

America's Car-Mart, Inc. Q1 FY2026

Earnings Call Transcript

Operator:

Good morning, and welcome to America's Car-Mart's First Quarter Fiscal Year 2026 Earnings Call for the period ending July 31, 2025. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Jonathan Collins, Chief Financial Officer. Jonathan, please go ahead.

Jonathan Collins, America's Car-Mart Chief Financial Officer

Good morning, I'm Jonathan Collins, the Company's Chief Financial Officer. Welcome to America's Car-Mart's first quarter fiscal year 2026 earnings call for the period ending July 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 the supplemental materials are on our website. 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, 2025, 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 first quarter of fiscal 2026 versus the first quarter of fiscal 2025, unless otherwise noted.

Doug, I'll turn it over to you now.

Doug Campbell – President & Chief Executive Officer

Thanks, Jonathan, and good morning, everyone. As outlined in our release this morning, the quarter reflects steady progress on the fundamentals we control—gross margin expanded to 36.6%, interest income increased 7.5%, and total collections rose by 6.2%—while we stayed disciplined on volume to protect returns and affordability.

Demand remained solid—credit applications were up about 10% year-over-year. The website traffic was flat year-over-year, but we are seeing a higher conversion rate from consumers completing applications indicating there is a higher level of intent. This dynamic really started to play out in July and has continued since. I'll allow Jamie to provide more color on this in a moment. Although demand was solid—we paced volume as tariffs and wholesale pricing created temporary constraints. We saw a knock-on effect from tariffs, which drove an \$500 per unit increase in procurement costs during the quarter. This is incremental to the \$300 I called out last quarter but the increases we are seeing have since smoothed out. This has ultimately put downward pressure on inventory capacity under our current capital facility. We're actively evaluating actions to expand that capacity so it's not a limiting factor to sales going forward.

There are a few themes driving the momentum we're seeing on some of the aforementioned items:

First, underwriting and pricing quality. With LOS V2 now live across nearly our entire footprint, embedded riskbased pricing is better aligning expected returns with customer profiles. The new scorecard is delivering exactly what we designed it to do—shifting mix toward our highest ranked customers and away from the lowest tiers. During the quarter, 15% more of our volume came from ranks 5–7, while bookings in some of our lowest ranks were reduced by nearly 50%. This higher quality mix historically drives lower loss frequency and severity, faster breakeven, stronger returns on invested capital, and lower downstream costs—all of which improve expected unit economics over the life of the loan. As a result, we expect the originations from this quarter to generate stronger returns even on lower overall volume, given the concentration of customers with stronger credit profiles and unit economics.

Second, payment experience and portfolio health. Our upgraded Pay Your Way platform is resonating with our customers. Since the late June launch, we've already seen a shift from instore to online payments, and recurring payment enrollments have nearly doubled—enhancing convenience for customers and supporting more consistent payment behavior and collections efficiency. Both LOS V2 and Pay Your Way were originally scheduled to be implemented throughout the fiscal year. We've pulled these initiatives forward which will enable us to unlock SG&A savings. I'll have Jonathan expand upon in a minute.

Third, capital efficiency and funding. We continued to strengthen our securitization platform. On August 28, we closed 2025-3 securitization, a \$172 million issuance at an overall weighted average- coupon of 5.46%—an 81-basis-point improvement when compared to our May 2025-2 deal and our fourth consecutive improvement in the overall weighted average coupon. Since 2024-1 issuance, the team has improved the overall coupon by over 400 basis points, 75% of which is related to tightening spreads. Strong capital markets receptivity to our new collection's platform is paving the way for incremental reductions in the cost of capital and lowering financing costs associated with our securitization platform.

At this point, I'd like to turn the call over to Jamie to review our operational performance for the quarter.

Jamie Fischer – Chief Operating Officer

Thanks, Doug, and good morning, everyone.

Total revenue for the first quarter was \$341.3 million, a decrease of 1.9% from the prior year, primarily resulting from fewer retail units sold. This was partially offset by a 7.5% increase in interest income, supported by a larger portfolio and more payments collected year-over-year. Growth in the receivables base reflects disciplined originations as well as the benefit of our expanding footprint from acquisition locations.

As highlighted on our last call, wholesale pricing pressures began to emerge late in the prior quarter. That trend continued into Q1, with procurement costs rising an incremental \$500 per unit. At the same time, we were deliberately focused on quality vehicles and a stronger mix to better serve the needs of our higher-ranked customers. The combination of these two factors created additional strain on our ability to expand sales volumes, and as a result, volumes declined 5.7% to 13,568 units compared with 14,391 units a year ago.

The average selling price of vehicles, excluding ancillary products, decreased by \$144 year-over-year, reflecting that much of the inventory sold in the quarter had been acquired before the most recent procurement cost increases. We also realized margin benefits from the ancillary product price increases taken in Q3 of last fiscal year, which continue to flow through as a favorable year-over-year variance. Combined with strong attachment rates and disciplined vehicle pricing, these actions contributed to gross margin improvement to 36.6%, a 160-basis point increase over the prior-year quarter. Gross margin also benefited from improved wholesale retention as well as favorable trends in post-sale vehicle repairs, both in frequency and severity. Looking ahead, we expect average selling prices, excluding ancillary products, to have a positive effect on revenue and the Company will remain disciplined on its approach to gross margin rates.

Turning to demand, as Doug mentioned previously, credit applications were up 10% year-over-year for the quarter, underscoring the strength of customer need for our offering. We saw a sharp uptick in July with a 26.5% increase in applications year-over-year. That growth spanned all customer ranks—from our strongest profiles to those with more challenged credit with an overall average FICO score slightly up from prior year averages—and was driven by strategic marketing and customer outreach strategies. The month of August maintained that same level of elevated application flow, and we are pleased to see September has started just as strong. As we've said before, when the macro environment tightens and traditional credit access becomes more constrained, our business is positioned to grow. The past 60 days have been a positive indication of that dynamic.

Because of the aforementioned surge in applications and constraints on inventory available for sale, our LOS V2 played a critical role in actively steering our field teams

toward booking the best-ranked customers. As a result, we ensured that the vehicles we did have were placed into the healthiest parts of the portfolio.

I'll now turn it over to Jonathan to cover the remainder of our results.

Jonathan Collins – Chief Financial Officer

Thank you, Jamie.

Operating expenses for SG&A totaled \$51.4 million, a 10.1% increase from \$46.7 million in the prior year. Roughly two-thirds of this increase was related to payroll growth—including strategic hires in areas like finance and accounting—and one-third was driven by technology investments such as the rollout of LOS V2 and Pay Your Way. We expect to unwind approximately half of total SG&A growth in the back half of the year. Notably, the implementation of the upgraded Pay Your Way technology is expected to guide a shift towards a more modernized collections infrastructure, which will deliver approximately 5% annual cost savings over time. These efforts are expected to drive SG&A efficiency, improve operational performance, and move us closer to our target of mid-16% SG&A as a percentage of retail sales.

On the collections side, performance remained robust, with total collections rising 6.2% to \$183.6 million. This improvement highlights the effectiveness of the Pay Your Way platform and the expanding adoption of digital payment channels, resulting in a higher average collection per active customer—\$585 this quarter, compared to \$562 in the same period last year. The strength in collections underscores the quality of the portfolio and the success of recent operational enhancements.

On the credit side, net charge-offs as a percentage of average finance receivables rose slightly to 6.6% from 6.4% last year. Approximately 50% of this increase was due to softer sales, which muted the growth in the denominator, and 50% due to higher loss frequency and some severity in legacy pools, which affected the numerator.

Delinquencies greater than 30 days were 3.8% at the end of the quarter, representing a 30-basis point increase. Our allowance for credit losses improved to 23.35%, compared to 25.00% at July 31, 2024. Sequentially, the allowance increased slightly from 23.25% at April 30, 2025, resulting in a \$3 million dollar increase to the allowance, which was driven equally by portfolio growth as well as by the frequency and severity of loss. Our portfolio quality continues to strengthen, with nearly 72% of the portfolio dollars originated under enhanced underwriting standards and our top three customer ranks increasing by 790 basis points during the quarter versus fiscal 2025 average.

The average originating term for new contracts was 44.9 months, up 0.6 months from last year, and our weighted average total contract term for the portfolio stood at 48.3 months, a modest increase of 0.2 months compared to last year. The weighted average

age was 12.6 months, a 5% improvement over the prior year's quarter. Importantly, our active customer count grew by 1.4% to almost 104,700 customers, reflecting the resilience and ongoing strength of our portfolio.

Debt to finance receivables and debt, net of cash, to finance receivables were 51.1% and 43.1%, respectively, both improved from last year. Interest expense decreased by 6.9% to \$17.0 million as we continue to benefit from the improvement in our securitization platform. During the quarter, we successfully completed a \$216 million term securitization at a weighted average interest rate of 6.27%. After the quarter ended, we also finalized our 2025-3 securitization, raising \$172 million at a weighted average interest rate of 5.46%. While there is still room for further improvement, we are encouraged by the progress our platform has made so far. Market interest for our securitizations remains high, with the Class A Notes almost 8 times oversubscribed, and the Class B Notes nearly 16 times oversubscribed on our most recent transaction. Strong demand, combined with favorable operating performance within our portfolio, has significantly improved the pricing of our Notes. Notably, our most recent transaction marks the fourth consecutive improvement in our overall weighted average coupon, and we have reduced our weighted average spread by 308 basis points since our 2024-1 transaction. In our latest transaction, 21 out of 26 investors who had previously participated in our securitizations chose to invest again, which demonstrates the continued confidence they have in our platform. As Doug highlighted earlier, I'm also very encouraged by the impact that our upgraded Pay Your Way platform and our broader collections modernization will have on our ABS platform and future cost of capital, as enhanced payment consistency and less of a reliance on field operations should support a stronger outlook from our ratings agencies and unlock more favorable terms on upcoming securitizations.

I'd also like to address several important operational disclosures. First, as previously communicated, our Annual Report on Form 10-K was filed after a brief delay. The delay was related to the prior adoption of enhanced contract modification disclosures. These disclosures provide additional detail on the frequency and nature of modifications, their impact on portfolio performance, and our approach to managing risk in this area. We believe these enhanced disclosures will provide greater transparency and help investors better understand the dynamics of our receivables and credit performance. Further, we have already taken significant steps to remediate the associated material weakness, including enhanced oversight, additional training, and the implementation of new review procedures. We are committed to maintaining strong controls and transparency, and we will continue to update stakeholders on our progress.

Second, I want to highlight the capital constraint impacting our working capital and inventory management. Currently, we face both a low advance rate of 30% and a cap of \$30 million on inventory advances under our revolving credit facility. While these limits have existed in the past, the significant rise in vehicle prices since COVID has amplified their impact, putting ongoing pressure on our ability to expand retail sales and manage working capital efficiently. We are actively exploring alternative financing solutions to address these constraints and unlock additional capacity to serve our qualified customer demand.

Looking ahead, our focus remains on disciplined execution, portfolio quality, and capital efficiency. The successful rollout of LOS V2 and Risk-Based Pricing is already driving measurable improvements in deal quality and cash flow predictability. As we continue to diversify our funding sources and optimize our balance sheet, I'm confident that we're well-positioned to support both near-term performance and long-term growth.

Finally, I want to thank our finance and operations teams for their commitment and agility in a dynamic environment. Their dedication is critical to our success.

With that, I'll turn the call back to Doug for closing remarks before we move to Q&A.

Doug Campbell – President & Chief Executive Officer

Thank you, Jonathan.

To summarize, this quarter we kept our focus on the fundamentals we control. We expanded gross margin, increased interest income, and improved collections, while being disciplined on volume as tariffs and wholesale pricing temporarily pressured inventory capacity under our current facility. LOS V2 and the new scorecard are doing the work we intended—shifting mix toward our highest ranked customers under better pricing structures powered by risk-based pricing. And our Pay Your Way upgrade is laying the groundwork for more consistent payment behavior, operational efficiency, and lower cost of capital.

Looking ahead, our priorities are clear:

1. Quality growth with affordability—serving more customers and protecting returns;
2. Payment and collections modernization—continuing to scale digital adoption; and
3. Capital structure and capacity—evaluating actions to expand inventory capacity so demand—not financing mechanics—determines our sales trajectory.

I'm proud of the team's execution and grateful to our associates for keeping customers on the road every day. Operator let's open the line for questions.