

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended November 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-31420

CARMAX, INC.

(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of incorporation)

54-1821055  
(I.R.S. Employer Identification No.)

12800 Tuckahoe Creek Parkway  
Richmond, Virginia  
(Address of Principal Executive Offices)

23238  
(Zip Code)

(804) 747-0422  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	KMX	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common Stock, par value \$0.50

Outstanding as of December 31, 2021  
161,679,866

## **CARMAX, INC. AND SUBSIDIARIES**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### CARMAX, INC. AND SUBSIDIARIES

#### Consolidated Statements of Earnings

(Unaudited)

<i>(In thousands except per share data)</i>	Three Months Ended November 30				Nine Months Ended November 30			
	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>
<b>SALES AND OPERATING REVENUES:</b>								
Used vehicle sales	\$ 6,435,590	75.5	\$ 4,209,748	81.2	\$ 18,697,300	77.2	\$ 11,385,183	82.6
Wholesale vehicle sales	1,922,283	22.5	828,362	16.0	4,998,212	20.6	1,990,296	14.4
Other sales and revenues	169,886	2.0	146,834	2.8	518,205	2.1	410,413	3.0
<b>NET SALES AND OPERATING REVENUES</b>	<b>8,527,759</b>	<b>100.0</b>	<b>5,184,944</b>	<b>100.0</b>	<b>24,213,717</b>	<b>100.0</b>	<b>13,785,892</b>	<b>100.0</b>
<b>COST OF SALES:</b>								
Used vehicle cost of sales	5,927,237	69.5	3,791,134	73.1	17,085,416	70.6	10,223,875	74.2
Wholesale vehicle cost of sales	1,710,103	20.1	713,961	13.8	4,411,175	18.2	1,669,595	12.1
Other cost of sales	53,859	0.6	48,419	0.9	140,573	0.6	154,666	1.1
<b>TOTAL COST OF SALES</b>	<b>7,691,199</b>	<b>90.2</b>	<b>4,553,514</b>	<b>87.8</b>	<b>21,637,164</b>	<b>89.4</b>	<b>12,048,136</b>	<b>87.4</b>
<b>GROSS PROFIT</b>	<b>836,560</b>	<b>9.8</b>	<b>631,430</b>	<b>12.2</b>	<b>2,576,553</b>	<b>10.6</b>	<b>1,737,756</b>	<b>12.6</b>
<b>CARMAX AUTO FINANCE INCOME</b>	<b>165,968</b>	<b>1.9</b>	<b>176,445</b>	<b>3.4</b>	<b>607,732</b>	<b>2.5</b>	<b>374,590</b>	<b>2.7</b>
Selling, general and administrative expenses	575,930	6.8	430,781	8.3	1,704,285	7.0	1,197,595	8.7
Depreciation and amortization	54,428	0.6	48,016	0.9	157,107	0.6	145,126	1.1
Interest expense	24,303	0.3	19,462	0.4	67,247	0.3	65,889	0.5
Other (income) expense	(8,094)	(0.1)	(887)	—	(35,453)	(0.1)	728	—
Earnings before income taxes	355,961	4.2	310,503	6.0	1,291,099	5.3	703,008	5.1
Income tax provision	86,523	1.0	75,203	1.5	299,638	1.2	166,034	1.2
<b>NET EARNINGS</b>	<b>\$ 269,438</b>	<b>3.2</b>	<b>\$ 235,300</b>	<b>4.5</b>	<b>\$ 991,461</b>	<b>4.1</b>	<b>\$ 536,974</b>	<b>3.9</b>
<b>WEIGHTED AVERAGE COMMON SHARES:</b>								
Basic	162,006		163,732		162,710		163,278	
Diluted	164,873		165,773		165,606		164,976	
<b>NET EARNINGS PER SHARE:</b>								
Basic	\$ 1.66		\$ 1.44		\$ 6.09		\$ 3.29	
Diluted	\$ 1.63		\$ 1.42		\$ 5.99		\$ 3.25	

<sup>(1)</sup> Percents are calculated as a percentage of net sales and operating revenues and may not total due to rounding.

See accompanying notes to consolidated financial statements.

**CARMAX, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

<i>(In thousands)</i>	Three Months Ended November 30		Nine Months Ended November 30	
	2021	2020	2021	2020
<b>NET EARNINGS</b>	\$ 269,438	\$ 235,300	\$ 991,461	\$ 536,974
Other comprehensive income (loss), net of taxes:				
Net change in retirement benefit plan unrecognized actuarial losses	659	727	1,976	2,183
Net change in cash flow hedge unrecognized losses	11,383	6,775	16,414	(5,036)
Other comprehensive income (loss), net of taxes	12,042	7,502	18,390	(2,853)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 281,480</b>	<b>\$ 242,802</b>	<b>\$ 1,009,851</b>	<b>\$ 534,121</b>

*See accompanying notes to consolidated financial statements.*

**CARMAX, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**(Unaudited)**

<i>(In thousands except share data)</i>	As of November 30 2021	As of February 28 2021
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 62,598	\$ 132,319
Restricted cash from collections on auto loans receivable	552,487	496,415
Accounts receivable, net	563,135	239,070
Inventory	4,659,460	3,157,159
Other current assets	117,390	91,833
<b>TOTAL CURRENT ASSETS</b>	<b>5,955,070</b>	<b>4,116,796</b>
Auto loans receivable, net of allowance for loan losses of \$426,507 and \$411,150 as of November 30, 2021 and February 28, 2021, respectively	15,167,170	13,489,819
Property and equipment, net of accumulated depreciation of \$1,542,238 and \$1,414,264 as of November 30, 2021 and February 28, 2021, respectively	3,175,577	3,055,563
Deferred income taxes	134,382	164,261
Operating lease assets	543,645	431,652
Goodwill	141,258	653
Other assets	458,117	282,797
<b>TOTAL ASSETS</b>	<b>\$ 25,575,219</b>	<b>\$ 21,541,541</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 936,556	\$ 799,333
Accrued expenses and other current liabilities	530,592	415,465
Accrued income taxes	518	218
Current portion of operating lease liabilities	43,151	30,953
Current portion of long-term debt	10,889	9,927
Current portion of non-recourse notes payable	535,146	442,652
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,056,852</b>	<b>1,698,548</b>
Long-term debt, excluding current portion	2,602,598	1,322,415
Non-recourse notes payable, excluding current portion	14,856,266	13,297,504
Operating lease liabilities, excluding current portion	529,821	423,618
Other liabilities	419,886	434,843
<b>TOTAL LIABILITIES</b>	<b>20,465,423</b>	<b>17,176,928</b>
Commitments and contingent liabilities		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$0.50 par value; 350,000,000 shares authorized; 161,871,923 and 163,172,333 shares issued and outstanding as of November 30, 2021 and February 28, 2021, respectively	80,936	81,586
Capital in excess of par value	1,672,728	1,513,821
Accumulated other comprehensive loss	(100,301)	(118,691)
Retained earnings	3,456,433	2,887,897
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>5,109,796</b>	<b>4,364,613</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 25,575,219</b>	<b>\$ 21,541,541</b>

See accompanying notes to consolidated financial statements.

**CARMAX, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

Nine Months Ended November  
30

(In thousands)

	2021	2020
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$ 991,461	\$ 536,974
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	200,819	180,495
Share-based compensation expense	108,962	73,946
Provision for loan losses	87,342	156,147
Provision for cancellation reserves	91,607	53,511
Deferred income tax provision (benefit)	19,564	(19,529)
Other	(26,808)	5,966
Net (increase) decrease in:		
Accounts receivable, net	(290,346)	22,111
Inventory	(1,502,323)	66,211
Other current assets	(13,615)	29,478
Auto loans receivable, net	(1,764,693)	(73,827)
Other assets	(18,309)	(8,151)
Net increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities and accrued income taxes	170,474	(124,092)
Other liabilities	(136,780)	(30,854)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(2,082,645)</b>	<b>868,386</b>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(226,903)	(123,952)
Proceeds from disposal of property and equipment	260	1,846
Proceeds from sale of business	12,284	—
Purchases of investments	(13,676)	(2,709)
Sales and returns of investments	36,915	2,739
Business acquisition, net of cash acquired	(241,563)	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(432,683)</b>	<b>(122,076)</b>
<b>FINANCING ACTIVITIES:</b>		
Increase in short-term debt, net	—	968
Proceeds from issuances of long-term debt	5,804,200	1,562,300
Payments on long-term debt	(4,524,973)	(2,022,586)
Cash paid for debt issuance costs	(14,473)	(12,797)
Payments on finance lease obligations	(8,822)	(4,871)
Issuances of non-recourse notes payable	11,217,298	7,947,313
Payments on non-recourse notes payable	(9,565,649)	(7,940,254)
Repurchase and retirement of common stock	(475,950)	(158,625)
Equity issuances	76,310	94,295
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>2,507,941</b>	<b>(534,257)</b>
(Decrease) increase in cash, cash equivalents, and restricted cash	(7,387)	212,053
Cash, cash equivalents, and restricted cash at beginning of year	771,947	656,390
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$ 764,560</b>	<b>\$ 868,443</b>
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED BALANCE SHEETS:</b>		
Cash and cash equivalents	\$ 62,598	\$ 236,643
Restricted cash from collections on auto loans receivable	552,487	492,610
Restricted cash included in other assets	149,475	139,190
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$ 764,560</b>	<b>\$ 868,443</b>

See accompanying notes to consolidated financial statements.



**CARMAX, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Shareholders' Equity**  
**(Unaudited)**

**Nine Months Ended November 30, 2021**

<i>(In thousands)</i>	Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balance as of February 28, 2021</b>	<b>163,172</b>	<b>\$ 81,586</b>	<b>\$ 1,513,821</b>	<b>\$ 2,887,897</b>	<b>\$ (118,691)</b>	<b>\$ 4,364,613</b>
Net earnings	—	—	—	436,756	—	436,756
Other comprehensive income	—	—	—	—	2,937	2,937
Share-based compensation expense	—	—	20,102	—	—	20,102
Repurchases of common stock	(998)	(499)	(9,348)	(114,695)	—	(124,542)
Exercise of common stock options	375	187	21,403	—	—	21,590
Stock incentive plans, net shares issued	254	127	(18,102)	—	—	(17,975)
<b>Balance as of May 31, 2021</b>	<b>162,803</b>	<b>\$ 81,401</b>	<b>\$ 1,527,876</b>	<b>\$ 3,209,958</b>	<b>\$ (115,754)</b>	<b>\$ 4,703,481</b>
Net earnings	—	—	—	285,267	—	285,267
Other comprehensive income	—	—	—	—	3,411	3,411
Share-based compensation expense	—	—	14,116	—	—	14,116
Shares issued for acquisition	776	388	90,183	—	—	90,571
Repurchases of common stock	(1,754)	(877)	(17,164)	(202,004)	—	(220,045)
Exercise of common stock options	621	311	38,185	—	—	38,496
Stock incentive plans, net shares issued	24	12	(130)	—	—	(118)
<b>Balance as of August 31, 2021</b>	<b>162,470</b>	<b>\$ 81,235</b>	<b>\$ 1,653,066</b>	<b>\$ 3,293,221</b>	<b>\$ (112,343)</b>	<b>\$ 4,915,179</b>
Net earnings	—	—	—	269,438	—	269,438
Other comprehensive income	—	—	—	—	12,042	12,042
Share-based compensation expense	—	—	12,347	—	—	12,347
Repurchases of common stock	(851)	(425)	(8,695)	(106,226)	—	(115,346)
Exercise of common stock options	253	126	16,097	—	—	16,223
Stock incentive plans, net shares issued	—	—	(87)	—	—	(87)
<b>Balance as of November 30, 2021</b>	<b>161,872</b>	<b>\$ 80,936</b>	<b>\$ 1,672,728</b>	<b>\$ 3,456,433</b>	<b>\$ (100,301)</b>	<b>\$ 5,109,796</b>

*See accompanying notes to consolidated financial statements.*

**CARMAX, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Shareholders' Equity**  
**(Unaudited)**

**Nine Months Ended November 30, 2020**

<i>(In thousands)</i>	Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balance as of February 29, 2020</b>	<b>163,081</b>	<b>\$ 81,541</b>	<b>\$ 1,348,988</b>	<b>\$ 2,488,417</b>	<b>\$ (150,071)</b>	<b>\$ 3,768,875</b>
Adoption of CECL	—	—	—	(153,306)	—	(153,306)
Net earnings	—	—	—	4,978	—	4,978
Other comprehensive loss	—	—	—	—	(15,334)	(15,334)
Share-based compensation expense	—	—	17,652	—	—	17,652
Repurchases of common stock	(515)	(258)	(4,271)	(36,180)	—	(40,709)
Exercise of common stock options	35	18	1,688	—	—	1,706
Stock incentive plans, net shares issued	154	77	(5,629)	—	—	(5,552)
<b>Balance as of May 31, 2020</b>	<b>162,755</b>	<b>\$ 81,378</b>	<b>\$ 1,358,428</b>	<b>\$ 2,303,909</b>	<b>\$ (165,405)</b>	<b>\$ 3,578,310</b>
Net earnings	—	—	—	296,696	—	296,696
Other comprehensive income	—	—	—	—	4,979	4,979
Share-based compensation expense	—	—	12,568	—	—	12,568
Repurchases of common stock	—	—	—	—	—	—
Exercise of common stock options	1,403	701	89,318	—	—	90,019
Stock incentive plans, net shares issued	4	2	(14)	—	—	(12)
<b>Balance as of August 31, 2020</b>	<b>164,162</b>	<b>\$ 82,081</b>	<b>\$ 1,460,300</b>	<b>\$ 2,600,605</b>	<b>\$ (160,426)</b>	<b>\$ 3,982,560</b>
Net earnings	—	—	—	235,300	—	235,300
Other comprehensive income	—	—	—	—	7,502	7,502
Share-based compensation expense	—	—	9,942	—	—	9,942
Repurchases of common stock	(1,176)	(588)	(10,509)	(98,152)	—	(109,249)
Exercise of common stock options	43	21	2,549	—	—	2,570
Stock incentive plans, net shares issued	5	3	(152)	—	—	(149)
<b>Balance as of November 30, 2020</b>	<b>163,034</b>	<b>\$ 81,517</b>	<b>\$ 1,462,130</b>	<b>\$ 2,737,753</b>	<b>\$ (152,924)</b>	<b>\$ 4,128,476</b>

*See accompanying notes to consolidated financial statements.*

**CARMAX, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**1. Background**

**Business.** CarMax, Inc. (“we,” “our,” “us,” “CarMax” and “the company”), including its wholly owned subsidiaries, is the nation’s largest and most profitable retailer of used vehicles. We operate in two reportable segments: CarMax Sales Operations and CarMax Auto Finance (“CAF”). Our CarMax Sales Operations segment consists of all aspects of our auto merchandising and service operations, excluding financing provided by CAF. Our CAF segment consists solely of our own finance operation that provides financing to customers buying retail vehicles from CarMax. On June 1, 2021, we completed the acquisition of Edmunds Holding Company (“Edmunds”), which does not meet the quantitative thresholds to be considered a reportable segment. See Note 17 for additional information on our reportable segments and Note 2 for additional information regarding our acquisition of Edmunds.

We deliver an unrivaled customer experience by offering a broad selection of quality used vehicles and related products and services at competitive, no-haggle prices using a customer-friendly sales process. Our omni-channel platform, which gives us the largest addressable market in the used car industry, empowers our retail customers to buy a car on their terms – online, in-store or a seamless combination of both. Customers can choose to complete the car-buying experience in-person at one of our stores; or buy the car online and receive delivery through express pickup, available nationwide, or home delivery, available to most customers. We offer customers a range of related products and services, including the appraisal and purchase of vehicles directly from consumers; the financing of retail vehicle purchases through CAF and third-party finance providers; the sale of extended protection plan (“EPP”) products, which include extended service plans (“ESPs”) and guaranteed asset protection (“GAP”); and vehicle repair service. Vehicles purchased through the appraisal process that do not meet our retail standards are sold to licensed dealers through on-site or virtual wholesale auctions.

**Basis of Presentation and Use of Estimates.** The accompanying interim unaudited consolidated financial statements include the accounts of CarMax and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such interim consolidated financial statements reflect all normal recurring adjustments considered necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full fiscal year.

The accounting policies followed in the presentation of our interim financial results are consistent with those included in the company’s Annual Report on Form 10-K for the fiscal year ended February 28, 2021 (the “2021 Annual Report”), with the exception of those related to recent accounting pronouncements adopted in the current fiscal year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in our 2021 Annual Report.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. In particular, the novel coronavirus (“COVID-19”) pandemic continues to have an adverse impact on global economic conditions and may impact future estimates including, but not limited to, our allowance for loan losses, inventory valuations, fair value measurements, downward adjustments to investments in equity securities, asset impairment charges, the effectiveness of the company’s hedging instruments, deferred tax valuation allowances, cancellation reserves, actuarial losses on our retirement benefit plans and discount rate assumptions.

Depreciation and amortization previously included in selling, general, and administrative expenses is now separately presented on the consolidated statements of earnings. Prior period amounts have been reclassified to conform to the current period’s presentation. Depreciation and amortization related to other areas of our business, including cost of sales and CAF, is included in its respective line item on the consolidated statements of earnings. Certain other prior year amounts have been reclassified to conform to the current year’s presentation. Amounts and percentages may not total due to rounding.

## ***Recent Accounting Pronouncements.***

### ***Effective in Future Periods***

In October 2021, the Financial Accounting Standards Board (“FASB”) issued an accounting pronouncement (ASU 2021-08) related to accounting for acquired revenue contracts with customers in a business combination. The amendments in this update address diversity in practice and inconsistency related to recognition of an acquired contract liability and the effect of payment terms on subsequent revenue recognition for the acquirer. This update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We plan to adopt this pronouncement for our fiscal year beginning March 1, 2023, and we do not expect it to have a material effect on our consolidated financial statements.

In November 2021, the FASB issued an accounting pronouncement (ASU 2021-10) related to government assistance disclosures. The amendments in this update increase the transparency surrounding government assistance by requiring disclosure of 1) the types of assistance received, 2) an entity’s accounting for the assistance, and 3) the effect of the assistance on the entity’s financial statements. The update is effective for annual periods beginning after December 15, 2021. We plan to adopt this pronouncement for our fiscal year beginning March 1, 2022, and we do not expect it to have a material effect on our consolidated financial statements.

## **2. Acquisition of Edmunds**

On June 1, 2021, we completed the acquisition of Edmunds Holding Company, one of the most well established and trusted online guides for automotive information and a recognized leader in digital car shopping innovations. With this acquisition, CarMax has enhanced its digital capabilities and further strengthened its role and reach across the used auto ecosystem while adding exceptional technology and creative talent. Edmunds continues to operate independently and remains focused on delivering confidence to consumers and excellent value to its dealer and OEM clients. Additionally, this acquisition allows both businesses to accelerate their respective capabilities to deliver an enhanced digital experience to their customers by leveraging Edmunds’ compelling content and technology, CarMax’s unparalleled national scale and infrastructure, and the combined talent of both businesses.

The acquisition was accounted for in accordance with Accounting Standards Codification (“ASC”) Topic 805, Business Combinations, and, accordingly, Edmunds’ results of operations have been consolidated in our financial statements since the date of acquisition. We recorded a preliminary allocation of the purchase price to assets acquired and liabilities assumed based on their estimated fair values as of June 1, 2021. The transaction costs associated with the acquisition were approximately \$8.0 million and were expensed as incurred within selling, general and administrative expenses.

The following table summarizes the total purchase consideration:

*(In thousands)*

Total cash consideration for outstanding shares	\$	251,047
Fair value of common stock <sup>(1)</sup>		90,571
Fair value of preexisting relationship		60,200
Total	\$	401,818

<sup>(1)</sup> Represents the issuance of 776,097 shares of CarMax common stock to Edmunds equity holders, the fair value of which was based on the market value of CarMax common stock as of market close on the acquisition date (June 1, 2021).

In January 2020, we acquired a minority stake in Edmunds for \$50 million. The noncontrolling equity investment in Edmunds was remeasured at a fair value of \$60.2 million prior to the acquisition of the remaining ownership stake on June 1, 2021, which resulted in the recognition of a gain of \$8.7 million. The gain is included in other income in the consolidated statements of earnings.

The following table summarizes the estimated preliminary fair values of the assets acquired and liabilities assumed at the date of the acquisition and is subject to final fair value determination:

<i>(In thousands)</i>	<b>Fair Value</b>
Cash	\$ 9,484
Accounts receivable, net	33,719
Other current assets	2,397
Property and equipment, net	20,741
Goodwill <sup>(1)</sup>	141,258
Intangible assets	218,000
Operating lease assets	97,250
Other assets	191
<b>Total assets acquired</b>	<b>523,040</b>
Accounts payable	5,063
Accrued expenses and other current liabilities	11,277
Current portion of operating lease liabilities	12,795
Deferred income taxes <sup>(1)</sup>	3,823
Operating lease liabilities, excluding current portion	88,264
<b>Total liabilities assumed</b>	<b>121,222</b>
<b>Net assets acquired</b>	<b>\$ 401,818</b>

<sup>(1)</sup> During the third quarter of fiscal 2022, we obtained new information about facts and circumstances that existed as of the acquisition date, which resulted in a change in the fair value of assets and liabilities recognized. The adjustments were primarily related to research and development tax credits, which resulted in a decrease in goodwill and a decrease in deferred income taxes of \$8.4 million.

The excess of purchase consideration over the fair value of net identifiable assets acquired and liabilities assumed was recorded as goodwill, which is primarily attributed to expected synergies and the assembled workforce of the acquired business and is not deductible for tax purposes. The fair values assigned to the net identifiable assets and liabilities assumed are based on management's estimates and assumptions and may be subject to change as additional information is received. The primary areas that remain preliminary relate to the fair values of intangible assets acquired, certain identifiable assets and liabilities acquired, and income and non-income based taxes and residual goodwill. We expect to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

Identifiable intangible assets were recognized at their estimated acquisition date fair values. The preliminary fair value of identifiable intangible assets was determined by using certain estimates and assumptions that are not observable in the market. The preliminary fair values of the trade name asset and the internally developed software asset were determined using the relief-from-royalty method, and the preliminary fair value of the customer relationships asset was determined using the excess earnings method. These income-based approaches included significant assumptions such as the amount and timing of projected cash flows, growth rates, customer attrition rates, discount rates, and the assessment of the asset's life cycle. The preliminary estimated fair value and estimated remaining useful lives of identifiable intangible assets are as follows:

<i>(In thousands)</i>	<b>Useful Life (Years)</b>	<b>Preliminary Fair Value</b>
Trade name	Indefinite	\$ 31,900
Internally developed software	7	52,900
Customer relationships	17	133,200
<b>Identifiable intangible assets</b>		<b>\$ 218,000</b>

The operating results of Edmunds have been included in our consolidated financial statements since the date of the acquisition. Net sales and operating revenues and net earnings attributable to Edmunds were not material for the reporting periods presented. Our pro forma results as if the acquisition had taken place on the first day of fiscal 2021 would not be materially different from the amounts reflected in the accompanying consolidated financial statements, and therefore are not presented.



### 3. Revenue

We recognize revenue when control of the good or service has been transferred to the customer, generally either at the time of sale or upon delivery to a customer. Our contracts have a fixed contract price and revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. We collect sales taxes and other taxes from customers on behalf of governmental authorities at the time of sale. These taxes are accounted for on a net basis and are not included in net sales and operating revenues or cost of sales. We generally expense sales commissions when incurred because the amortization period would have been less than one year. These costs are recorded within selling, general and administrative expenses. We do not have any significant payment terms as payment is received at or shortly after the point of sale.

#### Disaggregation of Revenue

<i>(In millions)</i>	Three Months Ended November 30		Nine Months Ended November 30	
	2021	2020	2021	2020
Used vehicle sales	\$ 6,435.6	\$ 4,209.7	\$ 18,697.3	\$ 11,385.2
Wholesale vehicle sales	1,922.3	828.4	4,998.2	1,990.3
Other sales and revenues:				
Extended protection plan revenues	106.6	101.7	353.8	294.5
Third-party finance fees, net	1.6	(10.6)	(0.3)	(36.7)
Advertising & subscription revenues <sup>(1)</sup>	33.3	—	67.9	—
Service revenues	19.7	24.6	62.9	70.6
Other	8.7	31.1	33.9	82.0
Total other sales and revenues	169.9	146.8	518.2	410.4
Total net sales and operating revenues	\$ 8,527.8	\$ 5,184.9	\$ 24,213.7	\$ 13,785.9

<sup>(1)</sup> Excludes intersegment revenues that have been eliminated in consolidation. See Note 17 for further details.

**Used Vehicle Sales.** Revenue from the sale of used vehicles is recognized upon transfer of control of the vehicle to the customer. As part of our customer service strategy, we guarantee the retail vehicles we sell with a 30-day/1,500 mile, money-back guarantee. We record a reserve for estimated returns based on historical experience and trends. The reserve for estimated returns is presented gross on the consolidated balance sheets, with a return asset recorded in other current assets and a refund liability recorded in accrued expenses and other current liabilities. We also guarantee the used vehicles we sell with a 90-day/4,000 mile limited warranty. These warranties are deemed assurance-type warranties and are accounted for as warranty obligations. See Note 16 for additional information on this warranty and its related obligation.

**Wholesale Vehicle Sales.** Wholesale vehicles are sold at our auctions, and revenue from the sale of these vehicles is recognized upon transfer of control of the vehicle to the customer. Dealers also pay a fee to us based on the sale price of the vehicles they purchase. This fee is recognized as revenue at the time of sale. While we provide condition disclosures on each wholesale vehicle sold, the vehicles are subject to a limited right of return. We record a reserve for estimated returns based on historical experience and trends. The reserve for estimated returns is presented gross on the consolidated balance sheets, with a return asset recorded in other current assets and a refund liability recorded in accrued expenses and other current liabilities.

**EPP Revenues.** We also sell ESP and GAP products on behalf of unrelated third parties, who are primarily responsible for fulfilling the contract, to customers who purchase a retail vehicle. The ESPs we currently offer on all used vehicles provide coverage up to 60 months (subject to mileage limitations), while GAP covers the customer for the term of their finance contract. We recognize revenue, on a net basis, at the time of sale. We also record a reserve, or refund liability, for estimated contract cancellations. The reserve for cancellations is evaluated for each product and is based on forecasted forward cancellation curves utilizing historical experience, recent trends and credit mix of the customer base. Our risk related to contract cancellations is limited to the revenue that we receive. Cancellations fluctuate depending on the volume of EPP sales, customer financing default or prepayment rates, and shifts in customer behavior, including those related to changes in the coverage or term of the product. The current portion of estimated cancellation reserves is recognized as a component of accrued expenses and other current liabilities with the remaining amount recognized in other liabilities. See Note 8 for additional information on cancellation reserves.

We are contractually entitled to receive profit-sharing revenues based on the performance of the ESPs administered by third parties. These revenues are a form of variable consideration included in EPP revenues to the extent that it is probable that it



will not result in a significant revenue reversal. An estimate of the amount to which we expect to be entitled, subject to various constraints, is recognized upon satisfying the performance obligation of selling the ESP. These constraints include factors that are outside of the company's influence or control and the length of time until settlement. We apply the expected value method, utilizing historical claims and cancellation data from CarMax customers, as well as external data and other qualitative assumptions. This estimate is reassessed each reporting period with changes reflected in other sales and revenues on our consolidated statements of earnings and other assets on our consolidated balance sheets. As of November 30, 2021 and February 28, 2021, no current or long-term contract asset was recognized related to cumulative profit-sharing payments to which we expect to be entitled.

**Third-Party Finance Fees.** Customers applying for financing who are not approved or are conditionally approved by CAF are generally evaluated by other third-party finance providers. These providers generally either pay us or are paid a fixed, pre-negotiated fee per contract. We recognize these fees at the time of sale.

**Advertising and Subscription Revenues.** Advertising and subscription revenues consist of revenues earned by our Edmunds business. Advertising revenues are derived from advertising contracts with automotive manufacturers based on fixed fees per impression and fees for certain activities completed by customers on the manufacturers' websites. These fees are recognized in the period the impressions are delivered or certain activities occurred. Subscription revenues are derived from packages sold to automotive dealers that include car leads, inventory listings and enhanced placement in Edmunds' dealer locator and are recognized over the period that the services are made available to the dealers. Subscription revenues also include a digital marketing subscription service, which allows dealers to gain exposure on third party partner websites. Revenues for this service are recognized on a net basis.

**Service Revenues.** Service revenue consists of labor and parts income related to vehicle repair service, including repairs of vehicles covered under an ESP we sell or warranty program. Service revenue is recognized at the time the work is completed.

**Other Revenues.** Other revenues consist primarily of new vehicle sales and sales of accessories. Revenue in this category is recognized upon transfer of control to the customer.

#### **4. CarMax Auto Finance**

CAF provides financing to qualified retail customers purchasing vehicles from CarMax. CAF provides us the opportunity to capture additional profits, cash flows and sales while managing our reliance on third-party finance sources. Management regularly analyzes CAF's operating results by assessing profitability, the performance of the auto loans receivable, including trends in credit losses and delinquencies, and CAF direct expenses. This information is used to assess CAF's performance and make operating decisions, including resource allocation.

We typically use securitizations or other funding arrangements to fund loans originated by CAF. CAF income primarily reflects the interest and fee income generated by the auto loans receivable less the interest expense associated with the debt issued to fund these receivables, a provision for estimated loan losses and direct CAF expenses.

CAF income does not include any allocation of indirect costs. Although CAF benefits from certain indirect overhead expenditures, we have not allocated indirect costs to CAF to avoid making subjective allocation decisions. Examples of indirect costs not allocated to CAF include retail store expenses and corporate expenses. In addition, except for auto loans receivable, which are disclosed in Note 5, CAF assets are not separately reported nor do we allocate assets to CAF because such allocation would not be useful to management in making operating decisions.

## Components of CAF Income

<i>(In millions)</i>	Three Months Ended November 30				Nine Months Ended November 30			
	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>
Interest margin:								
Interest and fee income	\$ 330.0	8.6	\$ 288.5	8.5	\$ 964.4	8.7	\$ 851.1	8.5
Interest expense	(53.6)	(1.4)	(77.1)	(2.3)	(180.0)	(1.6)	(243.0)	(2.4)
Total interest margin	276.4	7.2	211.4	6.3	784.4	7.1	608.1	6.1
Provision for loan losses	(76.2)	(2.0)	(8.2)	(0.2)	(87.3)	(0.8)	(156.1)	(1.6)
Total interest margin after provision for loan losses	200.2	5.2	203.2	6.0	697.1	6.3	452.0	4.5
Total other expense	—	—	—	—	—	—	(2.2)	—
Direct expenses:								
Payroll and fringe benefit expense	(12.7)	(0.3)	(11.6)	(0.3)	(37.7)	(0.3)	(34.2)	(0.3)
Depreciation and amortization	(2.4)	(0.1)	(0.2)	—	(2.8)	—	(0.6)	—
Other direct expenses	(19.2)	(0.5)	(15.0)	(0.4)	(48.9)	(0.4)	(40.4)	(0.4)
Total direct expenses	(34.3)	(0.9)	(26.8)	(0.8)	(89.4)	(0.8)	(75.2)	(0.7)
CarMax Auto Finance income	\$ 166.0	4.3	\$ 176.4	5.2	\$ 607.7	5.5	\$ 374.6	3.7
Total average managed receivables	\$ 15,288.8		\$ 13,517.5		\$ 14,706.9		\$ 13,381.6	

<sup>(1)</sup> Annualized percentage of total average managed receivables.

### 5. Auto Loans Receivable

Auto loans receivable include amounts due from customers related to retail vehicle sales financed through CAF and are presented net of an allowance for estimated loan losses. These auto loans represent a large group of smaller-balance homogeneous loans, which we consider to be part of one class of financing receivable and one portfolio segment for purposes of determining our allowance for loan losses. We generally use warehouse facilities to fund auto loans receivable originated by CAF until we elect to fund them through an asset-backed term funding transaction, such as a term securitization or alternative funding arrangement. We recognize transfers of auto loans receivable into the warehouse facilities and asset-backed term funding transactions (together, “non-recourse funding vehicles”) as secured borrowings, which result in recording the auto loans receivable and the related non-recourse notes payable on our consolidated balance sheets. The majority of the auto loans receivable serve as collateral for the related non-recourse notes payable of \$15.42 billion as of November 30, 2021 and \$13.76 billion as of February 28, 2021. See Note 10 for additional information on non-recourse notes payable.

Interest income and expenses related to auto loans are included in CAF income. Interest income on auto loans receivable is recognized when earned based on contractual loan terms. All loans continue to accrue interest until repayment or charge-off. When a charge-off occurs, accrued interest is written off by reversing interest income. Direct costs associated with loan originations are not considered material, and thus, are expensed as incurred. See Note 4 for additional information on CAF income.

## Auto Loans Receivable, Net

<i>(In millions)</i>	As of November 30 2021	As of February 28 2021
Asset-backed term funding	\$ 11,725.4	\$ 11,008.3
Warehouse facilities	3,155.9	2,314.1
Overcollateralization <sup>(1)</sup>	479.2	345.2
Other managed receivables <sup>(2)</sup>	163.5	179.6
Total ending managed receivables	15,524.0	13,847.2
Accrued interest and fees	73.7	57.4
Other	(4.0)	(3.7)
Less: allowance for loan losses	(426.5)	(411.1)
Auto loans receivable, net	\$ 15,167.2	\$ 13,489.8

<sup>(1)</sup> Represents receivables restricted as excess collateral for the non-recourse funding vehicles.

<sup>(2)</sup> Other managed receivables includes receivables not funded through the non-recourse funding vehicles.

**Credit Quality.** When customers apply for financing, CAF's proprietary scoring models rely on the customers' credit history and certain application information to evaluate and rank their risk. We obtain credit histories and other credit data that includes information such as number, age, type of and payment history for prior or existing credit accounts. The application information that is used includes income, collateral value and down payment. The scoring models yield credit grades that represent the relative likelihood of repayment. Customers with the highest probability of repayment are A-grade customers. Customers assigned a lower grade are determined to have a lower probability of repayment. For loans that are approved, the credit grade influences the terms of the agreement, such as the required loan-to-value ratio and interest rate. After origination, credit grades are generally not updated.

CAF uses a combination of the initial credit grades and historical performance to monitor the credit quality of the auto loans receivable on an ongoing basis. We validate the accuracy of the scoring models periodically. Loan performance is reviewed on a recurring basis to identify whether the assigned grades adequately reflect the customers' likelihood of repayment.

## Ending Managed Receivables by Major Credit Grade

<i>(In millions)</i>	As of November 30, 2021						Total	% <sup>(2)</sup>
	Fiscal Year of Origination <sup>(1)</sup>							
	2022	2021	2020	2019	2018	Prior to 2018		
A	\$ 3,172.3	\$ 1,999.2	\$ 1,454.6	\$ 693.7	\$ 275.2	\$ 57.6	\$ 7,652.6	49.3
B	2,306.4	1,446.1	977.3	556.2	260.0	80.4	5,626.4	36.2
C and other	922.4	583.2	374.8	210.4	103.9	50.3	2,245.0	14.5
Total ending managed receivables	\$ 6,401.1	\$ 4,028.5	\$ 2,806.7	\$ 1,460.3	\$ 639.1	\$ 188.3	\$ 15,524.0	100.0

<i>(In millions)</i>	As of February 28, 2021						Total	% <sup>(2)</sup>
	Fiscal Year of Origination <sup>(1)</sup>							
	2021	2020	2019	2018	2017	Prior to 2017		
A	\$ 2,782.0	\$ 2,146.5	\$ 1,146.7	\$ 568.9	\$ 199.6	\$ 30.4	\$ 6,874.1	49.6
B	1,993.6	1,424.5	870.1	476.0	195.5	49.2	5,008.9	36.2
C and other	786.1	541.6	320.4	182.0	99.8	34.3	1,964.2	14.2
Total ending managed receivables	\$ 5,561.7	\$ 4,112.6	\$ 2,337.2	\$ 1,226.9	\$ 494.9	\$ 113.9	\$ 13,847.2	100.0

<sup>(1)</sup> Classified based on credit grade assigned when customers were initially approved for financing.

<sup>(2)</sup> Percent of total ending managed receivables.



**Allowance for Loan Losses.** The allowance for loan losses at November 30, 2021 represents the net credit losses expected over the remaining contractual life of our managed receivables. The allowance for loan losses is determined using a net loss timing curve, primarily based on the composition of the portfolio of managed receivables and historical gross loss and recovery trends. Due to the fact that losses for receivables with less than 18 months of performance history can be volatile, our net loss estimate weights both historical losses by credit grade at origination and actual loss data on the receivables to-date, along with forward loss curves, in estimating future performance. Once the receivables have 18 months of performance history, the net loss estimate reflects actual loss experience of those receivables to date, along with forward loss curves, to predict future performance. The forward loss curves are constructed using historical performance data and show the average timing of losses over the course of a receivable's life. The net loss estimate is calculated by applying the loss rates developed using the methods described above to the amortized cost basis of the managed receivables.

The output of the net loss timing curve is adjusted to take into account reasonable and supportable forecasts about the future. Specifically, the change in U.S. unemployment rates and the National Automobile Dealers Association ("NADA") used vehicle price index are used to predict changes in gross loss and recovery rate, respectively. An economic adjustment factor, based upon a single macroeconomic scenario, is developed to capture the relationship between changes in these forecasts and changes in gross loss and recovery rates. This factor is applied to the output of the net loss timing curve for the reasonable and supportable forecast period of two years. After the end of this two-year period, we revert to historical experience on a straight-line basis over a period of 12 months. We periodically consider whether the use of alternative metrics would result in improved model performance and revise the models when appropriate. We also consider whether qualitative adjustments are necessary for factors that are not reflected in the quantitative methods but impact the measurement of estimated credit losses. Such adjustments include the uncertainty of the impacts of recent economic trends on customer behavior. The change in the allowance for loan losses is recognized through an adjustment to the provision for loan losses.

#### Allowance for Loan Losses

<i>(In millions)</i>	Three Months Ended November 30				Nine Months Ended November 30			
	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>
Balance as of beginning of period	\$ 398.1	2.66	\$ 432.5	3.23	\$ 411.1	2.97	\$ 157.8	1.16
Adoption of CECL	—		—		—		202.0	
Adjusted balance as of beginning of period	398.1	2.66	432.5	3.23	411.1	2.97	359.8	2.64
Charge-offs	(68.2)		(49.9)		(153.7)		(174.5)	
Recoveries <sup>(2)</sup>	20.4		40.8		81.8		90.2	
Provision for loan losses	76.2		8.2		87.3		156.1	
Balance as of end of period <sup>(3)</sup>	\$ 426.5	2.75	\$ 431.6	3.17	\$ 426.5	2.75	\$ 431.6	3.17

<sup>(1)</sup> Percent of total ending managed receivables.

<sup>(2)</sup> Net of costs incurred to recover vehicle.

<sup>(3)</sup> The allowance for loan losses primarily relates to estimated losses on CAF's core receivables; \$40.8 million and \$31.8 million of the total allowance relates to the outstanding CAF Tier 3 loan balances as of November 30, 2021 and February 28, 2021, respectively.

During the first nine months of fiscal 2022, the allowance for loan losses increased \$15.4 million, primarily reflecting growth in receivables, partially offset by favorable loan loss performance during the year. Although net charge-offs remained low in the first nine months of fiscal 2022, the future impact of the COVID-19 environment on credit losses remains uncertain. As a result, we determined that the quantitative loss rates should be qualitatively adjusted to reflect future loss performance from potential customer hardship and to mitigate the quantitative impact of recent favorable loss performance, as we do not believe the favorable loss performance this fiscal year is consistent with our best estimate of expected future losses. The allowance for loan losses as of November 30, 2021 reflects both the positive customer payment behavior compared to historical experience recently observed as well as the unpredictability of the current macroeconomic environment.

**Past Due Receivables.** An account is considered delinquent when the related customer fails to make a substantial portion of a scheduled payment on or before the due date. In general, accounts are charged-off on the last business day of the month during which the earliest of the following occurs: the receivable is 120 days or more delinquent as of the last business day of the month, the related vehicle is repossessed and liquidated, or the receivable is otherwise deemed uncollectible. For purposes of determining impairment, auto loans are evaluated collectively, as they represent a large group of smaller-balance homogeneous loans, and therefore, are not individually evaluated for impairment.



## Past Due Receivables

<i>(In millions)</i>	As of November 30, 2021					
	Major Credit Grade			Total	%	<sup>(1)</sup>
	A	B	C & Other			
Current	\$ 7,617.6	\$ 5,373.2	\$ 1,938.8	\$ 14,929.6		96.17
Delinquent loans:						
31-60 days past due	23.0	160.4	179.7	363.1		2.34
61-90 days past due	9.2	74.5	102.3	186.0		1.20
Greater than 90 days past due	2.8	18.3	24.2	45.3		0.29
Total past due	35.0	253.2	306.2	594.4		3.83
Total ending managed receivables	\$ 7,652.6	\$ 5,626.4	\$ 2,245.0	\$ 15,524.0		100.00

<i>(In millions)</i>	As of February 28, 2021					
	Major Credit Grade			Total	%	<sup>(1)</sup>
	A	B	C & Other			
Current	\$ 6,847.2	\$ 4,840.3	\$ 1,767.2	\$ 13,454.7		97.17
Delinquent loans:						
31-60 days past due	17.3	108.9	120.0	246.2		1.78
61-90 days past due	7.0	48.4	64.5	119.9		0.86
Greater than 90 days past due	2.6	11.3	12.5	26.4		0.19
Total past due	26.9	168.6	197.0	392.5		2.83
Total ending managed receivables	\$ 6,874.1	\$ 5,008.9	\$ 1,964.2	\$ 13,847.2		100.00

<sup>(1)</sup> Percent of total ending managed receivables.

## 6. Derivative Instruments and Hedging Activities

We use derivatives to manage certain risks arising from both our business operations and economic conditions, particularly with regard to issuances of debt. Primary exposures include LIBOR and other rates used as benchmarks in our securitizations and other debt financing. We enter into derivative instruments to manage exposures related to the future known receipt or payment of uncertain cash amounts, the values of which are impacted by interest rates, and generally designate these derivative instruments as cash flow hedges for accounting purposes. In certain cases, we may choose not to designate a derivative instrument as a cash flow hedge for accounting purposes due to uncertainty around the probability that future hedged transactions will occur. Our derivative instruments are used to manage (i) differences in the amount of our known or expected cash receipts and our known or expected cash payments principally related to the funding of our auto loans receivable, and (ii) exposure to variable interest rates associated with our term loan.

For the derivatives associated with our non-recourse funding vehicles that are designated as cash flow hedges, the changes in fair value are initially recorded in accumulated other comprehensive loss ("AOCL"). For the majority of these derivatives, the amounts are subsequently reclassified into CAF income in the period that the hedged forecasted transaction affects earnings, which occurs as interest expense is recognized on those future issuances of debt. During the next 12 months, we estimate that an additional \$9.0 million will be reclassified in AOCL as a decrease to CAF income. Changes in fair value related to derivatives that have not been designated as cash flow hedges for accounting purposes are recognized in the income statement in the period in which the change occurs. For the three and nine months ended November 30, 2021, we recognized income of \$3.4 million and \$3.2 million, respectively, in CAF income representing these changes in fair value.

As of November 30, 2021 and February 28, 2021, we had interest rate swaps outstanding with a combined notional amount of \$4.03 billion and \$2.43 billion, respectively, that were designated as cash flow hedges of interest rate risk. As of November 30, 2021 and February 28, 2021, we had interest rate swaps outstanding with notional amounts of \$644.2 million and \$255.2 million, respectively, that were not designated as cash flow hedges.

See Note 7 for discussion of fair values of financial instruments and Note 13 for the effect on comprehensive income.



## 7. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the “exit price”). The fair value should be based on assumptions that market participants would use, including a consideration of nonperformance risk.

We assess the inputs used to measure fair value using the three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

- Level 1** Inputs include unadjusted quoted prices in active markets for identical assets or liabilities that we can access at the measurement date.
- Level 2** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets in active markets, quoted prices from identical or similar assets in inactive markets and observable inputs such as interest rates and yield curves.
- Level 3** Inputs that are significant to the measurement that are not observable in the market and include management’s judgments about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk).

Our fair value processes include controls that are designed to ensure that fair values are appropriate. Such controls include model validation, review of key model inputs, analysis of period-over-period fluctuations and reviews by senior management.

### **Valuation Methodologies**

**Money Market Securities.** Money market securities are cash equivalents, which are included in cash and cash equivalents, restricted cash from collections on auto loans receivable and other assets. They consist of highly liquid investments with original maturities of three months or less and are classified as Level 1.

**Mutual Fund Investments.** Mutual fund investments consist of publicly traded mutual funds that primarily include diversified equity investments in large-, mid- and small-cap domestic and international companies or investment grade debt securities. The investments, which are included in other assets, are held in a rabbi trust established to fund informally our executive deferred compensation plan and are classified as Level 1.

**Derivative Instruments.** The fair values of our derivative instruments are included in either other current assets, other assets, accounts payable or other liabilities. Our derivatives are not exchange-traded and are over-the-counter customized derivative instruments. All of our derivative exposures are with highly rated bank counterparties.

We measure derivative fair values assuming that the unit of account is an individual derivative instrument and that derivatives are sold or transferred on a stand-alone basis. We estimate the fair value of our derivatives using quotes determined by the derivative counterparties and third-party valuation services. Quotes from third-party valuation services and quotes received from bank counterparties project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates and the contractual terms of the derivative instruments. The models do not require significant judgment and model inputs can typically be observed in a liquid market; however, because the models include inputs other than quoted prices in active markets, all derivatives are classified as Level 2.

Our derivative fair value measurements consider assumptions about counterparty and our own nonperformance risk. We monitor counterparty and our own nonperformance risk and, in the event that we determine that a party is unlikely to perform under terms of the contract, we would adjust the derivative fair value to reflect the nonperformance risk.

## Items Measured at Fair Value on a Recurring Basis

<i>(In thousands)</i>	As of November 30, 2021		
	Level 1	Level 2	Total
<b>Assets:</b>			
Money market securities	\$ 705,326	\$ —	\$ 705,326
Mutual fund investments	25,650	—	25,650
Derivative instruments designated as hedges	—	10,566	10,566
Derivative instruments not designated as hedges	—	3,671	3,671
<b>Total assets at fair value</b>	<b>\$ 730,976</b>	<b>\$ 14,237</b>	<b>\$ 745,213</b>
Percent of total assets at fair value	98.1 %	1.9 %	100.0 %
Percent of total assets	2.9 %	0.1 %	2.9 %
<b>Liabilities:</b>			
Derivative instruments designated as hedges	\$ —	\$ (4,561)	\$ (4,561)
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ (4,561)</b>	<b>\$ (4,561)</b>
Percent of total liabilities	— %	— %	— %

<i>(In thousands)</i>	As of February 28, 2021		
	Level 1	Level 2	Total
<b>Assets:</b>			
Money market securities	\$ 685,585	\$ —	\$ 685,585
Mutual fund investments	24,049	—	24,049
Derivative instruments designated as hedges	—	4,061	4,061
Derivative instruments not designated as hedges	—	501	501
<b>Total assets at fair value</b>	<b>\$ 709,634</b>	<b>\$ 4,562</b>	<b>\$ 714,196</b>
Percent of total assets at fair value	99.4 %	0.6 %	100.0 %
Percent of total assets	3.3 %	— %	3.3 %
<b>Liabilities:</b>			
Derivative instruments designated as hedges	\$ —	\$ (6,024)	\$ (6,024)
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ (6,024)</b>	<b>\$ (6,024)</b>
Percent of total liabilities	— %	— %	— %

## Fair Value of Financial Instruments

The carrying value of our cash and cash equivalents, accounts receivable, other restricted cash deposits and accounts payable approximates fair value due to the short-term nature and/or variable rates associated with these financial instruments. Auto loans receivable are presented net of an allowance for estimated loan losses. We believe that the carrying value of our revolving credit facility and term loan approximates fair value due to the variable rates associated with these obligations. The fair value of our senior unsecured notes, which are not carried at fair value on our consolidated balance sheets, was determined using Level 2 inputs based on quoted market prices. The carrying value and fair value of the senior unsecured notes as of November 30, 2021 and February 28, 2021, respectively, are as follows:

<i>(In thousands)</i>	As of November 30, 2021		As of February 28, 2021	
Carrying value	\$	500,000	\$	500,000
Fair value	\$	542,176	\$	556,993



## 8. Cancellation Reserves

We recognize revenue for EPP products, on a net basis, at the time of sale. We also record a reserve, or refund liability, for estimated contract cancellations. Cancellations of these services may result from early termination by the customer, or default or prepayment on the finance contract. The reserve for cancellations is evaluated for each product and is based on forecasted forward cancellation curves utilizing historical experience, recent trends and the credit mix of the customer base.

### Cancellation Reserves

<i>(In millions)</i>	Three Months Ended November 30		Nine Months Ended November 30	
	2021	2020	2021	2020
Balance as of beginning of period	\$ 144.3	\$ 122.6	\$ 124.5	\$ 117.9
Cancellations	(25.2)	(17.4)	(68.3)	(48.3)
Provision for future cancellations	28.7	17.9	91.6	53.5
Balance as of end of period	\$ 147.8	\$ 123.1	\$ 147.8	\$ 123.1

The current portion of estimated cancellation reserves is recognized as a component of accrued expenses and other current liabilities with the remaining amount recognized in other liabilities. As of November 30, 2021 and February 28, 2021, the current portion of cancellation reserves was \$79.8 million and \$58.7 million, respectively.

## 9. Income Taxes

We had \$29.5 million of gross unrecognized tax benefits as of November 30, 2021, and \$29.0 million as of February 28, 2021. There were no significant changes to the gross unrecognized tax benefits as reported for the fiscal year ended February 28, 2021.

## 10. Debt

<i>(In thousands)</i>	Debt Description <sup>(1)</sup>	Maturity Date	As of November 30	As of February 28
			2021	2021
Revolving credit facility <sup>(2)</sup>	June 2024	\$ 588,100	\$ —	
Term loan <sup>(2)</sup>	June 2024	300,000	300,000	
Term loan <sup>(2)</sup>	October 2026	699,318	—	
3.86% Senior notes	April 2023	100,000	100,000	
4.17% Senior notes	April 2026	200,000	200,000	
4.27% Senior notes	April 2028	200,000	200,000	
Financing obligations	Various dates through February 2059	527,260	533,578	
Non-recourse notes payable	Various dates through August 2028	15,416,457	13,764,808	
Total debt		18,031,135	15,098,386	
Less: current portion		(546,035)	(452,579)	
Less: unamortized debt issuance costs		(26,236)	(25,888)	
Long-term debt, net		\$ 17,458,864	\$ 14,619,919	

<sup>(1)</sup> Interest is payable monthly, with the exception of our senior notes, which are payable semi-annually.

<sup>(2)</sup> Borrowings accrue interest at variable rates based on the Eurodollar rate (LIBOR), or the successor benchmark rate, the federal funds rate, or the prime rate, depending on the type of borrowing.

**Revolving Credit Facility.** Borrowings under our \$1.45 billion unsecured revolving credit facility (the “credit facility”) are available for working capital and general corporate purposes. We pay a commitment fee on unused portions of the available funds. Borrowings under the credit facility are either due “on demand” or at maturity depending on the type of borrowing. Borrowings with “on demand” repayment terms are presented as short-term debt, while amounts due at maturity are presented as long-term debt. As of November 30, 2021, the unused capacity of \$861.9 million was fully available to us. In December 2021, we exercised the accordion feature to increase the credit limit of this facility to \$2.00 billion with no other material changes to the terms of the agreement.



**Term Loans.** On October 15, 2021, we entered into a term loan agreement for an aggregate principal amount of \$700 million, which will mature on October 15, 2026. Borrowings under both our \$300 million and \$700 million term loans are available for working capital and general corporate purposes. Both term loans were classified as long-term debt, as no repayments are scheduled to be made within the next 12 months.

**Senior Notes.** Borrowings under our unsecured senior notes totaling \$500 million are available for working capital and general corporate purposes. These notes were classified as long-term debt as no repayments are scheduled to be made within the next 12 months.

**Financing Obligations.** Financing obligations relate to stores subject to sale-leaseback transactions that did not qualify for sale accounting. The financing obligations were structured at varying interest rates and generally have initial lease terms ranging from 15 to 20 years with payments made monthly. We have not entered into any new sale-leaseback transactions since fiscal 2009. In the event the agreements are modified or extended beyond their original term, the related obligation is adjusted based on the present value of the revised future payments, with a corresponding change to the assets subject to these transactions. Upon modification, the amortization of the obligation is reset, resulting in more of the payments being applied to interest expense in the initial years following the modification.

**Non-Recourse Notes Payable.** The non-recourse notes payable relate to auto loans receivable funded through non-recourse funding vehicles. The timing of principal payments on the non-recourse notes payable is based on the timing of principal collections and defaults on the related auto loans receivable. The current portion of non-recourse notes payable represents principal payments that are due to be distributed in the following period.

Notes payable related to our asset-backed term funding transactions accrue interest predominantly at fixed rates and have scheduled maturities through August 2028, but may mature earlier, depending upon the repayment rate of the underlying auto loans receivable.

Information on our funding vehicles for non-recourse notes payable as of November 30, 2021, are as follows:

<i>(In billions)</i>	<b>Capacity</b>
Warehouse facilities:	
December 2021 expiration	\$ 0.18
February 2022 expiration	2.35
August 2022 expiration	2.30
Combined warehouse facility limit	\$ 4.83
Unused capacity	\$ 1.67
Non-recourse notes payable outstanding:	
Warehouse facilities	\$ 3.16
Asset-backed term funding transactions	12.26
Non-recourse notes payable	\$ 15.42

We generally enter into warehouse facility agreements for one-year terms and typically renew the agreements annually. The return requirements of warehouse facility investors could fluctuate significantly depending on market conditions. At renewal, the cost, structure and capacity of the facilities could change. These changes could have a significant impact on our funding costs.

See Note 5 for additional information on the related auto loans receivable.

**Capitalized Interest.** We capitalize interest in connection with the construction of certain facilities. For the nine months ended November 30, 2021 and 2020, we capitalized interest of \$5.0 million and \$2.1 million, respectively.

**Financial Covenants.** The credit facility, term loans and senior note agreements contain representations and warranties, conditions and covenants. We must also meet financial covenants in conjunction with certain financing obligations. The agreements governing our non-recourse funding vehicles contain representations and warranties, financial covenants and performance triggers. As of November 30, 2021, we were in compliance with all financial covenants and our non-recourse funding vehicles were in compliance with the related performance triggers.

## 11. Stock and Stock-Based Incentive Plans

### (A) Share Repurchase Program

As of November 30, 2021, a total of \$2.0 billion of board authorizations for repurchases of our common stock was outstanding, with no expiration date, of which \$876.2 million remained available for repurchase.

#### Common Stock Repurchases

	Three Months Ended		Nine Months Ended	
	November 30		November 30	
	2021	2020	2021	2020
Number of shares repurchased <i>(in thousands)</i>	851.1	1,175.8	3,602.8	1,691.3
Average cost per share	\$ 135.52	\$ 92.90	\$ 127.65	\$ 88.65
Available for repurchase, as of end of period <i>(in millions)</i>	\$ 876.2	\$ 1,402.4	\$ 876.2	\$ 1,402.4

### (B) Share-Based Compensation

#### Composition of Share-Based Compensation Expense

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	November 30		November 30	
	2021	2020	2021	2020
Cost of sales	\$ 1,896	\$ 11	\$ 5,719	\$ 3,202
CarMax Auto Finance income	1,560	938	4,749	3,750
Selling, general and administrative expenses	33,328	10,728	100,453	68,680
Share-based compensation expense, before income taxes	\$ 36,784	\$ 11,677	\$ 110,921	\$ 75,632

#### Composition of Share-Based Compensation Expense – By Grant Type

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	November 30		November 30	
	2021	2020	2021	2020
Nonqualified stock options	\$ 7,846	\$ 6,630	\$ 27,375	\$ 25,237
Cash-settled restricted stock units (RSUs)	23,836	1,210	62,398	33,784
Stock-settled market stock units (MSUs)	3,171	3,161	11,260	12,516
Other share-based incentives:				
Stock-settled performance stock units (PSUs)	964	112	5,334	378
Restricted stock (RSAs)	365	39	670	106
Stock-settled deferred stock units (DSUs)	—	—	1,925	1,925
Employee stock purchase plan	602	525	1,959	1,686
Total other share-based incentives	\$ 1,931	\$ 676	\$ 9,888	\$ 4,095
Share-based compensation expense, before income taxes	\$ 36,784	\$ 11,677	\$ 110,921	\$ 75,632

## (C) Stock Incentive Plan Information

### Share/Unit Activity

<i>(Shares/units in thousands)</i>	Nine Months Ended November 30, 2021			
	Equity Classified			Liability Classified
	Options	MSUs	Other	RSUs
Outstanding as of February 28, 2021	6,266	520	84	1,606
Granted	922	82	89	377
Exercised or vested and converted	(1,249)	(197)	(2)	(715)
Cancelled	(78)	(11)	(2)	(78)
Outstanding as of November 30, 2021	5,861	394	169	1,190

Weighted average grant date fair value per share/unit:

Granted	\$	42.31	\$	178.16	\$	132.96	\$	136.48
Ending outstanding	\$	23.75	\$	112.21	\$	108.30	\$	93.44

	As of November 30, 2021					
Unrecognized compensation <i>(in millions)</i>	\$	54.4	\$	17.5	\$	4.8

## 12. Net Earnings Per Share

Basic net earnings per share is computed by dividing net earnings available for basic common shares by the weighted average number of shares of common stock outstanding. Diluted net earnings per share is computed by dividing net earnings available for diluted common shares by the sum of weighted average number of shares of common stock outstanding and dilutive potential common stock. Diluted net earnings per share is calculated using the “if-converted” treasury stock method.

### Basic and Dilutive Net Earnings Per Share Reconciliations

<i>(In thousands except per share data)</i>	Three Months Ended		Nine Months Ended	
	November 30		November 30	
	2021	2020	2021	2020
Net earnings	\$ 269,438	\$ 235,300	\$ 991,461	\$ 536,974
Weighted average common shares outstanding	162,006	163,732	162,710	163,278
Dilutive potential common shares:				
Stock options	2,373	1,636	2,391	1,341
Stock-settled stock units and awards	494	405	505	357
Weighted average common shares and dilutive potential common shares	164,873	165,773	165,606	164,976
Basic net earnings per share	\$ 1.66	\$ 1.44	\$ 6.09	\$ 3.29
Diluted net earnings per share	\$ 1.63	\$ 1.42	\$ 5.99	\$ 3.25

Certain options to purchase shares of common stock were outstanding and not included in the calculation of diluted net earnings per share because their inclusion would have been antidilutive. On a weighted average basis, for the three months ended November 30, 2021 and 2020, options to purchase 776,853 shares and 115,509 shares of common stock, respectively, were not included. For the nine months ended November 30, 2021 and 2020, options to purchase 701,970 shares and 2,158,503 shares of common stock, respectively, were not included.



### 13. Accumulated Other Comprehensive Loss

#### Changes in Accumulated Other Comprehensive Loss By Component

	Net Unrecognized Actuarial Losses	Net Unrecognized Hedge Losses	Total Accumulated Other Comprehensive Loss
<i>(In thousands, net of income taxes)</i>			
Balance as of February 28, 2021	\$ (92,662)	\$ (26,029)	\$ (118,691)
Other comprehensive income before reclassifications	—	6,386	6,386
Amounts reclassified from accumulated other comprehensive loss	1,976	10,028	12,004
Other comprehensive income	1,976	16,414	18,390
Balance as of November 30, 2021	<b>\$ (90,686)</b>	<b>\$ (9,615)</b>	<b>\$ (100,301)</b>

#### Changes In and Reclassifications Out of Accumulated Other Comprehensive Loss

	Three Months Ended November 30		Nine Months Ended November 30	
<i>(In thousands)</i>	2021	2020	2021	2020
<b>Retirement Benefit Plans:</b>				
Actuarial loss amortization reclassifications recognized in net pension expense:				
Cost of sales	\$ 367	\$ 402	\$ 1,083	\$ 1,212
CarMax Auto Finance income	21	27	64	83
Selling, general and administrative expenses	481	530	1,458	1,583
Total amortization reclassifications recognized in net pension expense	<b>869</b>	959	<b>2,605</b>	2,878
Tax expense	<b>(210)</b>	(232)	<b>(629)</b>	(695)
Amortization reclassifications recognized in net pension expense, net of tax	<b>659</b>	727	<b>1,976</b>	2,183
Net change in retirement benefit plan unrecognized actuarial losses, net of tax	<b>659</b>	727	<b>1,976</b>	2,183
<b>Cash Flow Hedges (Note 6):</b>				
Changes in fair value	<b>11,339</b>	2,877	<b>8,668</b>	(21,906)
Tax (expense) benefit	<b>(2,985)</b>	(761)	<b>(2,282)</b>	5,793
Changes in fair value, net of tax	<b>8,354</b>	2,116	<b>6,386</b>	(16,113)
Reclassifications to CarMax Auto Finance income	<b>4,111</b>	6,334	<b>13,610</b>	15,060
Tax expense	<b>(1,082)</b>	(1,675)	<b>(3,582)</b>	(3,983)
Reclassification of hedge losses, net of tax	<b>3,029</b>	4,659	<b>10,028</b>	11,077
Net change in cash flow hedge unrecognized losses, net of tax	<b>11,383</b>	6,775	<b>16,414</b>	(5,036)
Total other comprehensive income (loss), net of tax	<b>\$ 12,042</b>	<b>\$ 7,502</b>	<b>\$ 18,390</b>	<b>\$ (2,853)</b>

Changes in the funded status of our retirement plans and changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive loss. The cumulative balances are net of deferred taxes of \$32.2 million as of November 30, 2021 and \$38.7 million as of February 28, 2021.

## 14. Leases

Our leases primarily consist of operating and finance leases related to retail stores, office space, land and equipment. We also have stores subject to sale-leaseback transactions that did not qualify for sale accounting and are accounted for as financing obligations. For more information on these financing obligations see Note 10.

The initial term for real property leases is typically 5 to 20 years. For equipment leases, the initial term generally ranges from 3 to 8 years. Most leases include one or more options to renew, with renewal terms that can extend the lease term from 1 to 20 years or more. We include options to renew (or terminate) in our lease term, and as part of our right-of-use (“ROU”) assets and lease liabilities, when it is reasonably certain that we will exercise that option.

ROU assets and the related lease liabilities are initially measured at the present value of future lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our collateralized incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. We include variable lease payments in the initial measurement of ROU assets and lease liabilities only to the extent they depend on an index or rate. Changes in such indices or rates are accounted for in the period the change occurs, and do not result in the remeasurement of the ROU asset or liability. We are also responsible for payment of certain real estate taxes, insurance and other expenses on our leases. These amounts are generally considered to be variable and are not included in the measurement of the ROU asset and lease liability. We generally account for non-lease components, such as maintenance, separately from lease components. For certain equipment leases, we apply a portfolio approach to account for the lease assets and liabilities.

Our lease agreements do not contain any material residual value guarantees or material restricted covenants. Leases with a term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

The components of lease expense were as follows:

<i>(In thousands)</i>	Three Months Ended November 30		Nine Months Ended November 30	
	2021	2020	2021	2020
Operating lease cost <sup>(1)</sup>	\$ 20,581	\$ 14,340	\$ 53,631	\$ 43,075
Finance lease cost:				
Depreciation of lease assets	3,383	2,149	9,784	5,523
Interest on lease liabilities	4,257	2,680	12,531	7,328
Total finance lease cost	7,640	4,829	22,315	12,851
Total lease cost	\$ 28,221	\$ 19,169	\$ 75,946	\$ 55,926

<sup>(1)</sup> Includes short-term leases and variable lease costs, which are immaterial.

Supplemental balance sheet information related to leases was as follows:

<i>(In thousands)</i>	<b>Classification</b>	<b>As of November 30 2021</b>	<b>As of February 28 2021</b>
<b>Assets:</b>			
Operating lease assets	Operating lease assets	\$ 543,645	\$ 431,652
Finance lease assets	Property and equipment, net <sup>(1)</sup>	123,347	109,665
Total lease assets		\$ 666,992	\$ 541,317
<b>Liabilities:</b>			
Current:			
Operating leases	Current portion of operating lease liabilities	\$ 43,151	\$ 30,953
Finance leases	Accrued expenses and other current liabilities	9,696	9,422
Long-term:			
Operating leases	Operating lease liabilities, excluding current portion	529,821	423,618
Finance leases	Other liabilities	140,215	120,094
Total lease liabilities		\$ 722,883	\$ 584,087

<sup>(1)</sup> Finance lease assets are recorded net of accumulated depreciation of \$27.3 million as of November 30, 2021 and \$17.5 million as of February 28, 2021.

Lease term and discount rate information related to leases was as follows:

<b>Lease Term and Discount Rate</b>	<b>As of November 30 2021</b>	<b>As of February 28 2021</b>
Weighted Average Remaining Lease Term (in years)		
Operating leases	17.45	19.37
Finance leases	12.78	13.56
Weighted Average Discount Rate		
Operating leases	4.80 %	5.36 %
Finance leases	14.48 %	15.09 %

Supplemental cash flow information related to leases was as follows:

<i>(In thousands)</i>	<b>Nine Months Ended November 30</b>	
	<b>2021</b>	<b>2020</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 51,527	\$ 42,711
Operating cash flows from finance leases	\$ 8,086	\$ 5,972
Financing cash flows from finance leases	\$ 8,822	\$ 4,871
Lease assets obtained in exchange for lease obligations:		
Operating leases	\$ 45,491	\$ 13,650
Finance leases	\$ 24,772	\$ 30,596

Maturities of lease liabilities were as follows:

<i>(In thousands)</i>	<b>As of November 30, 2021</b>	
	<b>Operating Leases <sup>(1)</sup></b>	<b>Finance Leases <sup>(1)</sup></b>
Fiscal 2022, remaining	\$ 17,382	\$ 6,142
Fiscal 2023	69,570	25,633
Fiscal 2024	69,053	30,569
Fiscal 2025	68,544	27,316
Fiscal 2026	63,015	27,925
Thereafter	626,442	212,443
Total lease payments	914,006	330,028
Less: interest	(341,034)	(180,117)
Present value of lease liabilities	\$ 572,972	\$ 149,911

<sup>(1)</sup> Lease payments exclude \$13.4 million of legally binding minimum lease payments for leases signed but not yet commenced.

## **15. Supplemental Cash Flow Information**

Supplemental disclosures of cash flow information:

<i>(In thousands)</i>	<b>Nine Months Ended November 30</b>	
	<b>2021</b>	<b>2020</b>
Non-cash investing and financing activities:		
Increase (decrease) in accrued capital expenditures	\$ 9,933	\$ (28,862)

See Note 14 for supplemental cash flow information related to leases.

## **16. Contingent Liabilities**

**Litigation.** On October 31, 2017, Joshua Sabanovich v. CarMax Superstores California, LLC et al., a putative class action, was filed in the Superior Court of California, County of Stanislaus asserting wage and hour claims with respect to CarMax sales consultants and non-exempt employees in California. The asserted claims include failure to pay minimum wage; provide meal periods and rest breaks; pay statutory/contractual wages; reimburse for work-related expenses and provide accurate itemized wage statements; unfair competition; and Private Attorneys General Act (“PAGA”) claims. The Sabanovich lawsuit seeks unspecified damages, restitution, statutory penalties, interest, cost and attorneys’ fees. Based upon our evaluation of information currently available, we believe that the ultimate resolution of the Sabanovich lawsuit will not have a material adverse effect on our financial condition, results of operations or cash flows.

CarMax entities are defendants in three proceedings asserting wage and hour claims with respect to non-exempt CarMax employees in California. The asserted claims include failure to provide meal periods and rest breaks; pay statutory or contractual wages; reimburse for work-related expenses; and PAGA claims. Two of these claims have been filed in court, whereas one has yet to be filed in court. On July 9, 2021, Daniel Bendure v. CarMax Auto Superstores California, LLC et al., a putative class action, was filed in the Superior Court of California, County of San Bernardino. The Bendure lawsuit seeks civil penalties for violation of the Labor Code, attorneys’ fees, costs, restitution of unpaid wages, interest, injunctive and equitable relief, general damages, and special damages. On August 12, 2021, Jordon Miller v. CarMax Auto Superstores California, LLC et al., a putative class action, was filed in the Superior Court of California, County of Riverside. The Miller lawsuit also seeks civil penalties for violation of the Labor Code, attorneys’ fees, costs, restitution of unpaid wages, interest, injunctive and equitable relief, general damages, and special damages. On August 3, 2021, Charles Walker filed a notice with the California Labor Workforce Development Agency, which is a prerequisite to filing a PAGA action in court. To date, Walker has not yet filed a lawsuit. We are unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome in these matters.

The company was a class member in a consolidated and settled class action lawsuit (In re: Takata Airbag Product Liability Litigation (U.S. District Court, Southern District of Florida)) against Toyota, Mazda, Subaru, BMW, Honda, Nissan and Ford related to the economic loss associated with defective Takata airbags installed as original equipment in certain model vehicles from model years 2000-2018. On April 15, 2020, CarMax received \$40.3 million in net recoveries from the Toyota, Mazda, Subaru, BMW, Honda and Nissan settlement funds. CarMax remains a class member for the Ford settlement fund. We are



unable to make a reasonable estimate of the amount or range of gain that could result from CarMax's participation in the Ford settlement fund.

The company is a class member in a consolidated and settled class action lawsuit (In re: General Motors Ignition Switch Litigation (U.S. District Court, Southern District of New York)) against General Motors related to the economic loss associated with certain model vehicles previously subject to recall for ignition switches, electronic power steering, and side impact airbags, for model years 1997-2014. On November 30, 2021, CarMax received \$22.6 million in net recoveries from the GM settlement fund.

We are involved in various other legal proceedings in the normal course of business. Based upon our evaluation of information currently available, we believe that the ultimate resolution of any such proceedings will not have a material adverse effect, either individually or in the aggregate, on our financial condition, results of operations or cash flows.

**Other Matters.** In accordance with the terms of real estate lease agreements, we generally agree to indemnify the lessor from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities and repairs to leased property upon termination of the lease. Additionally, in accordance with the terms of agreements entered into for the sale of properties, we generally agree to indemnify the buyer from certain liabilities and costs arising subsequent to the date of the sale, including environmental liabilities and liabilities resulting from the breach of representations or warranties made in accordance with the agreements. We do not have any known material environmental commitments, contingencies or other indemnification issues arising from these arrangements.

As part of our customer service strategy, we guarantee the used vehicles we retail with a 90-day/4,000 mile limited warranty. A vehicle in need of repair within this period will be repaired free of charge. As a result, each vehicle sold has an implied liability associated with it. Accordingly, based on historical trends, we record a provision for estimated future repairs during the guarantee period for each vehicle sold. The liability for this guarantee was \$19.3 million as of November 30, 2021, and \$15.2 million as of February 28, 2021, and is included in accrued expenses and other current liabilities.

## **17. Segment Information**

We operate in two reportable segments: CarMax Sales Operations and CAF. Our CarMax Sales Operations segment consists of all aspects of our auto merchandising and service operations, excluding financing provided by CAF. Our CAF segment consists solely of our own finance operation that provides financing to customers buying retail vehicles from CarMax.

We also have a non-reportable operating segment related to our recently acquired Edmunds business, which is reflected as "Other" in the segment tables below. Revenue generated by Edmunds primarily represents advertising and subscription revenues as discussed in Note 3. Edmunds also generates intersegment revenue as a result of transactions between Edmunds and CarMax Sales Operations, which represent arm's length transactions at prevailing market prices. Such amounts are eliminated in consolidation.

The performance of our CarMax Sales Operations segment is reviewed by our chief operating decision maker at the gross profit level, the components of which are presented in the tables below. Required segment information related to our CAF segment is presented in Note 4. Additionally, asset information by segment is not utilized for purposes of assessing performance or allocating resources and, as a result, such information has not been presented.

## Segment Information

### Three Months Ended November 30, 2021

<i>(In thousands)</i>	<b>CarMax Sales Operations</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Sales and operating revenues	\$ 8,494,437	\$ 33,322	\$ —	\$ 8,527,759
Intersegment sales and operating revenues	—	7,973	(7,973)	—
Total sales and operating revenues	\$ 8,494,437	\$ 41,295	\$ (7,973)	\$ 8,527,759
Depreciation and amortization <sup>(1)</sup>	\$ 226	\$ 2,489	\$ —	\$ 2,715
Gross profit	\$ 809,998	\$ 28,275	\$ (1,713)	\$ 836,560
<b>Reconciliation to Consolidated Earnings Before Taxes:</b>				
CAF Income				165,968
Selling, general and administrative expenses				(575,930)
Depreciation and amortization <sup>(2)</sup>				(54,428)
Interest expense				(24,303)
Other income (expense)				8,094
Earnings before income taxes			\$	\$ 355,961

### Nine Months Ended November 30, 2021

<i>(In thousands)</i>	<b>CarMax Sales Operations</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Sales and operating revenues	\$ 24,145,847	\$ 67,870	\$ —	\$ 24,213,717
Intersegment sales and operating revenues	—	14,981	(14,981)	—
Total sales and operating revenues	\$ 24,145,847	\$ 82,851	\$ (14,981)	\$ 24,213,717
Depreciation and amortization <sup>(1)</sup>	\$ 526	\$ 4,698	\$ —	\$ 5,224
Gross profit	\$ 2,522,595	\$ 57,348	\$ (3,390)	\$ 2,576,553
<b>Reconciliation to Consolidated Earnings Before Taxes:</b>				
CAF Income				607,732
Selling, general and administrative expenses				(1,704,285)
Depreciation and amortization <sup>(2)</sup>				(157,107)
Interest expense				(67,247)
Other income (expense)				35,453
Earnings before income taxes			\$	\$ 1,291,099

<sup>(1)</sup> Represents only the portion of depreciation and amortization recorded within Cost of sales, and thus included in the calculation of Gross profit.

<sup>(2)</sup> Exclusive of depreciation and amortization recorded within Cost of sales.

## ITEM 2.

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements, the accompanying notes and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2021 ("fiscal 2021"), as well as our consolidated financial statements and the accompanying notes included in Item 1 of this Form 10-Q. Note references are to the notes to consolidated financial statements included in Item 1. All references to net earnings per share are to diluted net earnings per share. Certain prior year amounts have been reclassified to conform to the current year's presentation. Amounts and percentages may not total due to rounding.

#### **OVERVIEW**

CarMax is the nation's largest and most profitable retailer of used vehicles. We operate in two reportable segments: CarMax Sales Operations and CarMax Auto Finance ("CAF"). Our CarMax Sales Operations segment consists of all aspects of our auto merchandising and service operations, excluding financing provided by CAF. Our CAF segment consists solely of our own finance operation that provides financing to customers buying retail vehicles from CarMax. Our consolidated financial statements include the financial results related to our Edmunds Holding Company ("Edmunds") business, which does not meet the definition of a reportable segment. For purposes of our MD&A discussion, amounts related to that business are discussed in combination with our CarMax Sales Operations segment. Separate discussion of these amounts is not considered meaningful for the purpose of gaining an understanding of our business, as the significant drivers of these operations in total are consistent with those of our CarMax Sales Operations segment. Where appropriate, specific amounts related to non-reportable segments have been disclosed for informational purposes.

#### **CarMax Sales Operations**

Our sales operations segment consists of retail sales of used vehicles and related products and services, such as wholesale vehicle sales; the sale of extended protection plan ("EPP") products, which include extended service plans ("ESPs") and guaranteed asset protection ("GAP"); and vehicle repair service. We offer competitive, no-haggle prices; a broad selection of CarMax Quality Certified used vehicles; value-added EPP products; and superior customer service. Our omni-channel platform, which gives us the largest addressable market in the used car industry, empowers our retail customers to buy a car on their terms – online, in-store or a seamless combination of both. Customers can choose to complete the car-buying experience in-person at one of our stores; or buy the car online and receive delivery through express pickup, available nationwide, or home delivery, available to most customers.

Our customers finance the majority of the retail vehicles purchased from us, and availability of on-the-spot financing is a critical component of the sales process. We provide financing to qualified retail customers through CAF and our arrangements with industry-leading third-party finance providers. All of the finance offers, whether by CAF or our third-party providers, are backed by a 3-day payoff option.

As of November 30, 2021, we operated 226 used car stores in 107 U.S. television markets. As of that date, wholesale auctions previously held at 74 of our used car stores were being conducted virtually. During the third quarter of fiscal 2022, we sold our remaining new car franchise.

#### **CarMax Auto Finance**

In addition to third-party finance providers, we provide vehicle financing through CAF, which offers financing solely to customers buying retail vehicles from CarMax. CAF allows us to manage our reliance on third-party finance providers and to leverage knowledge of our business to provide qualifying customers a competitive financing option. As a result, we believe CAF enables us to capture additional profits, cash flows and sales. CAF income primarily reflects the interest and fee income generated by the auto loans receivable less the interest expense associated with the debt issued to fund these receivables, a provision for estimated loan losses and direct expenses. CAF income does not include any allocation of indirect costs. After the effect of 3-day payoffs and vehicle returns, CAF financed 43.0% of our retail used vehicle unit sales in the first nine months of fiscal 2022. As of November 30, 2021, CAF serviced approximately 1,090,000 customer accounts in its \$15.52 billion portfolio of managed receivables.

Management regularly analyzes CAF's operating results by assessing the competitiveness of our consumer offer, profitability, the performance of the auto loans receivable, including trends in credit losses and delinquencies, and CAF direct expenses.





## Revenues and Profitability

The sources of revenue and gross profit from the CarMax Sales Operations segment and other non-reportable segments for the first nine months of fiscal 2022 are as follows:

### Net Sales and Operating Revenues

### Gross Profit

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A high-level summary of our financial results for the third quarter and first nine months of fiscal 2022 as compared to the third quarter and first nine months of fiscal 2021 is as follows <sup>(1)</sup>:

	Three Months Ended November 30, 2021	Change from Three Months Ended November 30, 2020	Nine Months Ended November 30, 2021	Change from Nine Months Ended November 30, 2020
<i>(Dollars in millions except per share or per unit data)</i>				
<b>Income statement information</b>				
Net sales and operating revenues	\$ 8,527.8	64.5 %	\$ 24,213.7	75.6 %
Gross profit	\$ 836.6	32.5 %	\$ 2,576.6	48.3 %
CAF income	\$ 166.0	(5.9)%	\$ 607.7	62.2 %
Selling, general and administrative expenses	\$ 575.9	33.7 %	\$ 1,704.3	42.3 %
Net earnings	\$ 269.4	14.5 %	\$ 991.5	84.6 %
<b>Unit sales information</b>				
Used unit sales	227,424	16.9 %	730,020	33.5 %
Change in used unit sales in comparable stores	15.8 %	N/A	32.5 %	N/A
Wholesale unit sales	187,630	48.5 %	557,117	72.7 %
<b>Per unit information</b>				
Used gross profit per unit	\$ 2,235	3.9 %	\$ 2,208	4.0 %
Wholesale gross profit per unit	\$ 1,131	24.8 %	\$ 1,054	6.0 %
SG&A as % of gross profit	68.8 %	0.6 %	66.1 %	(2.8)%
<b>Per share information</b>				
Net earnings per diluted share	\$ 1.63	14.8 %	\$ 5.99	84.3 %

<sup>(1)</sup> Where applicable, amounts are net of intercompany eliminations.

Net earnings per diluted share during the third quarter and first nine months of fiscal 2022 included a one-time benefit of \$0.10 in connection with the receipt of settlement proceeds in November 2021 related to a class action lawsuit. Net earnings per diluted share during the first nine months of fiscal 2021 included a one-time benefit of \$0.18 in connection with our receipt of settlement proceeds in April 2020 related to a previously disclosed class action lawsuit.



As noted on the December 22, 2021 earnings call, we were pleased with our performance during the third quarter of fiscal 2022 and into the fourth quarter through that date. Refer to “*Results of Operations*” for further details on our revenues and profitability.

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (“COVID-19”) as a global pandemic. Throughout fiscal 2021, many U.S. states and localities had shelter-in-place orders and occupancy restrictions, impacting the operations of our stores and consumer demand. As a result, our fiscal 2021 results were significantly impacted by the COVID-19 pandemic, primarily during the first quarter.

Although the immediate impact of COVID-19 has subsided, uncertainty continues. During the first nine months of fiscal 2022, states and localities were in the midst of a vaccine distribution program and easing certain state-mandated restrictions; however, the continued spread and impact of COVID-19 persists, particularly as it relates to the emergence of new variants of the virus. We continue to actively monitor developments that may cause us to take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our associates, customers, communities and shareholders.

### **Liquidity**

Our primary ongoing sources of liquidity include funds provided by operations, proceeds from non-recourse funding vehicles, and borrowings under our revolving credit facility or through other financing sources. In addition to funding our operations, this liquidity was used to fund the repurchase of common stock under our share repurchase program, our store growth and the Edmunds acquisition, which was completed during the second quarter of fiscal 2022.

Our current capital allocation strategy is to focus on our core business, including investing in digital capabilities and the strategic expansion of our store footprint, pursue new growth opportunities through investments, partnerships and acquisitions and return excess capital to shareholders. Given the year-over-year improvement in our business and overall macroeconomic conditions, the strength of the credit markets and our solid balance sheet, we believe we have the appropriate liquidity, access to capital and financial strength to support our operations and continue investing in our strategic initiatives for the foreseeable future.

### **Strategic Update and Future Outlook**

Since completing our omni-channel rollout in the second quarter of fiscal 2021, we now have a common platform across all of CarMax that leverages our scale, nationwide footprint and infrastructure and empowers our customers to buy a vehicle on their terms. We recognize that there has been an accelerated shift in consumer buying behavior. Customers are seeking safety, personalization and convenience in how they shop for and buy a vehicle more than ever. Our omni-channel platform empowers customers to buy a car on their own terms, whether completely from home, in-store or through a seamlessly integrated combination of online and in-store experiences. Our diversified business model, combined with our omni-channel experience, is a unique advantage in the used car industry that firmly positions us to continue growing our market share while creating shareholder value over the long-term.

With the completion of our omni-channel platform rollout, we are now focusing our efforts on optimizing and enhancing the customer experience. In particular, we are focused on completing the roll out of our self-service experience. Currently, more than two-thirds of our customers are eligible to complete an online retail sale independently if they choose, up from slightly more than 50% in the previous quarter. In the third quarter of fiscal 2022, online retail sales accounted for 9% of retail unit sales, consistent with the previous quarter and up from 5% in the prior year quarter. An online retail sale is defined as a sale where the customer completes all four of the following activities remotely: reserving the vehicle; financing the vehicle, if needed; trading-in or opting out of a trade-in; and creating an online sales order. Omni sales, defined as sales where customers complete at least one of the four activities listed above online, represented approximately 57% of retail sales, up from 55% in the previous quarter and 49% in the prior year quarter. The growing rate of customer adoption versus the prior year reinforces our belief in our omni-channel strategy.

Revenue from online transactions, defined as revenue from retail sales that qualify as an online retail sale, as well as any related EPP and third-party finance contribution, wholesale sales where the winning bid was taken from an online bid and all revenue earned by Edmunds, was \$2.5 billion, or approximately 30% of net revenues in the third quarter of fiscal 2022, up from 28% in the previous quarter and 20% in the prior year quarter.

We continue to see success from our online instant appraisal offer, which quickly provides customers an offer on their vehicle. This innovative experience allowed us to purchase approximately 194,000 vehicles online from consumers during the third quarter of fiscal 2022, representing approximately half of our total buys from consumers. The buy rate for customers who engage with us after first receiving an online instant appraisal offer is typically higher than through our traditional appraisal

lane. This offering supports our belief that we have become and are further expanding our position as the largest online buyer of used vehicles from consumers in the US.

Historically, our annual self-sufficiency rate has been between 36% and 41%. For the first quarter of fiscal 2022, our self-sufficiency rate was between 45% and 50%, and for both the second and third quarter of fiscal 2022 we achieved record self-sufficiency rates above 70%. In the third quarter of fiscal 2022, total vehicles purchased from consumers was approximately 383,000, a 5% increase versus the prior quarter and a 91% increase versus the prior year quarter, strengthening our leadership position as the largest used vehicle buyer from consumers.

At the end of the fourth quarter of fiscal 2021, we also launched a financing offer product in our online checkout process. With this enhancement, eligible customers can apply and accept finance offers without needing the assistance of an associate to submit a credit application over the phone or in store; we continue to enhance and further expand this product. Nearly 65% of our finance customers start their loan process online with a pre-approval application. In the third quarter, we expanded our finance based shopping capability, which enables our customers to see personalized finance terms from multiple lenders across the full inventory of vehicles on our website. This experience is currently available to approximately 75% of our customers and we are working towards adding the remaining customers and integrating additional lenders to this experience.

Our strategic investments in the near term will focus on our customer experience, vehicle acquisition and marketing. As we continue enhancing our online experience and offerings, we believe it is important to educate customers about our omni-channel platform and to differentiate and elevate our brand. During the fourth quarter of fiscal 2021, we introduced the next phase of our national multi-media marketing campaign. As a result, marketing spend increased year-over-year in the first nine months of fiscal 2022. We expect our marketing spend to remain elevated for the remainder of fiscal 2022 with per unit expenses similar to those experienced in the second half of fiscal 2021. We believe we are well positioned to gain market share through the promotion of our omni-channel platform and new product offerings such as our Love Your Car Guarantee.

Our strategic investments include the acquisition of Edmunds, which we completed on June 1, 2021. The acquisition was the first in CarMax history, and added one of the most well established and trusted online guides for automotive information and a recognized industry leader in digital car shopping innovations to the CarMax family. With this acquisition, CarMax has enhanced its digital capabilities and further strengthened its role and reach across the used auto ecosystem while adding exceptional technology and creative talent. Edmunds continues to operate independently and remains focused on delivering confidence to consumers and excellent value to its dealer and OEM clients. Additionally, this acquisition allows both businesses to accelerate their respective capabilities to deliver an enhanced digital experience to their customers by leveraging Edmunds' compelling content and technology, CarMax's unparalleled national scale and infrastructure, and the combined talent of both businesses. Edmunds has been slightly accretive to our profitability since the acquisition. We expect Edmunds' financial results to have an immaterial impact to CarMax's earnings per share in fiscal 2022, with potential for significant shareholder value creation over the longer term.

In order to execute our long-term strategy, we plan to continue to invest in various strategic initiatives to increase innovation, specifically with regards to customer-facing and customer-enabling technologies, as well as marketing. We are also focused on ensuring we are efficient in our spend, targeting specific areas where we expect to achieve more efficiencies and leverage, such as our CECs. Our use of data is a core component of these initiatives and continues to be a strategic asset for us as we leverage data to enhance the customer experience and increase operational efficiencies.

During the third quarter, we saw solid improvements in the service levels of our CECs related to web and phone lead response and conversion rates while also handling a record level of volume. This improvement was due to a combination of staffing increases and ongoing utilization of our artificial intelligence and machine learning processes that drove the right work to the right associates. From an efficiency perspective, we continue to see gains in our buying organization. The combination of our instant offer program along with the investments we have made in data science, automation and artificial intelligence continue to materially reduce our costs per buy.

For fiscal 2022, we would expect to lever SG&A as a percentage of gross profit when our gross profit growth is in the range of 5% to 8% on a two-year stacked basis. In periods of investment, like fiscal 2022, we will need to be at the higher end of this two-year range to lever against the previous fiscal year.

Over the next five years, we expect our diversified model, the scale of our operations, our investments and omni-channel strategy to provide a solid foundation for further growth. As such, we have set the following long-term targets, which we are currently on track to achieve:

- Grow national market share of 0- to 10-year old vehicles to more than 5% by the end of calendar year 2025.
- Sell two million used vehicles per year by fiscal 2026 through our retail and wholesale channels combined.
- Generate net revenue of approximately \$33 billion in fiscal 2026.

In calendar 2020, we estimate we sold approximately 4.3% of the age 0- to 10-year old vehicles sold in the comparable store markets in which we were operating and approximately 3.5% of the age 0- to 10-year old vehicles sold on a nationwide basis. Our strategy to increase our market share and achieve our other long-term targets includes focusing on:

- Delivering a customer-driven, omni-channel buying and selling experience that is a unique and powerful integration of our in-store and online capabilities.
- Opening stores in new markets and expanding our presence in existing markets.
- Hiring and developing an engaged and skilled workforce.
- Improving efficiency in our stores and our logistics operations to reduce waste.
- Leveraging data and advanced analytics to continuously improve the customer experience as well as our processes and systems.
- Utilizing advertising to educate customers about our omni-channel platform and to differentiate and elevate our brand.

As of November 30, 2021, we had used car stores located in 107 U.S. television markets, which covered approximately 78% of the U.S. population. The format and operating models utilized in our stores are continuously evaluated and may change or evolve over time based upon market and consumer expectations. During the first nine months of fiscal 2022, we opened six stores, and during the remainder of the fiscal year we plan to open four stores.

While we execute both our short- and long-term strategy, there are trends and factors that could impact our strategic approach or our results in the short and medium term. For additional information about risks and uncertainties facing our company, see “Risk Factors,” included in Part I. Item 1A of the Annual Report on Form 10-K for the fiscal year ended February 28, 2021.

## **CRITICAL ACCOUNTING POLICIES**

For information on critical accounting policies, see "Critical Accounting Policies" in the MD&A included in Item 7 of the Annual Report on Form 10-K for the fiscal year ended February 28, 2021.

## RESULTS OF OPERATIONS – CARMAX SALES OPERATIONS AND OTHER NON-REPORTABLE SEGMENTS

### NET SALES AND OPERATING REVENUES

(In millions)	Three Months Ended November 30			Nine Months Ended November 30		
	2021	2020	Change	2021	2020	Change
Used vehicle sales	\$ 6,435.6	\$ 4,209.7	52.9 %	\$ 18,697.3	\$ 11,385.2	64.2 %
Wholesale vehicle sales	1,922.3	828.4	132.1 %	4,998.2	1,990.3	151.1 %
Other sales and revenues:						
Extended protection plan revenues	106.6	101.7	4.8 %	353.8	294.5	20.2 %
Third-party finance fees, net	1.6	(10.6)	114.7 %	(0.3)	(36.7)	99.3 %
Advertising & subscription revenues <sup>(1)</sup>	33.3	—	100.0 %	67.9	—	100.0 %
Other	28.4	55.7	(49.0)%	96.8	152.6	(36.6)%
Total other sales and revenues	169.9	146.8	15.7 %	518.2	410.4	26.3 %
Total net sales and operating revenues	\$ 8,527.8	\$ 5,184.9	64.5 %	\$ 24,213.7	\$ 13,785.9	75.6 %

<sup>(1)</sup> Excludes intersegment revenues that have been eliminated in consolidation. See Note 17 for further details.

### UNIT SALES

	Three Months Ended November 30			Nine Months Ended November 30		
	2021	2020	Change	2021	2020	Change
Used vehicles	227,424	194,576	16.9 %	730,020	546,934	33.5 %
Wholesale vehicles	187,630	126,317	48.5 %	557,117	322,592	72.7 %

### AVERAGE SELLING PRICES

	Three Months Ended November 30			Nine Months Ended November 30		
	2021	2020	Change	2021	2020	Change
Used vehicles	\$ 27,995	\$ 21,402	30.8 %	\$ 25,380	\$ 20,581	23.3 %
Wholesale vehicles	\$ 9,890	\$ 6,245	58.4 %	\$ 8,634	\$ 5,877	46.9 %

### COMPARABLE STORE USED VEHICLE SALES CHANGES

	Three Months Ended November 30 <sup>(1)</sup>		Nine Months Ended November 30 <sup>(1)</sup>	
	2021	2020	2021	2020
Used vehicle units	15.8 %	(0.8)%	32.5 %	(14.8)%
Used vehicle revenues	51.4 %	2.5 %	63.4 %	(14.1)%

<sup>(1)</sup> Stores are added to the comparable store base beginning in their fourteenth full month of operation. We do not remove renovated stores from our comparable store base. Comparable store calculations include results for a set of stores that were included in our comparable store base in both the current and corresponding prior year periods.

### VEHICLE SALES CHANGES

	Three Months Ended November 30		Nine Months Ended November 30	
	2021	2020	2021	2020
Used vehicle units	16.9 %	1.0 %	33.5 %	(12.6)%
Used vehicle revenues	52.9 %	4.5 %	64.2 %	(11.9)%
Wholesale vehicle units	48.5 %	10.8 %	72.7 %	(10.7)%
Wholesale vehicle revenues	132.1 %	35.6 %	151.1 %	2.0 %



## USED VEHICLE FINANCING PENETRATION BY CHANNEL (BEFORE THE IMPACT OF 3-DAY PAYOFFS)

	Three Months Ended November 30 <sup>(1)</sup>		Nine Months Ended November 30 <sup>(1)</sup>	
	2021	2020	2021	2020
CAF <sup>(2)</sup>	46.1 %	48.9 %	46.6 %	45.0 %
Tier 2 <sup>(3)</sup>	22.2 %	19.5 %	22.2 %	22.8 %
Tier 3 <sup>(4)</sup>	6.5 %	9.7 %	8.0 %	11.5 %
Other <sup>(5)</sup>	25.2 %	21.9 %	23.2 %	20.7 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

<sup>(1)</sup> Calculated as used vehicle units financed for respective channel as a percentage of total used units sold.

<sup>(2)</sup> Includes CAF's Tier 3 loan originations, which represent less than 1% of total used units sold.

<sup>(3)</sup> Third-party finance providers who generally pay us a fee or to whom no fee is paid.

<sup>(4)</sup> Third-party finance providers to whom we pay a fee.

<sup>(5)</sup> Represents customers arranging their own financing and customers that do not require financing.

## CHANGE IN USED CAR STORE BASE

	Three Months Ended November 30		Nine Months Ended November 30	
	2021	2020	2021	2020
Used car stores, beginning of period	225	220	220	216
Store openings	1	—	6	4
Used car stores, end of period	226	220	226	220

During the first nine months of fiscal 2022, we opened six stores (Miami, FL; Tampa, FL; Gainesville, FL; Los Angeles, CA; Greenville, NC; and Springfield, MO).

**Used Vehicle Sales.** The 52.9% increase in used vehicle revenues in the third quarter of fiscal 2022 was primarily driven by a 16.9% increase in used unit sales and a 30.8% increase in average retail selling price. The increase in used units included a 15.8% increase in comparable store used unit sales. For the first nine months of fiscal 2022, used vehicle revenues increased 64.2%, driven by a 33.5% increase in used unit sales and a 23.3% increase in average selling price. The increase in used units included a 32.5% increase in comparable store used unit sales. Online retail sales, as defined previously, accounted for 9% of used unit sales for both the third quarter and first nine months of fiscal 2022, compared with 5% and 4% for the third quarter and first nine months of fiscal 2021, respectively.

We believe our strong comparable store used unit sales growth for both the third quarter and first nine months of fiscal 2022 was driven by solid execution, growing demand for our online offerings and macroeconomic factors. Ramping inventory and staffing levels during fiscal 2022 as well as the continued success of vehicle sourcing directly from consumers were also contributing factors. Our results for the first nine months of fiscal 2021 were significantly impacted by COVID-19, primarily during the first quarter.

The increase in average retail selling price in both the third quarter and first nine months of fiscal 2022 reflected higher vehicle acquisition costs driven by market appreciation.

**Wholesale Vehicle Sales.** Vehicles sold at our wholesale auctions are, on average, approximately 10 years old with more than 100,000 miles and are primarily comprised of vehicles purchased through our appraisal process that do not meet our retail standards. Our wholesale auction prices usually reflect trends in the general wholesale market for the types of vehicles we sell, although they can also be affected by changes in vehicle mix or the average age, mileage or condition of the vehicles being sold. During fiscal 2021, our wholesale auctions were moved to an online format in response to COVID-19 and continue to operate completely online.

The 132.1% increase in wholesale vehicle revenues in the third quarter of fiscal 2022 was primarily due to a 48.5% increase in unit sales as well as a 58.4% increase in average selling price. For the first nine months of fiscal 2022, wholesale vehicle revenues increased 151.1%, driven by a 72.7% increase in unit sales as well as a 46.9% increase in average selling price. The wholesale unit growth for both the third quarter and first nine months of fiscal 2022 was largely driven by increased appraisal volume from online offerings and an increased appraisal buy rate aided by macroeconomic factors. The increase in average



selling price in both the third quarter and first nine months of fiscal 2022 was primarily due to increased acquisition costs driven by market appreciation.

**Other Sales and Revenues.** Other sales and revenues include revenue from the sale of ESPs and GAP (collectively reported in EPP revenues, net of a reserve for estimated contract cancellations), net third-party finance fees, advertising and subscription revenues earned by our Edmunds business, and other revenues, which are predominantly comprised of service department and new vehicle sales. The fees we pay to the Tier 3 providers are reflected as an offset to finance fee revenues received from the Tier 2 providers. The mix of our retail vehicles financed by CAF, Tier 2 and Tier 3 providers, or customers that arrange their own financing, may vary from quarter to quarter depending on several factors, including the credit quality of applicants, changes in providers' credit decisioning and external market conditions. Changes in originations by one tier of credit providers may also affect the originations made by providers in other tiers.

Other sales and revenues increased 15.7% in the third quarter of fiscal 2022, reflecting the addition of Edmunds' revenue and an improvement in net third-party finance fees, partially offset by a decline in new vehicle sales. Net third-party finance fees improved as a result of favorable adjustments in the fee agreements with our Tier 2 and Tier 3 providers made during the fourth quarter of fiscal 2021 and lower Tier 3 originations. The decline in new car sales was driven by the divestiture of our remaining new car franchises since the third quarter of fiscal 2021.

Other sales and revenues increased 26.3% in the first nine months of fiscal 2022, reflecting the addition of Edmunds' revenue, growth in EPP revenues and a reduction in net third-party finance fees, partially offset by a decline in new vehicle sales. EPP revenues increased 20.2%, reflecting the increase in our retail unit volume partially offset by unfavorable year-over-year changes in cancellation reserves and profit sharing revenues recognized during the prior year period. Net third-party finance fees improved as a result of favorable adjustments in the fee agreements with our Tier 2 and Tier 3 providers made during the fourth quarter of fiscal 2021 as well as shifts in our sales mix by finance channel, partially offset by increased sales. The decline in new car sales was driven by the divestiture of our remaining new car franchises, as noted above.

**Seasonality.** Historically, our business has been seasonal. Our stores typically experience their strongest traffic and sales in the spring and summer, with an increase in traffic and sales in February and March, coinciding with federal income tax refund season. Sales are typically slowest in the fall. In fiscal 2021, traffic and sales were impacted by COVID-19 during periods of the year when we have historically experienced strong traffic and sales, and it remains unclear how the continuing impact of COVID-19, including the emergence of new variants, will affect the seasonality of our business.

## GROSS PROFIT

<i>(In millions)</i>	Three Months Ended November 30 <sup>(1)</sup>			Nine Months Ended November 30 <sup>(1)</sup>		
	2021	2020	Change	2021	2020	Change
Used vehicle gross profit	\$ 508.4	\$ 418.6	21.4 %	\$ 1,611.9	\$ 1,161.3	38.8 %
Wholesale vehicle gross profit	212.2	114.4	85.5 %	587.0	320.7	83.0 %
Other gross profit	116.0	98.4	17.9 %	377.7	255.8	47.7 %
Total	\$ 836.6	\$ 631.4	32.5 %	\$ 2,576.6	\$ 1,737.8	48.3 %

<sup>(1)</sup> Amounts are net of intercompany eliminations.

## GROSS PROFIT PER UNIT

	Three Months Ended November 30 <sup>(1)</sup>				Nine Months Ended November 30 <sup>(1)</sup>			
	2021		2020		2021		2020	
	\$ per unit <sup>(2)</sup>	% <sup>(3)</sup>	\$ per unit <sup>(2)</sup>	% <sup>(3)</sup>	\$ per unit <sup>(2)</sup>	% <sup>(3)</sup>	\$ per unit <sup>(2)</sup>	% <sup>(3)</sup>
Used vehicle gross profit	\$ 2,235	7.9	\$ 2,151	9.9	\$ 2,208	8.6	\$ 2,123	10.2
Wholesale vehicle gross profit	\$ 1,131	11.0	\$ 906	13.8	\$ 1,054	11.7	\$ 994	16.1
Other gross profit	\$ 510	68.3	\$ 506	67.0	\$ 517	72.9	\$ 468	62.3
Total gross profit	\$ 3,678	9.8	\$ 3,245	12.2	\$ 3,529	10.6	\$ 3,177	12.6

<sup>(1)</sup> Amounts are net of intercompany eliminations. Those eliminations had the effect of increasing used vehicle gross profit per unit and wholesale vehicle gross profit per unit and decreasing other gross profit per unit by immaterial amounts.

<sup>(2)</sup> Calculated as category gross profit divided by its respective units sold, except the other and total categories, which are divided by total used units sold.

<sup>(3)</sup> Calculated as a percentage of its respective sales or revenue.

**Used Vehicle Gross Profit.** We target a dollar range of gross profit per used unit sold. The gross profit dollar target for an individual vehicle is based on a variety of factors, including its probability of sale and its mileage relative to its age; however, it is not primarily based on the vehicle's selling price. Our ability to quickly adjust appraisal offers to be consistent with the broader market trade-in trends and the pace of our inventory turns reduce our exposure to the inherent continual fluctuation in used vehicle values and contribute to our ability to manage gross profit dollars per unit. Gross profit per used unit is consistent across our omni-channel platform.

We systematically adjust individual vehicle prices based on proprietary pricing algorithms in order to appropriately balance sales trends, inventory turns and gross profit achievement. Other factors that may influence gross profit include the wholesale and retail vehicle pricing environments, vehicle reconditioning and logistics costs, and the percentage of vehicles sourced directly from consumers through our appraisal process. Vehicles purchased directly from consumers generally have a lower cost per unit compared with vehicles purchased at auction or through other channels, which may generate more gross profit per unit. We monitor macroeconomic factors and pricing elasticity and adjust our pricing accordingly to optimize unit sales and profitability while also maintaining a competitively priced inventory.

Used vehicle gross profit increased 21.4% in the third quarter of fiscal 2022, driven by the 16.9% increase in total used unit sales as well as the \$84 increase in used vehicle gross profit per unit. Used vehicle gross profit increased 38.8% in the first nine months of fiscal 2022, driven by the 33.5% increase in total used unit sales as well as the \$85 increase in used vehicle gross profit per unit. With used car prices at all time highs, we chose to pass along the majority of our self-sufficiency driven acquisition cost savings to consumers by way of lower prices to make our vehicles more accessible, while balancing targeted margin increases.

**Wholesale Vehicle Gross Profit.** Our wholesale gross profit per unit reflects the demand for older, higher mileage vehicles, which are the mainstay of our auctions, as well as strong dealer attendance and resulting high dealer-to-car ratios at our auctions. The frequency of our auctions, which are generally held weekly or bi-weekly, minimizes the depreciation risk on these vehicles. Our ability to adjust appraisal offers in response to the wholesale pricing environment is a key factor that influences wholesale gross profit.

Wholesale vehicle gross profit increased 85.5% in the third quarter of fiscal 2022, driven by the 48.5% increase in wholesale unit sales as well as a \$225 increase in wholesale vehicle gross profit per unit. Wholesale vehicle gross profit increased 83.0%



in the first nine months of fiscal 2022, driven by the 72.7% increase in wholesale unit sales as well as a \$60 increase in wholesale vehicle gross profit per unit.

**Other Gross Profit.** Other gross profit includes profits related to EPP revenues, net third-party finance fees, advertising and subscription profits earned by our Edmunds business, and other revenues. Other revenues are predominantly comprised of service department operations, including used vehicle reconditioning, and new vehicle sales. We have no cost of sales related to EPP revenues or net third-party finance fees, as these represent revenues paid to us by certain third-party providers. Third-party finance fees are reported net of the fees we pay to third-party Tier 3 finance providers. Accordingly, changes in the relative mix of the components of other gross profit can affect the composition and amount of other gross profit.

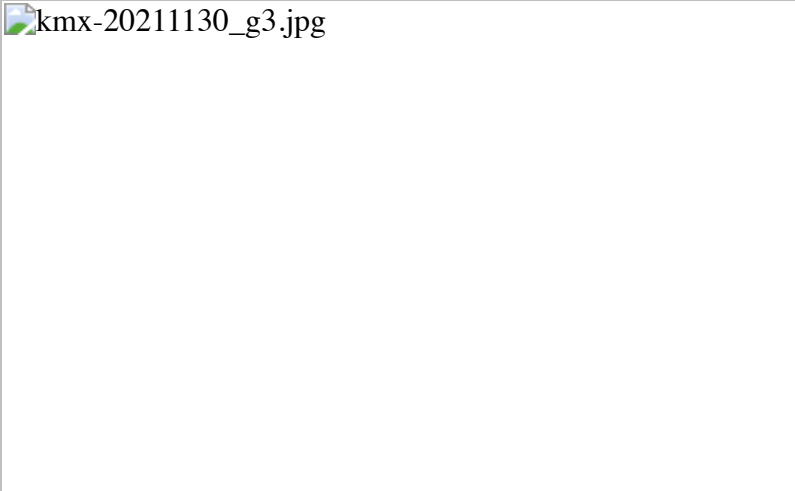

Other gross profit increased 17.9% in the third quarter of fiscal 2022, reflecting the addition of Edmunds' gross profit, favorability in net third-party finance fees, as discussed above, and an increase in EPP revenues, partially offset by a decline in service department profits. The increase in EPP revenues reflected the increase in our retail unit volume, largely offset by an unfavorable year-over-year change in cancellation reserves. The decline in service department profits was the result of our efforts to support our higher level of retail sales, including growing technician staffing and shifting retail service capacity to support vehicle reconditioning. Service department profits versus the prior year improved in each month during the quarter, and we anticipate that results will continue to improve into the fourth quarter.

Other gross profit increased 47.7% in the first nine months of fiscal 2022, reflecting the growth in EPP revenues and reduction in net third-party finance fees, as discussed above, as well as the addition of Edmunds' gross profit.

## SG&A Expenses

### COMPONENTS OF SG&A EXPENSES AS A PERCENTAGE OF TOTAL SG&A EXPENSES

**Three Months Ended November 30, 2021    Nine Months Ended November 30, 2021**

	
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### COMPONENTS OF SG&A EXPENSES COMPARED WITH PRIOR PERIOD <sup>(1) (2)</sup>

<i>(In millions except per unit data)</i>	<b>Three Months Ended November 30</b>			<b>Nine Months Ended November 30</b>		
	<b>2021</b>	<b>2020</b>	<b>Change</b>	<b>2021</b>	<b>2020</b>	<b>Change</b>
Compensation and benefits:						
Compensation and benefits, excluding share-based compensation expense	\$ 308.3	\$ 230.8	33.6 %	\$ 891.8	\$ 661.3	34.9 %
Share-based compensation expense	33.3	10.7	210.7 %	100.5	68.7	46.3 %
Total compensation and benefits <sup>(3)</sup>	\$ 341.6	\$ 241.5	41.4 %	\$ 992.3	\$ 730.0	35.9 %
Occupancy costs	59.3	53.8	10.3 %	165.0	152.4	8.3 %
Advertising expense	76.1	58.8	29.4 %	233.6	143.8	62.5 %
Other overhead costs <sup>(4)</sup>	98.9	76.7	29.1 %	313.4	171.4	82.8 %
Total SG&A expenses	\$ 575.9	\$ 430.8	33.7 %	\$ 1,704.3	\$ 1,197.6	42.3 %
SG&A as % of gross profit	68.8 %	68.2 %	0.6 %	66.1 %	68.9 %	(2.8)%

<sup>(1)</sup> Depreciation and amortization previously included in SG&A expenses is now separately presented and is excluded from this table. Prior period amounts have been reclassified to conform to the current period's presentation.

<sup>(2)</sup> Amounts are net of intercompany eliminations.

<sup>(3)</sup> Excludes compensation and benefits related to reconditioning and vehicle repair service, which are included in cost of sales. See Note 11 for details of share-based compensation expense by grant type.

<sup>(4)</sup> Includes IT expenses, non-CAF bad debt, insurance, preopening and relocation costs, charitable contributions, travel and other administrative expenses.

SG&A expenses increased 33.7% in the third quarter of fiscal 2022. Factors contributing to the increase include the following:

- \$77.5 million increase in compensation and benefits expense, excluding share-based compensation expense, driven by increased staffing and sales growth as well as the inclusion of Edmunds in the current quarter.
- \$22.6 million increase in stock-based compensation expense, primarily related to cash-settled restricted stock units, as the expense associated with these units was primarily driven by the change in the company's stock price during the relevant periods.
- \$17.3 million increase in advertising expense driven by our previously communicated investment in advertising spend.
- \$22.2 million increase in other overhead costs, which included a \$22.6 million one-time benefit related to the receipt of settlement proceeds in a class action lawsuit during the current quarter. The remainder of the change reflects investments to advance our technology platforms and support our strategic initiatives as well as cost-reduction actions taken in response to the pandemic in the prior year quarter.



SG&A expenses increased 42.3% in the first nine months of fiscal 2022. Factors contributing to the increase include the following:

- \$230.5 million increase in compensation and benefits expense, excluding share-based compensation expense, driven by increased staffing, sales growth and the addition of Edmunds during the current year as well as cost-reduction actions taken in response to the pandemic in the prior year period.
- \$31.8 million increase in stock-based compensation expense, primarily related to cash-settled restricted stock units, as the expense associated with these units was primarily driven by the change in the company's stock price during the relevant periods.
- \$89.8 million increase in advertising expense driven by our previously communicated investment in advertising spend.
- \$142.0 million increase in other overhead costs, primarily reflecting investments to advance our technology platforms and support our strategic initiatives as well as cost-reduction actions taken in response to the pandemic in the prior year period. The current year period included a \$22.6 million one-time benefit related to the receipt of settlement proceeds in a class action lawsuit while the prior year period included a one-time benefit of \$40.3 million related to the receipt of settlement proceeds in a class action lawsuit.

Our intention is to lever SG&A as a percentage of gross profit for both the full year and fourth quarter of fiscal 2022.

**Interest Expense.** Interest expense includes the interest related to short- and long-term debt, financing obligations and finance lease obligations. It does not include interest on the non-recourse notes payable, which is reflected within CAF income.

Interest expense of \$24.3 million and \$67.2 million in the third quarter and first nine months of fiscal 2022, respectively, was relatively consistent with \$19.5 million and \$65.9 million in the third quarter and first nine months of fiscal 2021, respectively.

**Other (Income) Expense.** Other income was \$8.1 million and \$35.5 million in the third quarter and first nine months of fiscal 2022, respectively, compared with \$0.9 million and expense of \$0.7 million in the third quarter and first nine months of fiscal 2021, respectively. The increase for the nine-month period was primarily due to net gains on an equity investment recorded during fiscal 2022.

**Income Taxes.** The effective income tax rate was 24.3% in the third quarter of fiscal 2022 and 23.2% in the first nine months of fiscal 2022 versus 24.2% in the third quarter of fiscal 2021 and 23.6% in the first nine months of fiscal 2021.

## RESULTS OF OPERATIONS – CARMAX AUTO FINANCE

CAF income primarily reflects interest and fee income generated by CAF's portfolio of auto loans receivable less the interest expense associated with the debt issued to fund these receivables, a provision for estimated loan losses and direct CAF expenses. Total interest margin reflects the spread between interest and fees charged to consumers and our funding costs. Changes in the interest margin on new originations affect CAF income over time. Increases in interest rates, which affect CAF's funding costs, or other competitive pressures on consumer rates, could result in compression in the interest margin on new originations. Changes in the allowance for loan losses as a percentage of ending managed receivables reflect the effect of changes in loss and delinquency experience and economic factors on our outlook for net losses expected to occur over the remaining contractual life of the loans receivable.

CAF's managed portfolio is composed primarily of loans originated over the past several years. Trends in receivable growth and interest margins primarily reflect the cumulative effect of changes in the business over a multi-year period. Historically, we have sought to originate loans with an underlying risk profile that we believe will, in the aggregate and excluding CAF's Tier 2 and Tier 3 originations, result in cumulative net losses in the 2% to 2.5% range over the life of the loans. Actual loss performance of the loans may fall outside of this range based on various factors, including intentional changes in the risk profile of originations, economic conditions (including the effects of COVID-19) and wholesale recovery rates. Current period originations reflect current trends in both our retail sales and the CAF business, including the volume of loans originated, current interest rates charged to consumers, loan terms and average credit scores. Loans originated in a given fiscal period impact CAF income over time, as we recognize income over the life of the underlying auto loan.

CAF income does not include any allocation of indirect costs. Although CAF benefits from certain indirect overhead expenditures, we have not allocated indirect costs to CAF to avoid making subjective allocation decisions. Examples of indirect costs not allocated to CAF include retail store expenses and corporate expenses.

See Note 4 for additional information on CAF income and Note 5 for information on auto loans receivable, including credit quality.



## SELECTED CAF FINANCIAL INFORMATION

(In millions)	Three Months Ended November 30				Nine Months Ended November 30			
	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>	2021	% <sup>(1)</sup>	2020	% <sup>(1)</sup>
Interest margin:								
Interest and fee income	\$ 330.0	8.6	\$ 288.5	8.5	\$ 964.4	8.7	\$ 851.1	8.5
Interest expense	(53.6)	(1.4)	(77.1)	(2.3)	(180.0)	(1.6)	(243.0)	(2.4)
Total interest margin	\$ 276.4	7.2	\$ 211.4	6.3	\$ 784.4	7.1	\$ 608.1	6.1
Provision for loan losses	\$ (76.2)	(2.0)	\$ (8.2)	(0.2)	\$ (87.3)	(0.8)	\$ (156.1)	(1.6)
CarMax Auto Finance income	\$ 166.0	4.3	\$ 176.4	5.2	\$ 607.7	5.5	\$ 374.6	3.7

<sup>(1)</sup> Annualized percentage of total average managed receivables.

## CAF ORIGINATION INFORMATION (AFTER THE IMPACT OF 3-DAY PAYOFFS)

	Three Months Ended November 30		Nine Months Ended November 30	
	2021	2020	2021	2020
Net loans originated (in millions)	\$ 2,420.3	\$ 1,824.9	\$ 7,276.1	\$ 4,607.8
Vehicle units financed	95,997	88,952	314,031	230,296
Net penetration rate <sup>(1)</sup>	42.2 %	45.7 %	43.0 %	42.1 %
Weighted average contract rate	8.3 %	8.6 %	8.6 %	8.4 %
Weighted average credit score <sup>(2)</sup>	706	702	702	706
Weighted average loan-to-value (LTV) <sup>(3)</sup>	88.0 %	92.0 %	89.2 %	92.1 %
Weighted average term (in months)	66.0	66.2	66.5	66.0

<sup>(1)</sup> Vehicle units financed as a percentage of total used units sold.

<sup>(2)</sup> The credit scores represent FICO® scores and reflect only receivables with obligors that have a FICO® score at the time of application. The FICO® score with respect to any receivable with co-obligors is calculated as the average of each obligor's FICO® score at the time of application. FICO® scores are not a significant factor in our primary scoring model, which relies on information from credit bureaus and other application information as discussed in Note 5. FICO® is a federally registered servicemark of Fair Isaac Corporation.

<sup>(3)</sup> LTV represents the ratio of the amount financed to the total collateral value, which is measured as the vehicle selling price plus applicable taxes, title and fees.

## LOAN PERFORMANCE INFORMATION

(In millions)	As of and for the Three Months Ended November 30		As of and for the Nine Months Ended November 30	
	2021	2020	2021	2020
Total ending managed receivables	\$ 15,524.0	\$ 13,636.1	\$ 15,524.0	\$ 13,636.1
Total average managed receivables	\$ 15,288.8	\$ 13,517.5	\$ 14,706.9	\$ 13,381.6
Allowance for loan losses	\$ 426.5	\$ 431.6	\$ 426.5	\$ 431.6
Allowance for loan losses as a percentage of ending managed receivables	2.75 %	3.17 %	2.75 %	3.17 %
Net credit losses on managed receivables	\$ 47.8	\$ 9.1	\$ 71.9	\$ 84.3
Annualized net credit losses as a percentage of total average managed receivables	1.25 %	0.27 %	0.65 %	0.84 %
Past due accounts as a percentage of ending managed receivables	3.83 %	2.93 %	3.83 %	2.93 %
Average recovery rate <sup>(1)</sup>	71.9 %	55.6 %	67.3 %	53.2 %

<sup>(1)</sup> The average recovery rate represents the average percentage of the outstanding principal balance we receive when a vehicle is repossessed and liquidated, generally at our wholesale auctions. While in any individual period conditions may vary, over the past 10 fiscal years, the annual recovery rate has ranged from a low of 46% to a high of 60%, and it is primarily affected by the wholesale market environment.



- CAF Income (Decrease of \$10.4 million, or 5.9%, and increase of \$233.1 million, or 62.2%, in the third quarter and first nine months of fiscal 2022, respectively)
  - The decrease in CAF income for the third quarter of fiscal 2022 reflects an increase in the provision for loan losses, partially offset by increases in the total interest margin percentage and average managed receivables.
  - The increase in CAF income for the first nine months of fiscal 2022 reflects increases in the total interest margin percentage and average managed receivables as well as a decrease in the provision for loan losses.
  - During the third quarter of fiscal 2022, CAF completed the conversion of its auto-loan servicing system, resulting in approximately \$5 million of conversion-related costs incurred during the quarter.
  - The increase in net loan originations in both the third quarter and first nine months of fiscal 2022 resulted from an increase in the average amount financed as well as our used unit sales growth.
- Provision for Loan Losses (\$76.2 million and \$87.3 million in the third quarter and first nine months of fiscal 2022, respectively, compared with \$8.2 million and \$156.1 million in the third quarter and first nine months of fiscal 2021, respectively)
  - The current quarter provision primarily reflected the expected lifetime losses on loans originated during the quarter, while the prior year quarter provision reflected the continued reduction of the reserve that was established at the start of the COVID-19 pandemic. This reduction continued into the fourth quarter of fiscal 2021 as well as the first quarter and, to a lesser extent, the second quarter of fiscal 2022.
  - The allowance for loan losses as a percentage of ending managed receivables was 2.75% as of November 30, 2021, compared with 3.17% as of November 30, 2020 and 2.66% as of August 31, 2021.
  - The current quarter provision also included a six basis point adjustment for added Tier 2 and Tier 3 originations. The adjustment was primarily driven by the implementation of our Tier 2 origination test described below.
  - The change in the provision for the nine-month period was primarily driven by reserve increases during the first quarter of fiscal 2021 associated with deterioration in the macroeconomic environment resulting from the COVID-19 pandemic.
- Total Interest Margin (Increased to 7.2% and 7.1% in the third quarter and first nine months of fiscal 2022, respectively, from 6.3% and 6.1% in the third quarter and first nine months of fiscal 2021, respectively)
  - The increase in the total interest margin percentage was primarily the result of lower funding costs as well as higher interest and fees from consumers.

**Tier 3 Loan Originations.** CAF also originates a small portion of auto loans to customers who typically would be financed by our Tier 3 finance providers, in order to better understand the performance of these loans, mitigate risk and add incremental profits. Historically, CAF targeted originating approximately 5% of the total Tier 3 loan volume. During the first quarter of fiscal 2022, we began to increase our Tier 3 loan volume beyond our target of 5% of total Tier 3 loan volume to 10% by the end of the first quarter of fiscal 2022. Additionally, in the second quarter of fiscal 2022 CAF began to test loan originations in the Tier 2 space. Any future adjustments in Tier 2 and Tier 3 will consider the broader lending environment along with the long-term sustainability of the change. A total of \$177.4 million and \$147.7 million in CAF Tier 3 receivables were outstanding as of November 30, 2021 and February 28, 2021, respectively. These loans have higher loss and delinquency rates than the remainder of the CAF portfolio, as well as higher contract rates. As of November 30, 2021 and February 28, 2021, approximately 10% of the total allowance for loan losses related to the outstanding CAF Tier 3 loan balances.

## **PLANNED FUTURE ACTIVITIES**

We anticipate opening a total of ten stores in fiscal 2022. These stores will predominantly be cross functional stores that have a smaller footprint and can leverage our scale and the presence of our larger format stores in nearby markets. We currently estimate capital expenditures will total approximately \$350 million in fiscal 2022. We expect nearly \$100 million of this spend will be focused on investments in technology.

## **FINANCIAL CONDITION**

### **Liquidity and Capital Resources**

Our primary ongoing cash requirements are to fund our existing operations, store expansion and improvement, CAF and strategic growth initiatives. Since fiscal 2013, we have also elected to use cash for our share repurchase program. Our primary ongoing sources of liquidity include funds provided by operations, proceeds from non-recourse funding vehicles and borrowings under our revolving credit facility or through other financing sources.



Our current capital allocation strategy is to focus on our core business, including investing in digital capabilities and the strategic expansion of our store footprint, pursue new growth opportunities through investments, partnerships and acquisitions and return excess capital to shareholders. Given the year-over-year improvement in our business and overall macroeconomic conditions, the strength of the credit markets and our solid balance sheet, we believe we have the appropriate liquidity, access to capital and financial strength to support our operations and continue investing in our strategic initiatives for the foreseeable future.

On June 1, 2021, we completed our acquisition of Edmunds for a total purchase price of \$401.8 million, inclusive of our initial investment. The consideration paid at closing included a combination of cash and shares of CarMax common stock. See Note 2 for additional information.

We currently target an adjusted debt-to-total capital ratio in a range of 35% to 45%. Our adjusted debt to capital ratio, net of cash on hand, was at the middle of our targeted range for the third quarter of fiscal 2022. In calculating this ratio, we utilize total debt excluding non-recourse notes payable, finance lease liabilities, a multiple of eight times rent expense and total shareholders' equity. Generally, we expect to use our revolving credit facility and other financing sources, together with stock repurchases, to maintain this targeted ratio; however, in any period, we may be outside this range due to seasonal, market, strategic or other factors.

Operating Activities. During the first nine months of fiscal 2022, net cash used in operating activities totaled \$2.08 billion, compared with cash provided by operating activities of \$868.4 million in the prior year period. Our operating cash flows are significantly impacted by changes in auto loans receivable, which increased \$1.76 billion in the current year period compared with \$73.8 million in the prior year period.

The majority of the changes in auto loans receivable are accompanied by changes in non-recourse notes payable, which are issued to fund auto loans originated by CAF. Net issuances of non-recourse notes payable were \$1.65 billion in the current year period compared with \$7 thousand in the prior year period and are separately reflected as cash from financing activities. Due to the presentation differences between auto loans receivable and non-recourse notes payable on the consolidated statements of cash flows, fluctuations in these amounts can have a significant impact on our operating and financing cash flows without affecting our overall liquidity, working capital or cash flows.

As of November 30, 2021, total inventory was \$4.66 billion, representing an increase of \$1.50 billion compared with the balance as of the start of the fiscal year. The increase was primarily due to an increase in the average carrying cost of inventory as a result of higher acquisition costs, driven by market appreciation, as well as an increase in vehicle units. Saleable inventory levels have been below our targets throughout the current fiscal year as a result of temporary production slowdowns experienced in the fourth quarter of fiscal 2021 and strong demand experienced during the first nine months of fiscal 2022. We made substantial progress in building our inventory position during the second quarter of fiscal 2022, and we achieved sequential growth in saleable inventory each month during the third quarter, which continued early into the fourth quarter. Although retail demand will determine the pace of our inventory build, we believe we have the resources we need to build inventory ahead of the tax refund season.

The change in net cash (used in) provided by operating activities for the first nine months of the current fiscal year compared with the prior year period reflected the changes in auto loans receivable and inventory, as discussed above, partially offset by an increase in net earnings when excluding non-cash expenses, which include depreciation and amortization, share-based compensation expense and the provisions for loan losses and cancellation reserves. Our results for the first nine months of fiscal 2021 were significantly impacted by COVID-19, primarily during the first quarter. In response, we took proactive measures to strengthen our liquidity position, including reducing our inventory levels and aligning our costs to lower sales volumes.

Investing Activities. During the first nine months of the fiscal year, net cash used in investing activities totaled \$432.7 million in fiscal 2022 compared with \$122.1 million in fiscal 2021. For fiscal 2022, this included \$241.6 million in cash paid in connection with the Edmunds acquisition, net of cash acquired. Capital expenditures were \$226.9 million in the current year period versus \$124.0 million in the prior year period. Capital expenditures primarily included store construction costs and store remodeling expenses as well as investments in technology. We maintain a multi-year pipeline of sites to support our store growth, so portions of capital spending in one year may relate to stores that we open in subsequent fiscal years.

As of November 30, 2021, 147 of our 226 used car stores were located on owned sites and 79 were located on leased sites, including 23 land-only leases and 56 land and building leases.

**Financing Activities.** During the first nine months of fiscal 2022, net cash provided by financing activities totaled \$2.51 billion compared with net cash used in financing activities of \$534.3 million in the prior year period. Included in these amounts were net issuances of non-recourse notes payable of \$1.65 billion compared with \$7 thousand in the prior year period. Non-recourse notes payable are typically used to fund changes in auto loans receivable (see “Operating Activities”).

During the first nine months of fiscal 2022, cash provided by financing activities was impacted by stock repurchases of \$476.0 million as well as net borrowings on our long-term debt of \$1.28 billion, including a new \$700 million term loan entered into during the third quarter of fiscal 2022. During the first nine months of fiscal 2021, cash used in financing activities was impacted by stock repurchases of \$158.6 million as well as net payments on our long-term debt of \$460.3 million.

#### TOTAL DEBT AND CASH AND CASH EQUIVALENTS

<i>(In thousands)</i>		As of November 30	As of February 28
Debt Description <sup>(1)</sup>	Maturity Date	2021	2021
Revolving credit facility <sup>(2)</sup>	June 2024	\$ 588,100	\$ —
Term loan <sup>(2)</sup>	June 2024	300,000	300,000
Term loan <sup>(2)</sup>	October 2026	699,318	—
3.86% Senior notes	April 2023	100,000	100,000
4.17% Senior notes	April 2026	200,000	200,000
4.27% Senior notes	April 2028	200,000	200,000
Financing obligations	Various dates through February 2059	527,260	533,578
Non-recourse notes payable	Various dates through August 2028	15,416,457	13,764,808
<b>Total debt <sup>(3)</sup></b>		<b>18,031,135</b>	<b>15,098,386</b>
Cash and cash equivalents		\$ 62,598	\$ 132,319

<sup>(1)</sup> Interest is payable monthly, with the exception of our senior notes, which are payable semi-annually.

<sup>(2)</sup> Borrowings accrue interest at variable rates based on the Eurodollar rate (LIBOR), or successor benchmark rate, the federal funds rate, or the prime rate, depending on the type of borrowing.

<sup>(3)</sup> Total debt excludes unamortized debt issuance costs. See Note 10 for additional information.

Borrowings under our \$1.45 billion unsecured revolving credit facility are available for working capital and general corporate purposes, and the unused portion is fully available to us. In December 2021, we exercised the accordion feature to increase the credit limit of this facility to \$2.00 billion with no other material changes to the terms of the agreement. The credit facility, term loans and senior note agreements contain representations and warranties, conditions and covenants. If these requirements are not met, all amounts outstanding or otherwise owed could become due and payable immediately and other limitations could be placed on our ability to use any available borrowing capacity. As of November 30, 2021, we were in compliance with these financial covenants.

See Note 10 for additional information on our revolving credit facility, term loans, senior notes and financing obligations.

CAF auto loans receivable are primarily funded through our warehouse facilities and asset-backed term funding transactions. These non-recourse funding vehicles are structured to legally isolate the auto loans receivable, and we would not expect to be able to access the assets of our non-recourse funding vehicles, even in insolvency, receivership or conservatorship proceedings. Similarly, the investors in the non-recourse notes payable have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loans receivable. We do, however, continue to have the rights associated with the interest we retain in these non-recourse funding vehicles.

As of November 30, 2021, \$12.26 billion and \$3.16 billion of non-recourse notes payable were outstanding related to asset-backed term funding transactions and our warehouse facilities, respectively. During the first nine months of fiscal 2022, we funded a total of \$5.72 billion in asset-backed term funding transactions. As of November 30, 2021, we had \$1.67 billion of unused capacity in our warehouse facilities.

We have periodically increased our warehouse facility limit over time, as our store base, sales and CAF loan originations have grown. See Note 10 for additional information on the warehouse facilities.

We generally repurchase the receivables funded through our warehouse facilities when we enter into an asset-backed term funding transaction. If our counterparties were to refuse to permit these repurchases it could impact our ability to execute on



our funding program. Additionally, the agreements related to the warehouse facilities include various representations and warranties, covenants and performance triggers. If these requirements are not met, we could be unable to continue to fund receivables through the warehouse facilities. In addition, warehouse facility investors could charge us a higher rate of interest and could have us replaced as servicer. Further, we could be required to deposit collections on the related receivables with the warehouse facility agents on a daily basis and deliver executed lockbox agreements to the warehouse facility agents.

The timing and amount of stock repurchases are determined based on stock price, market conditions, legal requirements and other factors. Shares repurchased are deemed authorized but unissued shares of common stock. As of November 30, 2021, a total of \$2 billion of board authorizations for repurchases was outstanding, with no expiration date, of which \$876.2 million remained available for repurchase. See Note 11 for more information on share repurchase activity.

#### **Fair Value Measurements**

We recognize money market securities, mutual fund investments, certain equity investments and derivative instruments at fair value. See Note 7 for more information on fair value measurements.

#### **FORWARD-LOOKING STATEMENTS**

We caution readers that the statements contained in this report about our future business plans, operations, capital structure, opportunities, or prospects, including without limitation any statements or factors regarding expected operating capacity, sales, inventory, market share, online purchases of vehicles from consumers, gross profit per used unit, revenue, margins, expenditures, liquidity, loan originations, CAF income, stock repurchases, indebtedness, earnings, market conditions or expectations with regards to the continued impact of the COVID-19 pandemic are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by the use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “positioned,” “predict,” “target,” “should,” “will” and other similar expressions, whether in the negative or affirmative. Such forward-looking statements are based upon management’s current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results to differ materially from anticipated results. We disclaim any intent or obligation to update these statements. Among the factors that could cause actual results and outcomes to differ materially from those contained in the forward-looking statements are the following:

- The effect and consequences of COVID-19 on matters including U.S. and local economies; our business operations and continuity; the availability of corporate and consumer financing; the health and productivity of our associates; the ability of third-party providers to continue uninterrupted service; and the regulatory environment in which we operate.
- Changes in general or regional U.S. economic conditions.
- Changes in the availability or cost of capital and working capital financing, including changes related to the asset-backed securitization market.
- Changes in the competitive landscape and/or our failure to successfully adjust to such changes.
- Events that damage our reputation or harm the perception of the quality of our brand.
- Our inability to realize the benefits associated with our omni-channel initiatives.
- Our inability to realize the expected benefits of strategic transactions, including our acquisition of Edmunds.
- Our inability to recruit, develop and retain associates and maintain positive associate relations.
- The loss of key associates from our store, regional or corporate management teams or a significant increase in labor costs.
- Security breaches or other events that result in the misappropriation, loss or other unauthorized disclosure of confidential customer, associate or corporate information.
- Significant changes in prices of new and used vehicles.
- Changes in economic conditions or other factors that result in greater credit losses for CAF’s portfolio of auto loans receivable than anticipated.
- A reduction in the availability of or access to sources of inventory or a failure to expeditiously liquidate inventory.
- Changes in consumer credit availability provided by our third-party finance providers.
- Changes in the availability of extended protection plan products from third-party providers.



- Factors related to the regulatory and legislative environment in which we operate.
- Factors related to geographic and sales growth, including the inability to effectively manage our growth.
- The failure of or inability to sufficiently enhance key information systems.
- The performance of third-party vendors we rely on for key components of our business.
- The effect of various litigation matters.
- Adverse conditions affecting one or more automotive manufacturers, and manufacturer recalls.
- The failure or inability to realize the benefits associated with our strategic investments.
- The inaccuracy of estimates and assumptions used in the preparation of our financial statements, or the effect of new accounting requirements or changes to U.S. generally accepted accounting principles.
- The volatility in the market price for our common stock.
- The failure or inability to adequately protect our intellectual property.
- The occurrence of severe weather events.
- Factors related to the geographic concentration of our stores.

For more details on factors that could affect expectations, see Part II, Item 1A, “Risk Factors” on Page 49 of this report, our Annual Report on Form 10-K for the fiscal year ended February 28, 2021, and our quarterly or current reports as filed with or furnished to the U.S. Securities and Exchange Commission (“SEC”). Our filings are publicly available on our investor information home page at [investors.carmax.com](http://investors.carmax.com). Requests for information may also be made to our Investor Relations Department by email to [investor\\_relations@carmax.com](mailto:investor_relations@carmax.com) or by calling 1-804-747-0422, ext. 7865. We undertake no obligation to update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to our market risk since February 28, 2021. For information on our exposure to market risk, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” contained in our Annual Report on Form 10-K for the fiscal year ended February 28, 2021.

### Item 4. Controls and Procedures

**Disclosure.** We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Our disclosure controls and procedures are also designed to ensure that this information is accumulated and communicated to management, including the chief executive officer (“CEO”) and the chief financial officer (“CFO”), as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, with the participation of the CEO and CFO, we evaluated the effectiveness of our disclosure controls and procedures. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period.

**Internal Control over Financial Reporting.** During the third quarter of fiscal 2022, we implemented a new consumer auto loan accounting system and updated our business processes and internal controls as a result. There were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended November 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

For a discussion of certain legal proceedings, see Note 16 to the consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors

In connection with information set forth in this Form 10-Q, the factors discussed under “Risk Factors” in our Form 10-K for fiscal year ended February 28, 2021, should be considered. These risks could materially and adversely affect our business, financial condition, and results of operations. There have been no material changes to the factors discussed in our Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 23, 2018, the board authorized the repurchase of up to \$2 billion of our common stock with no expiration date. Purchases may be made in open market or privately negotiated transactions at management's discretion and the timing and amount of repurchases are determined based on stock price, market conditions, legal requirements and other factors. Shares repurchased are deemed authorized but unissued shares of common stock.

The following table provides information relating to the company's repurchase of common stock for the third quarter of fiscal 2022. The table does not include transactions related to employee equity awards or exercise of employee stock options.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</b>
September 1 - 30, 2021	448,500	\$ 134.75	448,500	\$ 931,090,293
October 1 - 31, 2021	284,480	\$ 131.78	284,480	\$ 893,602,019
November 1 - 30, 2021	118,098	\$ 147.46	118,098	\$ 876,187,778
<b>Total</b>	<b>851,078</b>		<b>851,078</b>	

Item 6. Exhibits

[31.1](#) Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a), filed herewith.

[31.2](#) Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a), filed herewith.

[32.1](#) Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, filed herewith.

[32.2](#) Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, filed herewith.

101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

104 Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CARMAX, INC.

By: /s/ William D. Nash  
William D. Nash  
President and  
Chief Executive Officer

By: /s/ Enrique N. Mayor-Mora  
Enrique N. Mayor-Mora  
Senior Vice President and  
Chief Financial Officer

January 6, 2022