for how consumers might navigate a new environment. Our business is focused on taking care of hard-working people who find themselves in financial hardship by providing them with basic, quality transportation.

The work we have done as a company by centralizing certain functions, finding new sources of inventory, and tightening underwriting standards will help us navigate the environment more effectively should some of these changes come to fruition. We've been focused on improved deal structures that add a margin of safety into our customers households with the LOS. In addition, we would expect to have a larger addressable market as consumers that could get credit easily in the past will now be at the top of our sales funnel.

Our company has weathered many cycles over our 43-year history, which gives us confidence we can help customers navigate this uncertainty. We are laser focused on what we can control, which is providing affordable financial solutions for vehicle ownership and exceptional service to customers who typically feel the greatest pressure in difficult and uncertain economic environments. This is especially true as we enter the seasonally strong fourth quarter and spring selling season. We have added inventory, fine-tuned our marketing strategy, and feel good about our position heading into this important time of the year.

We continue to pursue opportunities to improve deal structures with risk-based pricing and now have 34 stores who are actively utilizing our new scorecard and testing price elasticity on both ends of our customer ranks. We will share in more detail what we're learning about these opportunities it's creating for the company after the tax season.

One of the items we can control are continual investments in our platform. This includes ongoing investments to improve our collections infrastructure to make the process easier for our customers and associates. Achieving this critical operational improvement this calendar year sets us up to scale the business, enhance funding, and improve earnings with less risk as we move forward.

While we are pleased with the progress we've made during the third quarter, we remain cautious about the macro environment. By focusing on the fundamentals of our business, we

are positioning ourselves for continued success and future growth. Rest assured that these challenges have made and will make your company better and will serve us in good stead going forward.

So, with this overview, we'll move to the Q&A session now. Operator, please provide instructions to ask questions.

Note: For the Q&A session, please refer to the webcast recording.