

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 August 31, 2023

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

23238

Richmond, Virginia

(Address of Principal Executive Offices)

(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:

Title of each class

Common Stock

Trading Symbol(s)

KMX

Name of each exchange on which registered

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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 September 27, 2023  
158,668,229

## CARMAX, INC. AND SUBSIDIARIES

### TABLE OF CONTENTS

	<b>Page No.</b>
<b>PART I.      <u>FINANCIAL INFORMATION</u></b>	
Item 1.      Financial Statements:	
Consolidated Statements of Earnings (Unaudited) – Three and Six Months Ended August 31, 2023 and 2022	<a href="#"><u>3</u></a>
Consolidated Statements of Comprehensive Income (Unaudited) – Three and Six Months Ended August 31, 2023 and 2022	<a href="#"><u>4</u></a>
Consolidated Balance Sheets (Unaudited) – August 31, 2023 and February 28, 2023	<a href="#"><u>5</u></a>
Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended August 31, 2023 and 2022	<a href="#"><u>6</u></a>
Consolidated Statements of Shareholders’ Equity (Unaudited) – Three and Six Months Ended August 31, 2023 and 2022	<a href="#"><u>7</u></a>
Notes to Consolidated Financial Statements (Unaudited)	<a href="#"><u>9</u></a>
Item 2.      Management’s Discussion and Analysis of Financial Condition and Results of Operations	<a href="#"><u>29</u></a>
Item 3.      Quantitative and Qualitative Disclosures About Market Risk	<a href="#"><u>44</u></a>
Item 4.      Controls and Procedures	<a href="#"><u>44</u></a>
<b>PART II.     <u>OTHER INFORMATION</u></b>	
Item 1.      Legal Proceedings	<a href="#"><u>45</u></a>
Item 1A.     Risk Factors	<a href="#"><u>45</u></a>
Item 2.      Unregistered Sales of Equity Securities and Use of Proceeds	<a href="#"><u>45</u></a>
Item 6.      Exhibits	<a href="#"><u>46</u></a>
<b><u>SIGNATURES</u></b>	<a href="#"><u>47</u></a>

## 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 August 31				Six Months Ended August 31			
	2023	% <sup>(1)</sup>	2022	% <sup>(1)</sup>	2023	% <sup>(1)</sup>	2022	% <sup>(1)</sup>
<b>SALES AND OPERATING REVENUES:</b>								
Used vehicle sales	\$ 5,591,143	79.0	\$ 6,284,085	77.2	\$ 11,592,614	78.5	\$ 13,298,575	76.2
Wholesale vehicle sales	1,321,975	18.7	1,690,326	20.8	2,836,338	19.2	3,806,843	21.8
Other sales and revenues	160,718	2.3	170,392	2.1	331,947	2.2	351,006	2.0
<b>NET SALES AND OPERATING REVENUES</b>	<b>7,073,836</b>	<b>100.0</b>	<b>8,144,803</b>	<b>100.0</b>	<b>14,760,899</b>	<b>100.0</b>	<b>17,456,424</b>	<b>100.0</b>
<b>COST OF SALES:</b>								
Used vehicle cost of sales	5,139,034	72.6	5,789,098	71.1	10,625,880	72.0	12,240,108	70.1
Wholesale vehicle cost of sales	1,185,359	16.8	1,549,669	19.0	2,531,897	17.2	3,474,519	19.9
Other cost of sales	52,678	0.7	68,891	0.8	88,967	0.6	129,261	0.7
<b>TOTAL COST OF SALES</b>	<b>6,377,071</b>	<b>90.2</b>	<b>7,407,658</b>	<b>90.9</b>	<b>13,246,744</b>	<b>89.7</b>	<b>15,843,888</b>	<b>90.8</b>
<b>GROSS PROFIT</b>	<b>696,765</b>	<b>9.8</b>	<b>737,145</b>	<b>9.1</b>	<b>1,514,155</b>	<b>10.3</b>	<b>1,612,536</b>	<b>9.2</b>
<b>CARMAX AUTO FINANCE INCOME</b>	<b>134,987</b>	<b>1.9</b>	<b>182,869</b>	<b>2.2</b>	<b>272,345</b>	<b>1.8</b>	<b>387,342</b>	<b>2.2</b>
Selling, general and administrative expenses	585,694	8.3	666,041	8.2	1,145,531	7.8	1,322,781	7.6
Depreciation and amortization	58,817	0.8	57,692	0.7	117,236	0.8	113,340	0.6
Interest expense	31,585	0.4	32,745	0.4	62,051	0.4	61,520	0.4
Other income	(2,630)	—	(4,039)	—	(3,844)	—	(1,940)	—
Earnings before income taxes	158,286	2.2	167,575	2.1	465,526	3.2	504,177	2.9
Income tax provision	39,651	0.6	41,670	0.5	118,593	0.8	126,007	0.7
<b>NET EARNINGS</b>	<b>\$ 118,635</b>	<b>1.7</b>	<b>\$ 125,905</b>	<b>1.5</b>	<b>\$ 346,933</b>	<b>2.4</b>	<b>\$ 378,170</b>	<b>2.2</b>
<b>WEIGHTED AVERAGE COMMON SHARES:</b>								
Basic	158,479		158,801		158,298		159,556	
Diluted	159,238		160,218		158,900		161,015	
<b>NET EARNINGS PER SHARE:</b>								
Basic	\$ 0.75		\$ 0.79		\$ 2.19		\$ 2.37	
Diluted	\$ 0.75		\$ 0.79		\$ 2.18		\$ 2.35	

<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 August 31		Six Months Ended August 31	
	2023	2022	2023	2022
<b>NET EARNINGS</b>	<b>\$ 118,635</b>	<b>\$ 125,905</b>	<b>\$ 346,933</b>	<b>\$ 378,170</b>
Other comprehensive income (loss), net of taxes:				
Net change in retirement benefit plan unrecognized actuarial losses	<b>98</b>	481	<b>196</b>	962
Net change in cash flow hedge unrecognized gains	<b>17,169</b>	25,626	<b>(19,468)</b>	77,459
Other comprehensive income (loss), net of taxes	<b>17,267</b>	26,107	<b>(19,272)</b>	78,421
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 135,902</b>	<b>\$ 152,012</b>	<b>\$ 327,661</b>	<b>\$ 456,591</b>

*See accompanying notes to consolidated financial statements.*

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

<i>(In thousands except share data)</i>	<b>As of August 31 2023</b>	<b>As of February 28 2023</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 521,098	\$ 314,758
Restricted cash from collections on auto loans receivable	534,792	470,889
Accounts receivable, net	271,874	298,783
Inventory	3,839,286	3,726,142
Other current assets	219,321	230,795
<b>TOTAL CURRENT ASSETS</b>	<b>5,386,371</b>	<b>5,041,367</b>
Auto loans receivable, net of allowance for loan losses of \$538,018 and \$507,201 as of August 31, 2023 and February 28, 2023, respectively	16,999,750	16,341,791
Property and equipment, net of accumulated depreciation of \$1,727,472 and \$1,614,924 as of August 31, 2023 and February 28, 2023, respectively	3,538,683	3,430,914
Deferred income taxes	111,919	80,740
Operating lease assets	540,718	545,677
Goodwill	141,258	141,258
Other assets	581,462	600,989
<b>TOTAL ASSETS</b>	<b>\$ 27,300,161</b>	<b>\$ 26,182,736</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 932,068	\$ 826,592
Accrued expenses and other current liabilities	513,137	478,964
Accrued income taxes	103	—
Current portion of operating lease liabilities	55,441	53,287
Current portion of long-term debt	312,230	111,859
Current portion of non-recourse notes payable	507,409	467,609
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,320,388</b>	<b>1,938,311</b>
Long-term debt, excluding current portion	1,608,724	1,909,361
Non-recourse notes payable, excluding current portion	16,475,698	15,865,776
Operating lease liabilities, excluding current portion	516,839	523,828
Other liabilities	372,853	332,383
<b>TOTAL LIABILITIES</b>	<b>21,294,502</b>	<b>20,569,659</b>
Commitments and contingent liabilities		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$0.50 par value; 350,000,000 shares authorized; 158,655,733 and 158,079,033 shares issued and outstanding as of August 31, 2023 and February 28, 2023, respectively	79,328	79,040
Capital in excess of par value	1,777,707	1,713,074
Accumulated other comprehensive income	78,597	97,869
Retained earnings	4,070,027	3,723,094
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>6,005,659</b>	<b>5,613,077</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 27,300,161</b>	<b>\$ 26,182,736</b>

*See accompanying notes to consolidated financial statements.*

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

<i>(In thousands)</i>	<b>Six Months Ended August 31</b>	
	<b>2023</b>	<b>2022</b>
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$ 346,933	\$ 378,170
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	126,971	137,903
Share-based compensation expense	69,445	47,010
Provision for loan losses	170,672	133,343
Provision for cancellation reserves	45,199	59,208
Deferred income tax (benefit) provision	(24,845)	800
Other	3,868	9,713
Net decrease (increase) in:		
Accounts receivable, net	26,909	158,532
Inventory	(113,144)	452,884
Other current assets	33,431	79,188
Auto loans receivable, net	(828,631)	(804,855)
Other assets	(6,668)	(31,703)
Net increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities and accrued income taxes	132,566	(74,986)
Other liabilities	(43,826)	(65,618)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(61,120)</b>	<b>479,589</b>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(210,167)	(204,463)
Proceeds from disposal of property and equipment	1,247	84
Purchases of investments	(3,236)	(5,428)
Sales and returns of investments	405	2,492
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(211,751)</b>	<b>(207,315)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuances of long-term debt	134,600	2,412,900
Payments on long-term debt	(240,093)	(3,057,565)
Cash paid for debt issuance costs	(10,650)	(10,240)
Payments on finance lease obligations	(7,810)	(9,883)
Issuances of non-recourse notes payable	6,179,929	8,230,501
Payments on non-recourse notes payable	(5,532,403)	(7,576,056)
Repurchase and retirement of common stock	(4,143)	(325,168)
Equity issuances	27,534	13,282
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>546,964</b>	<b>(322,229)</b>
Increase (decrease) in cash, cash equivalents, and restricted cash	274,093	(49,955)
Cash, cash equivalents, and restricted cash at beginning of year	951,004	803,618
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$ 1,225,097</b>	<b>\$ 753,663</b>
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED BALANCE SHEETS:</b>		
Cash and cash equivalents	\$ 521,098	\$ 56,772
Restricted cash from collections on auto loans receivable	534,792	533,253
Restricted cash included in other assets	169,207	163,638
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$ 1,225,097</b>	<b>\$ 753,663</b>

*See accompanying notes to consolidated financial statements.*

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

**Six Months Ended August 31, 2023**

<i>(In thousands)</i>	Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance as of February 28, 2023</b>	<b>158,079</b>	<b>\$ 79,040</b>	<b>\$ 1,713,074</b>	<b>\$ 3,723,094</b>	<b>\$ 97,869</b>	<b>\$ 5,613,077</b>
Net earnings	—	—	—	228,298	—	228,298
Other comprehensive loss	—	—	—	—	(36,539)	(36,539)
Share-based compensation expense	—	—	21,274	—	—	21,274
Exercise of common stock options	18	9	979	—	—	988
Stock incentive plans, net shares issued	112	56	(3,986)	—	—	(3,930)
<b>Balance as of May 31, 2023</b>	<b>158,209</b>	<b>\$ 79,105</b>	<b>\$ 1,731,341</b>	<b>\$ 3,951,392</b>	<b>\$ 61,330</b>	<b>\$ 5,823,168</b>
Net earnings	—	—	—	118,635	—	118,635
Other comprehensive income	—	—	—	—	17,267	17,267
Share-based compensation expense	—	—	20,256	—	—	20,256
Exercise of common stock options	446	223	26,323	—	—	26,546
Stock incentive plans, net shares issued	1	—	(213)	—	—	(213)
<b>Balance as of August 31, 2023</b>	<b>158,656</b>	<b>\$ 79,328</b>	<b>\$ 1,777,707</b>	<b>\$ 4,070,027</b>	<b>\$ 78,597</b>	<b>\$ 6,005,659</b>

*See accompanying notes to consolidated financial statements.*

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

**Six Months Ended August 31, 2022**

<i>(In thousands)</i>	Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance as of February 28, 2022</b>	<b>161,054</b>	<b>\$ 80,527</b>	<b>\$ 1,677,268</b>	<b>\$ 3,524,066</b>	<b>\$ (46,422)</b>	<b>\$ 5,235,439</b>
Net earnings	—	—	—	252,265	—	252,265
Other comprehensive income	—	—	—	—	52,314	52,314
Share-based compensation expense	—	—	21,594	—	—	21,594
Repurchases of common stock	(1,644)	(822)	(17,207)	(139,565)	—	(157,594)
Exercise of common stock options	49	24	3,418	—	—	3,442
Stock incentive plans, net shares issued	155	78	(6,901)	—	—	(6,823)
<b>Balance as of May 31, 2022</b>	<b>159,614</b>	<b>\$ 79,807</b>	<b>\$ 1,678,172</b>	<b>\$ 3,636,766</b>	<b>\$ 5,892</b>	<b>\$ 5,400,637</b>
Net earnings	—	—	—	125,905	—	125,905
Other comprehensive income	—	—	—	—	26,107	26,107
Share-based compensation expense	—	—	15,062	—	—	15,062
Repurchases of common stock	(1,730)	(865)	(18,279)	(143,873)	—	(163,017)
Exercise of common stock options	155	78	9,762	—	—	9,840
Stock incentive plans, net shares issued	5	2	(309)	—	—	(307)
<b>Balance as of August 31, 2022</b>	<b>158,044</b>	<b>\$ 79,022</b>	<b>\$ 1,684,408</b>	<b>\$ 3,618,798</b>	<b>\$ 31,999</b>	<b>\$ 5,414,227</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 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 16 for additional information on our reportable segments.

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 an integrated combination of both. 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 interim unaudited 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, 2023 (the “2023 Annual Report”), with the exception of those related to recent accounting pronouncements adopted in the current fiscal year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in our 2023 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. Certain prior year amounts have been reclassified to conform to the current year’s presentation. Amounts and percentages may not total due to rounding.

**2. 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 August 31		Six Months Ended August 31	
	2023	2022	2023	2022
Used vehicle sales	\$ 5,591.1	\$ 6,284.1	\$ 11,592.6	\$ 13,298.6
Wholesale vehicle sales	1,322.0	1,690.3	2,836.3	3,806.8
Other sales and revenues:				
Extended protection plan revenues	101.7	109.8	212.9	226.3
Third-party finance (fees)/income, net	(1.5)	2.7	(1.2)	6.1
Advertising & subscription revenues <sup>(1)</sup>	33.5	34.3	64.9	68.7
Service revenues	21.4	19.4	43.5	41.2
Other	5.6	4.2	11.8	8.7
Total other sales and revenues	160.7	170.4	331.9	351.0
Total net sales and operating revenues	\$ 7,073.8	\$ 8,144.8	\$ 14,760.9	\$ 17,456.4

<sup>(1)</sup> Excludes intersegment sales and operating revenues that have been eliminated in consolidation. See Note 16 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 15 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 7 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 is determined upon satisfying the performance obligation of selling the ESP. This estimate is subject to various constraints; primarily, factors that are outside of the company's influence or control. We have determined that these constraints generally preclude any profit-sharing revenues from being recognized before they are paid. As of August 31, 2023 and February 28, 2023, no current or long-term contract asset was recognized related to cumulative profit-sharing payments to which we expect to be entitled. The estimate of the amount to which we expect to be entitled is reassessed each reporting period and any changes are reflected in other sales and revenues on our consolidated statements of earnings and other assets on our consolidated balance sheets.

**Third-Party Finance (Fees)/Income.** 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 include miscellaneous goods and services, which are immaterial to our consolidated financial statements.

### 3. 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 4, 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 August 31				Six Months Ended August 31			
	2023	% <sup>(1)</sup>	2022	% <sup>(1)</sup>	2023	% <sup>(1)</sup>	2022	% <sup>(1)</sup>
Interest margin:								
Interest and fee income	\$ 416.9	9.6	\$ 357.2	8.8	\$ 817.4	9.5	\$ 703.9	8.8
Interest expense	(152.0)	(3.5)	(62.5)	(1.5)	(294.6)	(3.4)	(111.3)	(1.4)
Total interest margin	264.9	6.1	294.7	7.3	522.8	6.1	592.6	7.4
Provision for loan losses	(89.8)	(2.1)	(75.5)	(1.9)	(170.7)	(2.0)	(133.3)	(1.7)
Total interest margin after provision for loan losses	175.1	4.0	219.2	5.4	352.1	4.1	459.3	5.7
Direct expenses:								
Payroll and fringe benefit expense	(16.8)	(0.4)	(15.9)	(0.4)	(33.4)	(0.4)	(30.6)	(0.4)
Depreciation and amortization	(4.1)	(0.1)	(3.8)	(0.1)	(8.2)	(0.1)	(7.6)	(0.1)
Other direct expenses	(19.3)	(0.4)	(16.6)	(0.4)	(38.2)	(0.4)	(33.7)	(0.4)
Total direct expenses	(40.2)	(0.9)	(36.3)	(0.9)	(79.8)	(0.9)	(71.9)	(0.9)
CarMax Auto Finance income	\$ 135.0	3.1	\$ 182.9	4.5	\$ 272.3	3.2	\$ 387.3	4.8
Total average managed receivables	\$ 17,315.6		\$ 16,176.2		\$ 17,159.5		\$ 15,996.6	

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



#### 4. 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 \$17.01 billion as of August 31, 2023, and \$16.36 billion as of February 28, 2023. See Note 9 for additional information on securitizations and 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 3 for additional information on CAF income.

#### **Auto Loans Receivable, Net**

<i>(In millions)</i>	<b>As of August 31 2023</b>	<b>As of February 28 2023</b>
Asset-backed term funding	\$ 12,080.6	\$ 12,242.8
Warehouse facilities	4,419.6	3,649.9
Overcollateralization <sup>(1)</sup>	783.2	739.9
Other managed receivables <sup>(2)</sup>	159.4	135.3
Total ending managed receivables	17,442.8	16,767.9
Accrued interest and fees	97.3	78.0
Other	(2.3)	3.1
Less: allowance for loan losses	(538.0)	(507.2)
<b>Auto loans receivable, net</b>	<b>\$ 16,999.8</b>	<b>\$ 16,341.8</b>

<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 utilize 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

As of August 31, 2023  
Fiscal Year of Origination <sup>(1)</sup>

(In millions)	2024	2023	2022	2021	2020	Prior to 2020	Total	% <sup>(2)</sup>
Core managed receivables <sup>(3)</sup> :								
A	\$ 2,349.6	\$ 3,202.6	\$ 2,058.3	\$ 841.9	\$ 450.0	\$ 112.2	\$ 9,014.6	51.7
B	1,473.2	2,074.3	1,502.1	639.8	348.7	137.8	6,175.9	35.4
C and other	224.3	609.8	496.2	248.0	124.0	53.9	1,756.2	10.1
Total core managed receivables	4,047.1	5,886.7	4,056.6	1,729.7	922.7	303.9	16,946.7	97.2
Other managed receivables <sup>(4)</sup> :								
C and other	139.4	221.9	89.8	12.0	16.1	16.9	496.1	2.8
Total ending managed receivables	\$ 4,186.5	\$ 6,108.6	\$ 4,146.4	\$ 1,741.7	\$ 938.8	\$ 320.8	\$ 17,442.8	100.0
Gross charge-offs	\$ 4.9	\$ 120.2	\$ 82.2	\$ 24.7	\$ 12.8	\$ 8.2	\$ 253.0	

As of February 28, 2023  
Fiscal Year of Origination <sup>(1)</sup>

(In millions)	2023	2022	2021	2020	2019	Prior to 2019	Total	% <sup>(2)</sup>
Core managed receivables <sup>(3)</sup> :								
A	\$ 3,890.9	\$ 2,555.3	\$ 1,112.0	\$ 677.1	\$ 218.3	\$ 36.3	\$ 8,489.9	50.6
B	2,497.5	1,839.9	816.2	488.9	215.1	56.0	5,913.6	35.3
C and other	732.7	609.5	314.5	169.3	74.1	25.6	1,925.7	11.5
Total core managed receivables	7,121.1	5,004.7	2,242.7	1,335.3	507.5	117.9	16,329.2	97.4
Other managed receivables <sup>(4)</sup> :								
C and other	272.0	112.5	15.0	21.1	13.2	4.9	438.7	2.6
Total ending managed receivables	\$ 7,393.1	\$ 5,117.2	\$ 2,257.7	\$ 1,356.4	\$ 520.7	\$ 122.8	\$ 16,767.9	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.

<sup>(3)</sup> Represents CAF's Tier 1 originations.

<sup>(4)</sup> Represents CAF's Tier 2 and Tier 3 originations.

**Allowance for Loan Losses.** The allowance for loan losses at August 31, 2023 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 at inception of the loan.

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 used vehicle price index are used to predict changes in gross loss and recovery rates, 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 August 31, 2023			%
	Core	Other	Total	
Balance as of beginning of period	\$ 427.5	\$ 107.9	\$ 535.4	3.11
Charge-offs	(118.7)	(24.5)	(143.2)	
Recoveries <sup>(2)</sup>	48.5	7.5	56.0	
Provision for loan losses	75.7	14.1	89.8	
Balance as of end of period	\$ 433.0	\$ 105.0	\$ 538.0	3.08

<i>(In millions)</i>	Three Months Ended August 31, 2022			%
	Core	Other	Total	
Balance as of beginning of period	\$ 390.4	\$ 67.8	\$ 458.2	2.85
Charge-offs	(84.2)	(11.9)	(96.1)	
Recoveries <sup>(2)</sup>	35.9	4.0	39.9	
Provision for loan losses	54.0	21.5	75.5	
Balance as of end of period	\$ 396.1	\$ 81.4	\$ 477.5	2.92

<i>(In millions)</i>	Six Months Ended August 31, 2023			%
	Core	Other	Total	
Balance as of beginning of period	\$ 401.5	\$ 105.7	\$ 507.2	3.02
Charge-offs	(211.8)	(41.2)	(253.0)	
Recoveries <sup>(2)</sup>	99.0	14.1	113.1	
Provision for loan losses	144.3	26.4	170.7	
Balance as of end of period	\$ 433.0	\$ 105.0	\$ 538.0	3.08

<i>(In millions)</i>	Six Months Ended August 31, 2022			%
	Core	Other	Total	
Balance as of beginning of period	\$ 377.5	\$ 55.5	\$ 433.0	2.77
Charge-offs	(145.6)	(18.7)	(164.3)	
Recoveries <sup>(2)</sup>	69.0	6.5	75.5	
Provision for loan losses	95.2	38.1	133.3	
Balance as of end of period	\$ 396.1	\$ 81.4	\$ 477.5	2.92

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

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

During the first six months of fiscal 2024, the allowance for loan losses increased \$30.8 million. The increase in the allowance (both in dollars and as a percent of total ending managed receivables) was primarily driven by unfavorable loss performance as well as the uncertain macroeconomic environment. The increase in net charge-offs primarily reflects customer hardship in the current economic environment. The allowance for loan losses as of August 31, 2023 reflects our best estimate of expected future losses based on recent trends in delinquencies, loss performance, recovery rates and the economic 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

As of August 31, 2023								
(In millions)	Core Receivables				Other Receivables		Total	
	A	B	C & Other	Total	C & Other	\$	% <sup>(1)</sup>	
Current	\$ 8,967.5	\$ 5,751.2	\$ 1,410.2	\$ 16,128.9	\$ 364.0	\$ 16,492.9	94.55	
Delinquent loans:								
31-60 days past due	29.1	243.1	177.2	449.4	62.9	512.3	2.94	
61-90 days past due	14.1	148.0	140.2	302.3	56.4	358.7	2.06	
Greater than 90 days past due	3.9	33.6	28.6	66.1	12.8	78.9	0.45	
Total past due	47.1	424.7	346.0	817.8	132.1	949.9	5.45	
Total ending managed receivables	\$ 9,014.6	\$ 6,175.9	\$ 1,756.2	\$ 16,946.7	\$ 496.1	\$ 17,442.8	100.00	

As of February 28, 2023								
(In millions)	Core Receivables				Other Receivables		Total	
	A	B	C & Other	Total	C & Other	\$	% <sup>(1)</sup>	
Current	\$ 8,450.3	\$ 5,540.2	\$ 1,612.3	\$ 15,602.8	\$ 327.6	\$ 15,930.4	95.00	
Delinquent loans:								
31-60 days past due	25.1	225.7	175.4	426.2	60.6	486.8	2.90	
61-90 days past due	10.6	120.0	114.5	245.1	42.1	287.2	1.71	
Greater than 90 days past due	3.9	27.7	23.5	55.1	8.4	63.5	0.39	
Total past due	39.6	373.4	313.4	726.4	111.1	837.5	5.00	
Total ending managed receivables	\$ 8,489.9	\$ 5,913.6	\$ 1,925.7	\$ 16,329.2	\$ 438.7	\$ 16,767.9	100.00	

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

## 5. 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 SOFR 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 loans.

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 income ("AOCI"). 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 \$52.2 million will be reclassified from AOCI as an increase 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 six months ended August 31, 2023, we recognized expense of \$1.2 million and \$10.5 million, respectively, in CAF income representing these changes in fair value.



As of August 31, 2023 and February 28, 2023, we had interest rate swaps outstanding with a combined notional amount of \$4.86 billion and \$4.49 billion, respectively, that were designated as cash flow hedges of interest rate risk. As of August 31, 2023 and February 28, 2023, we had interest rate swaps with a combined notional amount of \$1.07 billion and \$1.14 billion, respectively, outstanding that were not designated as cash flow hedges for accounting purposes.

See Note 6 for discussion of fair values of financial instruments and Note 12 for the effect on comprehensive income.

## **6. 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, observable inputs, such as interest rates and yield curves, and assumptions about risk.
- 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 August 31, 2023		
	Level 1	Level 2	Total
<b>Assets:</b>			
Money market securities	\$ 1,154,122	\$ —	\$ 1,154,122
Mutual fund investments	25,558	—	25,558
Derivative instruments designated as hedges	—	83,914	83,914
Derivative instruments not designated as hedges	—	23,367	23,367
<b>Total assets at fair value</b>	<b>\$ 1,179,680</b>	<b>\$ 107,281</b>	<b>\$ 1,286,961</b>
Percent of total assets at fair value	91.7 %	8.3 %	100.0 %
Percent of total assets	4.3 %	0.4 %	4.7 %
<b>Liabilities:</b>			
Derivative instruments designated as hedges	\$ —	\$ (401)	\$ (401)
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ (401)</b>	<b>\$ (401)</b>
Percent of total liabilities	— %	— %	— %

<i>(In thousands)</i>	As of February 28, 2023		
	Level 1	Level 2	Total
<b>Assets:</b>			
Money market securities	\$ 865,943	\$ —	\$ 865,943
Mutual fund investments	22,671	—	22,671
Derivative instruments designated as hedges	—	97,328	97,328
Derivative instruments not designated as hedges	—	33,870	33,870
<b>Total assets at fair value</b>	<b>\$ 888,614</b>	<b>\$ 131,198</b>	<b>\$ 1,019,812</b>
Percent of total assets at fair value	87.1 %	12.9 %	100.0 %
Percent of total assets	3.4 %	0.5 %	3.9 %
<b>Liabilities:</b>			
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</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, which we believe approximates fair value. We believe that the carrying value of our revolving credit facility and term loans 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 August 31, 2023 and February 28, 2023, respectively, are as follows:

<i>(In thousands)</i>	As of August 31, 2023		As of February 28, 2023	
Carrying value	\$	400,000	\$	500,000
Fair value	\$	374,226	\$	473,749

## 7. 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 credit mix of the customer base.

### Cancellation Reserves

<i>(In millions)</i>	Three Months Ended August 31		Six Months Ended August 31	
	2023	2022	2023	2022
Balance as of beginning of period	\$ 138.7	\$ 148.7	\$ 139.2	\$ 144.7
Cancellations	(23.2)	(27.4)	(47.8)	(55.1)
Provision for future cancellations	21.1	27.5	45.2	59.2
Balance as of end of period	\$ 136.6	\$ 148.8	\$ 136.6	\$ 148.8

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 August 31, 2023 and February 28, 2023, the current portion of cancellation reserves was \$74.1 million and \$76.1 million, respectively.

## 8. Income Taxes

We had \$30.0 million of gross unrecognized tax benefits as of August 31, 2023, and \$27.1 million as of February 28, 2023. There were no significant changes to the gross unrecognized tax benefits as reported for the fiscal year ended February 28, 2023.

## 9. Debt

<i>(In thousands)</i>	Debt Description <sup>(1)</sup>	Maturity Date	As of August 31	As of February 28
			2023	2023
	Revolving credit facility <sup>(2)</sup>	June 2028	\$ —	\$ —
	Term loan <sup>(2)</sup>	June 2024	300,000	300,000
	Term loan <sup>(2)</sup>	October 2026	699,563	699,493
	3.86% Senior notes	April 2023	—	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	522,075	522,526
	Non-recourse notes payable	Various dates through December 2030	17,007,618	16,360,092
	Total debt		18,929,256	18,382,111
	Less: current portion		(819,639)	(579,468)
	Less: unamortized debt issuance costs		(25,195)	(27,506)
	Long-term debt, net		\$ 18,084,422	\$ 17,775,137

<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 SOFR, the federal funds rate, or the prime rate, depending on the type of borrowing.

**Revolving Credit Facility.** Borrowings under our \$2.00 billion unsecured revolving credit facility (the “credit facility”) are available for working capital and general corporate purposes. We pay a commitment fee on the 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 August 31, 2023, the unused capacity of \$2.00 billion was fully available to us. In June 2023, the credit facility was amended to extend the maturity date to June 2028 with no other material changes to the terms of the agreement.



**Term Loans.** Borrowings under our \$300 million and \$700 million term loans are available for working capital and general corporate purposes. The interest rate on our term loans was 6.30% as of August 31, 2023. The \$300 million term loan matures in June 2024 and was therefore classified as current. The \$700 million term loan was classified as long-term debt as no repayments are scheduled to be made within the next 12 months.

**Senior Notes.** The 3.86% senior notes matured during the first quarter of fiscal 2024. Borrowings under our unsecured senior notes totaling \$400 million are available for working capital and general corporate purposes. As of August 31, 2023, all 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 do 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 December 2030, but may mature earlier, depending upon the repayment rate of the underlying auto loans receivable.

Information on our funding vehicles of non-recourse notes payable as of August 31, 2023 are as follows:

<i>(In billions)</i>	<b>Capacity</b>
Warehouse facilities:	
September 2023 expiration	\$ 2.30
December 2023 expiration	0.50
February 2024 expiration	2.80
Combined warehouse facility limit	\$ 5.60
Unused capacity	\$ 1.18
Non-recourse notes payable outstanding:	
Warehouse facilities	\$ 4.42
Asset-backed term funding transactions	12.59
Non-recourse notes payable	\$ 17.01

We generally enter into warehouse facility agreements for one-year terms and typically renew the agreements annually. In September 2023, the \$2.30 billion facility was renewed with an expiration date of August 2024. 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 4 for additional information on the related auto loans receivable.

**Capitalized Interest.** We capitalize interest in connection with the construction of certain facilities. For the six months ended August 31, 2023 and 2022, we capitalized interest of \$2.9 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, as well as financial covenants and performance triggers related to events of default. As of August 31, 2023, we were in compliance with these financial covenants and our non-recourse funding vehicles were in compliance with these performance triggers.



## 10. Stock and Stock-Based Incentive Plans

### (A) Share Repurchase Program

As of August 31, 2023, a total of \$4.0 billion of board authorizations for repurchases of our common stock was outstanding, with no expiration date, of which \$2.45 billion remained available for repurchase. Share repurchases were paused during the third quarter of fiscal 2023.

#### Common Stock Repurchases

	Three Months Ended		Six Months Ended	
	August 31		August 31	
	2023	2022	2023	2022
Number of shares repurchased <i>(in thousands)</i>	—	1,729.6	—	3,373.9
Average cost per share	\$ —	\$ 94.24	\$ —	\$ 95.01
Available for repurchase, as of end of period <i>(in millions)</i>	\$ 2,451.3	\$ 2,453.9	\$ 2,451.3	\$ 2,453.9

### (B) Share-Based Compensation

#### Composition of Share-Based Compensation Expense

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	August 31		August 31	
	2023	2022	2023	2022
Cost of sales	\$ 1,195	\$ 901	\$ 2,585	\$ 1,141
CarMax Auto Finance income	1,198	(295)	1,647	413
Selling, general and administrative expenses	31,294	24,534	66,598	46,770
Share-based compensation expense, before income taxes	\$ 33,687	\$ 25,140	\$ 70,830	\$ 48,324

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

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	August 31		August 31	
	2023	2022	2023	2022
Nonqualified stock options	\$ 13,650	\$ 9,468	\$ 27,727	\$ 20,680
Cash-settled restricted stock units (RSUs)	12,804	9,505	27,915	10,354
Stock-settled market stock units (MSUs)	3,884	3,529	10,108	8,876
Other share-based incentives:				
Stock-settled performance stock units (PSUs)	797	250	1,538	4,941
Restricted stock (RSAs)	76	(35)	307	309
Stock-settled deferred stock units (DSUs)	1,850	1,850	1,850	1,850
Employee stock purchase plan	626	573	1,385	1,314
Total other share-based incentives	\$ 3,349	\$ 2,638	\$ 5,080	\$ 8,414
Share-based compensation expense, before income taxes	\$ 33,687	\$ 25,140	\$ 70,830	\$ 48,324

## (C) Stock Incentive Plan Information

### Share/Unit Activity

<i>(Shares/units in thousands)</i>	Six Months Ended August 31, 2023			
	Equity Classified			Liability Classified
	Options	MSUs	Other	RSUs
Outstanding as of February 28, 2023	6,776	404	130	1,004
Granted	1,516	181	76	914
Exercised or vested and converted	(464)	(184)	(10)	(479)
Cancelled	(119)	(12)	—	(64)
Outstanding as of August 31, 2023	7,709	389	196	1,375

Weighted average grant date fair value per share/unit:

Granted	\$	29.07	\$	99.84	\$	74.31	\$	70.68
Ending outstanding	\$	26.92	\$	123.89	\$	88.72	\$	81.46

	As of August 31, 2023					
Unrecognized compensation <i>(in millions)</i>	\$	65.6	\$	22.7	\$	2.3

## 11. 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		Six Months Ended	
	August 31		August 31	
	2023	2022	2023	2022
Net earnings	\$ 118,635	\$ 125,905	\$ 346,933	\$ 378,170
Weighted average common shares outstanding	158,479	158,801	158,298	159,556
Dilutive potential common shares:				
Stock options	581	1,125	373	1,151
Stock-settled stock units and awards	178	292	229	308
Weighted average common shares and dilutive potential common shares	159,238	160,218	158,900	161,015
Basic net earnings per share	\$ 0.75	\$ 0.79	\$ 2.19	\$ 2.37
Diluted net earnings per share	\$ 0.75	\$ 0.79	\$ 2.18	\$ 2.35

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 August 31, 2023 and 2022, options to purchase 3,508,300 shares and 2,098,895 shares of common stock, respectively, were not included. For the six months ended August 31, 2023 and 2022, options to purchase 5,518,543 shares and 1,767,906 shares of common stock, respectively, were not included.



## 12. Accumulated Other Comprehensive Income

### Changes in Accumulated Other Comprehensive Income By Component

	Net Unrecognized Actuarial Losses	Net Unrecognized Hedge Gains	Total Accumulated Other Comprehensive Income
<i>(In thousands, net of income taxes)</i>			
Balance as of February 28, 2023	\$ (44,590)	\$ 142,459	\$ 97,869
Other comprehensive loss before reclassifications	—	(669)	(669)
Amounts reclassified from accumulated other comprehensive income	196	(18,799)	(18,603)
Other comprehensive income (loss)	196	(19,468)	(19,272)
Balance as of August 31, 2023	<b>\$ (44,394)</b>	<b>\$ 122,991</b>	<b>\$ 78,597</b>

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

	Three Months Ended August 31		Six Months Ended August 31	
	2023	2022	2023	2022
<i>(In thousands)</i>				
<b>Retirement Benefit Plans:</b>				
Actuarial loss amortization reclassifications recognized in net pension expense:				
Cost of sales	\$ 58	\$ 273	\$ 116	\$ 538
CarMax Auto Finance income	3	16	7	32
Selling, general and administrative expenses	68	347	135	702
Total amortization reclassifications recognized in net pension expense	129	636	258	1,272
Tax expense	(31)	(155)	(62)	(310)
Amortization reclassifications recognized in net pension expense, net of tax	98	481	196	962
Net change in retirement benefit plan unrecognized actuarial losses, net of tax	98	481	196	962
<b>Cash Flow Hedges (Note 5):</b>				
Changes in fair value	35,002	40,168	(1,005)	110,210
Tax (expense) benefit	(8,535)	(10,315)	336	(28,302)
Changes in fair value, net of tax	26,467	29,853	(669)	81,908
Reclassifications to CarMax Auto Finance income	(12,295)	(5,687)	(24,859)	(5,986)
Tax benefit	2,997	1,460	6,060	1,537
Reclassification of hedge gains, net of tax	(9,298)	(4,227)	(18,799)	(4,449)
Net change in cash flow hedge unrecognized gains, net of tax	17,169	25,626	(19,468)	77,459
Total other comprehensive income (loss), net of tax	<b>\$ 17,267</b>	<b>\$ 26,107</b>	<b>\$ (19,272)</b>	<b>\$ 78,421</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 income. The cumulative balances are net of deferred taxes of \$26.2 million as of August 31, 2023 and \$32.6 million as of February 28, 2023.

## 13. 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 do not qualify for sale accounting and are accounted for as financing obligations. For more information on these financing obligations see Note 9.



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 restrictive 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 August 31		Six Months Ended August 31	
	2023	2022	2023	2022
Operating lease cost <sup>(1)</sup>	\$ 22,239	\$ 22,911	\$ 44,186	\$ 45,931
Finance lease cost:				
Depreciation of lease assets	4,907	4,017	9,442	7,523
Interest on lease liabilities	6,407	5,467	12,502	10,401
Total finance lease cost	11,314	9,484	21,944	17,924
Total lease cost	\$ 33,553	\$ 32,395	\$ 66,130	\$ 63,855

<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>	Classification	As of August 31	As of February 28
		2023	2023
<b>Assets:</b>			
Operating lease assets	Operating lease assets	\$ 540,718	\$ 545,677
Finance lease assets	Property and equipment, net <sup>(1)</sup>	178,962	145,372
Total lease assets		\$ 719,680	\$ 691,049
<b>Liabilities:</b>			
Current:			
Operating leases	Current portion of operating lease liabilities	\$ 55,441	\$ 53,287
Finance leases	Accrued expenses and other current liabilities	19,697	18,788
Long-term:			
Operating leases	Operating lease liabilities, excluding current portion	516,839	523,828
Finance leases	Other liabilities	200,425	165,135
Total lease liabilities		\$ 792,402	\$ 761,038

<sup>(1)</sup> Finance lease assets are recorded net of accumulated depreciation of \$56.2 million as of August 31, 2023 and \$46.7 million as of February 28, 2023.

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

<b>Lease Term and Discount Rate</b>	<b>As of August 31 2023</b>	<b>As of February 28 2023</b>
Weighted Average Remaining Lease Term <i>(in years)</i>		
Operating leases	16.06	16.35
Finance leases	11.80	10.84
Weighted Average Discount Rate		
Operating leases	4.98 %	4.91 %
Finance leases	17.31 %	19.34 %

Supplemental cash flow information related to leases was as follows:

<i>(In thousands)</i>	<b>Six Months Ended August 31</b>	
	<b>2023</b>	<b>2022</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 44,182	\$ 44,725
Operating cash flows from finance leases	\$ 12,076	\$ 4,508
Financing cash flows from finance leases	\$ 7,810	\$ 9,883
Lease assets obtained in exchange for lease obligations:		
Operating leases	\$ 22,277	\$ 16,837
Finance leases	\$ 43,684	\$ 22,572

Maturities of lease liabilities were as follows:

<i>(In thousands)</i>	<b>As of August 31, 2023</b>	
	<b>Operating Leases <sup>(1)</sup></b>	<b>Finance Leases <sup>(1)</sup></b>
Fiscal 2024, remaining	\$ 40,818	\$ 21,263
Fiscal 2025	82,069	44,630
Fiscal 2026	76,698	46,234
Fiscal 2027	70,330	42,405
Fiscal 2028	66,162	35,522
Thereafter	552,032	254,680
Total lease payments	888,109	444,734
Less: interest	(315,829)	(224,612)
Present value of lease liabilities	\$ 572,280	\$ 220,122

<sup>(1)</sup> Lease payments exclude \$3.1 million of legally binding minimum lease payments for leases signed but not yet commenced.

#### **14. Supplemental Cash Flow Information**

Supplemental disclosures of cash flow information:

<i>(In thousands)</i>	<b>Six Months Ended August 31</b>	
	<b>2023</b>	<b>2022</b>
Non-cash investing and financing activities:		
Decrease in accrued capital expenditures	\$ (18,607)	\$ (352)
Increase in financing obligations	\$ 4,527	\$ —

See Note 13 for supplemental cash flow information related to leases.



## 15. Contingent Liabilities

**Litigation.** CarMax entities are defendants in a proceeding 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 Private Attorneys General Act (“PAGA”) claims. 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. Bendure subsequently decided not to proceed with an individual or putative class claim, but rather filed and served a PAGA-only complaint in the Superior Court of California for the County of San Bernardino on December 7, 2021, based on the same allegations pled in the original complaint. CarMax filed a motion to compel arbitration.

On June 15, 2022, the United States Supreme Court issued its decision in *Viking River Cruises v. Moriana*, holding that an individual who signs an arbitration agreement cannot circumvent that agreement by filing a related PAGA claim in court. The U.S. Supreme Court further held that, based on California law, an individual who pursues his PAGA claim in arbitration does not have standing to pursue a representative PAGA claim. However, the U.S. Supreme Court indicated that the issue of whether an individual has standing to pursue a representative PAGA claim is a question of state law. The California Supreme Court thereafter heard a new case, *Adolph v. Uber*, to address this issue of state law.

In light of the *Viking River* decision, CarMax filed a motion to compel arbitration of the individual Bendure claim and to dismiss Bendure’s representative PAGA claims. On November 29, 2022, the Court granted the motion to compel arbitration of the Bendure individual PAGA claims and stayed the motion to dismiss any representative PAGA claims pending the *Adolph v. Uber* decision.

The California Supreme Court has issued its decision in *Adolph v. Uber*. The Court held that that an employee who signs an arbitration agreement may still pursue a representative PAGA action in court in certain circumstances. The Court held that an employee can be compelled to pursue his individual PAGA action in arbitration while his representative PAGA claims are stayed. If the employee is successful in his individual PAGA action in arbitration, then he can pursue a representative PAGA action in court. If, however, the employee is unsuccessful in arbitration, then he loses standing and cannot pursue a representative PAGA action in court. In light of this decision, CarMax expects Bendure to pursue his individual PAGA action in arbitration.

We are unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome in this matter.

The company is 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, Ford and Volkswagen related to the economic loss associated with defective Takata airbags installed as original equipment in certain model vehicles from model years 2000-2019. In April 2020, CarMax received \$40.3 million in net recoveries from the Toyota, Mazda, Subaru, BMW, Honda and Nissan settlement funds. In January 2022, CarMax received \$3.8 million in net recoveries from the Ford settlement funds. On April 21, 2023, CarMax received \$59.3 million in net recoveries from residual undisbursed funds in the Toyota, Mazda, Subaru, BMW, Honda and Nissan settlements. On August 9, 2023, CarMax received \$7.9 million in additional residual funds in the BMW, Mazda, and Nissan settlements. CarMax remains a class member for residual funds in the Ford settlement. The Volkswagen settlement has not been resolved yet. 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 residual or Volkswagen matters.

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 \$30.5 million as of August 31, 2023, and \$27.1 million as of February 28, 2023, and is included in accrued expenses and other current liabilities.

## 16. 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 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 2. 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 3. 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

<i>(In thousands)</i>	<b>Three Months Ended August 31, 2023</b>			
	<b>CarMax Sales Operations</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Sales and operating revenues	\$ 7,040,330	\$ 33,506	\$ —	\$ 7,073,836
Intersegment sales and operating revenues	—	8,468	(8,468)	—
Total sales and operating revenues	\$ 7,040,330	\$ 41,974	\$ (8,468)	\$ 7,073,836
Depreciation and amortization <sup>(1)</sup>	\$ 427	\$ 4,746	\$ —	\$ 5,173
Gross profit	\$ 672,505	\$ 25,386	\$ (1,126)	\$ 696,765
<b>Reconciliation to Consolidated Earnings Before Taxes:</b>				
CAF Income				134,987
Selling, general and administrative expenses				(585,694)
Depreciation and amortization <sup>(2)</sup>				(58,817)
Interest expense				(31,585)
Other income (expense)				2,630
Earnings before income taxes			\$	\$ 158,286

**Three Months Ended August 31, 2022**

<i>(In thousands)</i>	<b>CarMax Sales Operations</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Sales and operating revenues	\$ 8,110,524	\$ 34,279	\$ —	\$ 8,144,803
Intersegment sales and operating revenues	—	6,929	(6,929)	—
Total sales and operating revenues	\$ 8,110,524	\$ 41,208	\$ (6,929)	\$ 8,144,803
Depreciation and amortization <sup>(1)</sup>	\$ 376	\$ 3,389	\$ —	\$ 3,765
Gross profit	\$ 712,284	\$ 26,362	\$ (1,501)	\$ 737,145
<b>Reconciliation to Consolidated Earnings Before Taxes:</b>				
CAF Income				182,869
Selling, general and administrative expenses				(666,041)
Depreciation and amortization <sup>(2)</sup>				(57,692)
Interest expense				(32,745)
Other income (expense)				4,039
Earnings before income taxes			\$	\$ 167,575

**Six Months Ended August 31, 2023**

<i>(In thousands)</i>	<b>CarMax Sales Operations</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Sales and operating revenues	\$ 14,696,019	\$ 64,880	\$ —	\$ 14,760,899
Intersegment sales and operating revenues	—	18,064	(18,064)	—
Total sales and operating revenues	\$ 14,696,019	\$ 82,944	\$ (18,064)	\$ 14,760,899
Depreciation and amortization <sup>(1)</sup>	\$ 846	\$ 9,138	\$ —	\$ 9,984
Gross profit	\$ 1,466,896	\$ 49,559	\$ (2,300)	\$ 1,514,155
<b>Reconciliation to Consolidated Earnings Before Taxes:</b>				
CAF Income				272,345
Selling, general and administrative expenses				(1,145,531)
Depreciation and amortization <sup>(2)</sup>				(117,236)
Interest expense				(62,051)
Other income (expense)				3,844
Earnings before income taxes			\$	\$ 465,526

**Six Months Ended August 31, 2022**

<i>(In thousands)</i>	<b>CarMax Sales Operations</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Sales and operating revenues	\$ 17,387,760	\$ 68,664	\$ —	\$ 17,456,424
Intersegment sales and operating revenues	—	14,670	(14,670)	—
Total sales and operating revenues	\$ 17,387,760	\$ 83,334	\$ (14,670)	\$ 17,456,424
Depreciation and amortization <sup>(1)</sup>	\$ 688	\$ 6,463	\$ —	\$ 7,151
Gross profit	\$ 1,561,573	\$ 54,090	\$ (3,127)	\$ 1,612,536
<b>Reconciliation to Consolidated Earnings Before Taxes:</b>				
CAF Income				387,342
Selling, general and administrative expenses				(1,322,781)
Depreciation and amortization <sup>(2)</sup>				(113,340)
Interest expense				(61,520)
Other income (expense)				1,940
Earnings before income taxes			\$	\$ 504,177

<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, 2023 ("fiscal 2023"), as well as our unaudited interim consolidated financial statements and the accompanying notes included in Item 1 of this Form 10-Q. Note references are to the notes to unaudited interim 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 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 an integrated combination of both.

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 August 31, 2023, we operated 241 used car stores in 109 U.S. television markets.

#### **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 42.8% of our retail used vehicle unit sales in the first six months of fiscal 2024. As of August 31, 2023, CAF serviced approximately 1.1 million customer accounts in its \$17.44 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 six months of fiscal 2024 are as follows:

### Net Sales and Operating Revenues

### Gross Profit

 3807	 3808
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A high-level summary of our financial results for the second quarter and first six months of fiscal 2024 as compared to the second quarter and first six months of fiscal 2023 is as follows <sup>(1)</sup>:

	Three Months Ended August 31, 2023	Change from Three Months Ended August 31, 2022	Six Months Ended August 31, 2023	Change from Six Months Ended August 31, 2022
<i>(Dollars in millions except per share or per unit data)</i>				
<b>Income statement information</b>				
Net sales and operating revenues	\$ 7,073.8	(13.1)%	\$ 14,760.9	(15.4)%
Gross profit	\$ 696.8	(5.5)%	\$ 1,514.2	(6.1)%
CAF income	\$ 135.0	(26.2)%	\$ 272.3	(29.7)%
Selling, general and administrative expenses	\$ 585.7	(12.1)%	\$ 1,145.5	(13.4)%
Net earnings	\$ 118.6	(5.8)%	\$ 346.9	(8.3)%
<b>Unit sales information</b>				
Used unit sales	200,825	(7.4)%	418,749	(8.5)%
Change in used unit sales in comparable stores	(9.0)%	N/A	(10.3)%	N/A
Wholesale unit sales	141,837	(11.2)%	302,885	(12.5)%
<b>Per unit information</b>				
Used gross profit per unit	\$ 2,251	(1.4)%	\$ 2,309	(0.1)%
Wholesale gross profit per unit	\$ 963	9.3 %	\$ 1,005	4.6 %
SG&A as a % of gross profit	84.1 %	(6.3)%	75.7 %	(6.3)%
<b>Per share information</b>				
Net earnings per diluted share	\$ 0.75	(5.1)%	\$ 2.18	(7.2)%
<b>Online sales metrics</b>				
Online retail sales <sup>(2)</sup>	14 %	3 %	14 %	3 %
Omni sales <sup>(3)</sup>	55 %	2 %	55 %	1 %
Revenue from online transactions <sup>(4)</sup>	31 %	1 %	31 %	1 %

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

<sup>(2)</sup> 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.



<sup>(3)</sup> An omni sale is defined as a sale where customers complete at least one, but not all, of the four activities listed above online.

<sup>(4)</sup> Revenue from online transactions is 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.

Net earnings per diluted share during the first six months of fiscal 2024 included a benefit of \$0.32 in connection with the receipt of settlement proceeds in a class action lawsuit related to the economic loss associated with vehicles containing Takata airbags. Refer to “Results of Operations” for further details on our revenues and profitability.

### **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 has been used to fund the repurchase of common stock under our share repurchase program and our store growth.

Our current capital allocation strategy is to focus on our core business. Given our recent performance and continued market uncertainties, we are taking a conservative approach to our capital structure in order to maintain the flexibility that allows us to efficiently access the capital markets for both CAF and CarMax as a whole. We have taken steps to better align our expenses to sales as well as slowed the rate of our store growth. While we paused our share repurchases during the third quarter of fiscal 2023, we intend to resume repurchases during the third quarter of the current fiscal year. We expect a modest initial pace, or approximately \$50 million per quarter, that would be below the average quarterly pace of approximately \$150 million prior to our pause and, when annualized, would roughly offset annual dilution. 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**

Our omni-channel experience provides 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, whether online, in-store or through an integrated combination of online and in-store experiences. While we expect our online and omni sales to grow over time, our goal is to provide the best experience whether in-store, online or a combination of the two. As a result, online, omni and in-person sales can vary from quarter to quarter depending on consumer preferences and how they choose to interact with us. Our diversified business model, combined with our exceptional associates, national scale and unparalleled omni-channel experience, is a unique advantage in the used car industry that firmly positions us to drive profitable market share gains while creating shareholder value over the long-term.

Our investments in the near term will focus on initiatives that drive operational efficiencies and create better experiences for our associates and customers. Examples of these initiatives include:

- Launching a new order processing system in our CECs that automatically connects sales orders to customers’ online accounts and to our Progression Tracker, guiding customers through each step of the buying journey and providing a more seamless experience.
- Expanding our capabilities for Skye, our 24/7 virtual assistant. Skye enables us to efficiently assist customers via chat functionality while taking work out of our CEC system. In addition to supporting workflows related to finance applications, vehicle transfers and appointment reservations, Skye is now able to identify customers who have an appraisal Instant Offer and help them complete the next steps for their trade-in.
- Leveraging data automation in our stores to deploy an integrated payoff service, which allows associates to obtain automated payoff amounts for over 40% of the lenders holding titles for the cars we buy from consumers.
- Enhancing our auction platform by upgrading the information we provide to dealers, enabling them to submit more informed bids. We have launched a test through our partnership with UVeye that uses technology to provide more detailed information on tire conditions, including brand, speed, size and tread depth of each tire.

We purchased approximately 292,000 vehicles from consumers and dealers during the second quarter of fiscal 2024, down 14.9% from the prior year quarter. Approximately 19,000 of these vehicles were purchased through dealers, down 5.3% from the prior year quarter. We leverage the Edmunds sales team to open new markets and sign up new dealers for MaxOffer. We recently launched an appraisal tool for dealer websites that makes Instant Offers based on our algorithms, which are redeemable via MaxOffer. For the second quarter of fiscal 2024, our self-sufficiency rate remained above 70%. The success of our online instant appraisal offer continues to strengthen our leadership position as the largest used vehicle buyer from consumers.

We remain focused on ensuring we are efficient in our spend and are actively taking steps to further align our expenses to our sales levels. This includes aligning staffing levels and driving efficiency gains in our stores and CECs, limiting hiring and



contractor utilization in our corporate offices and continuing to align marketing spend to sales. While our total and per unit advertising expense for the first half of the current fiscal year decreased from the prior year period, we anticipate maintaining per unit spend on an annual basis at a similar level during fiscal 2024 compared to fiscal 2023.

Our SG&A expenses in the first six months of fiscal 2024 decreased from the prior year period. While SG&A as a percent of gross profit can fluctuate from quarter to quarter depending on variability in gross profit, our initial goal on the path to strengthening our SG&A to gross profit leverage over time is to achieve a rate in the mid-70% range on an annual basis. Achieving this annual rate will require continued efficiency gains in our operating model, gross profit growth and healthier consumer demand. In fiscal 2024, we expect to require low single digit gross profit growth to lever SG&A for the full year, which is well below the levels we targeted during the heavy investment period of our omni transformation.

Other steps we have taken to support our business for both the short- and long-term include focusing on production efficiencies to align saleable inventory to sales, raising CAF's consumer rates while growing CAF's penetration and slowing our planned store growth to provide more capital flexibility. While we previously paused our share repurchases, we intend to resume repurchases during the third quarter of the current fiscal year, as previously mentioned.

We expect our diversified model, the scale of our operations, our investments and omni-channel strategy to provide a solid foundation for further growth. Our long-term targets, which were disclosed in our Annual Report on Form 10-K for fiscal 2022, are as follows:

- Sell between 2 million and 2.4 million vehicles through our combined retail and wholesale channels by fiscal 2026.
- Generate between \$33 billion and \$45 billion in revenue by fiscal 2026.
- Grow our nationwide share of the age 0- to 10-year old used vehicle market to more than 5% by the end of calendar 2025.

The achievement of these targets is dependent on macroeconomic factors that could result in ongoing volatility in consumer demand.

In calendar 2022, we estimate we sold approximately 4.0% of the age 0- to 10-year old vehicles sold on a nationwide basis, consistent with calendar 2021. We estimate we sold approximately 4.8% of the age 0- to 10-year old vehicles sold in the current comparable store markets in which we operate in calendar 2022, consistent with calendar 2021. External title data shows that our market share for the first half of calendar 2023 improved compared to our market share for the second half of calendar 2022. Our strategy to continue to increase our market share 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.
- Utilizing advertising to drive customer growth, educate customers about our omni-channel platform and to differentiate and elevate our brand.
- Hiring, developing and retaining an engaged and skilled workforce.
- Leveraging data and advanced analytics to continuously improve the customer experience as well as our processes and systems.
- Improving efficiency in our stores and CECs and our logistics operations to reduce waste.
- Opening stores in new markets and expanding our presence in existing markets.
- Becoming the leading retailer of used electric vehicles (“EV”) in the market. In support of this goal, Edmunds' has launched several research and buying tools, which include providing data on the health and range of EV batteries as well as an evaluation of potential federal and state tax credits and incentives. This will support our business and help CarMax be part of the solution to reduce emissions.

As of August 31, 2023, we had used car stores located in 109 U.S. television markets, which covered approximately 85% 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 six months of fiscal 2024, we opened one store, and during the remainder of the fiscal year we plan to open an additional four stores and our first offsite production location in the Atlanta metro market.

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, 2023.



## CRITICAL ACCOUNTING ESTIMATES

For information on critical accounting policies, see "Critical Accounting Estimates" in the MD&A included in Item 7 of the Annual Report on Form 10-K for the fiscal year ended February 28, 2023.

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

### NET SALES AND OPERATING REVENUES

<i>(In millions)</i>	Three Months Ended August 31			Six Months Ended August 31		
	2023	2022	Change	2023	2022	Change
Used vehicle sales	\$ 5,591.1	\$ 6,284.1	(11.0)%	\$ 11,592.6	\$ 13,298.6	(12.8)%
Wholesale vehicle sales	1,322.0	1,690.3	(21.8)%	2,836.3	3,806.8	(25.5)%
Other sales and revenues:						
Extended protection plan revenues	101.7	109.8	(7.3)%	212.9	226.3	(5.9)%
Third-party finance (fees)/income, net	(1.5)	2.7	(154.4)%	(1.2)	6.1	(118.9)%
Advertising & subscription revenues <sup>(1)</sup>	33.5	34.3	(2.3)%	64.9	68.7	(5.5)%
Other	27.0	23.6	14.2 %	55.3	49.9	10.7 %
Total other sales and revenues	160.7	170.4	(5.7)%	331.9	351.0	(5.4)%
Total net sales and operating revenues	\$ 7,073.8	\$ 8,144.8	(13.1)%	\$ 14,760.9	\$ 17,456.4	(15.4)%

<sup>(1)</sup> Excludes intersegment sales and operating revenues that have been eliminated in consolidation. See Note 16 for further details.

### UNIT SALES

	Three Months Ended August 31			Six Months Ended August 31		
	2023	2022	Change	2023	2022	Change
Used vehicles	200,825	216,939	(7.4)%	418,749	457,889	(8.5)%
Wholesale vehicles	141,837	159,677	(11.2)%	302,885	345,984	(12.5)%

### AVERAGE SELLING PRICES

	Three Months Ended August 31			Six Months Ended August 31		
	2023	2022	Change	2023	2022	Change
Used vehicles	\$ 27,500	\$ 28,657	(4.0)%	\$ 27,374	\$ 28,755	(4.8)%
Wholesale vehicles	\$ 8,923	\$ 10,179	(12.3)%	\$ 8,977	\$ 10,619	(15.5)%

### COMPARABLE STORE USED VEHICLE SALES CHANGES

	Three Months Ended August 31 <sup>(1)</sup>		Six Months Ended August 31 <sup>(1)</sup>	
	2023	2022	2023	2022
Used vehicle units	(9.0)%	(8.3)%	(10.3)%	(10.6)%
Used vehicle revenues	(12.5)%	0.4 %	(14.4)%	6.0 %

<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 August 31		Six Months Ended August 31	
	2023	2022	2023	2022
Used vehicle units	(7.4)%	(6.4)%	(8.5)%	(8.9)%
Used vehicle revenues	(11.0)%	2.9 %	(12.8)%	8.5 %
Wholesale vehicle units	(11.2)%	(15.1)%	(12.5)%	(6.4)%
Wholesale vehicle revenues	(21.8)%	(0.7)%	(25.5)%	23.8 %

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

	Three Months Ended August 31 <sup>(1)</sup>		Six Months Ended August 31 <sup>(1)</sup>	
	2023	2022	2023	2022
CAF <sup>(2)</sup>	46.4 %	44.8 %	45.9 %	44.0 %
Tier 2 <sup>(3)</sup>	18.1 %	21.6 %	19.3 %	23.5 %
Tier 3 <sup>(4)</sup>	6.4 %	6.0 %	6.6 %	6.6 %
Other <sup>(5)</sup>	29.1 %	27.6 %	28.2 %	25.9 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

<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 2 and Tier 3 loan originations, which represent less than 2% 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 August 31		Six Months Ended August 31	
	2023	2022	2023	2022
Used car stores, beginning of period	241	231	240	230
Store openings	—	3	1	4
Used car stores, end of period	241	234	241	234

During the first six months of fiscal 2024, we opened one store in an existing television market (Winchester, VA).

**Used Vehicle Sales.** The 11.0% decrease in used vehicle revenues in the second quarter of fiscal 2024 was primarily driven by a 7.4% decrease in used unit sales and a 4.0% decrease in average retail selling price, or approximately \$1,200. The decrease in used units included a 9.0% decrease in comparable store used unit sales. For the first six months of fiscal 2024, used vehicle revenues decreased 12.8%, driven by an 8.5% decrease in used unit sales and a 4.8% decrease in average selling price, or approximately \$1,400. The decrease in used units included a 10.3% decrease in comparable store used unit sales. Online retail sales, as defined previously, accounted for 14% of used unit sales for both the second quarter and first six months of fiscal 2024, compared with 11% for both the second quarter and first six months of fiscal 2023.

During the second quarter of fiscal 2024, we believe persistent vehicle affordability challenges continued to impact our unit sales performance, as headwinds remained due to widespread inflationary pressures, higher interest rates, tightened lending standards and prolonged low consumer confidence. While comparable store used unit sales declined 9.0% compared to the prior year quarter, it was an improvement from the 22.4% and 14.1% year-over-year declines during the prior fiscal year's third and fourth quarters, respectively, as well as the 11.4% decline during the current fiscal year's first quarter. During the second quarter of fiscal 2024, comparable store used unit sales improved sequentially by month and September-to-date comparable used unit sales were similar to August.

The decrease in average retail selling price in both the second quarter and first six months of fiscal 2024 reflected lower vehicle acquisition costs as well as shifts in the mix of our sales by vehicle age.



**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.

The 21.8% decrease in wholesale vehicle revenues in the second quarter of fiscal 2024 was primarily due to a decrease in average selling price of 12.3%, or approximately \$1,300, and an 11.2% decrease in unit sales. For the first six months of fiscal 2024, wholesale vehicle revenues decreased 25.5%, driven by a decrease in average selling price of 15.5%, or approximately \$1,600, and a 12.5% decrease in unit sales.

The decrease in average selling price during the second quarter and first six months of fiscal 2024 was primarily due to shifts in the mix of our sales by vehicle age as well as decreased acquisition costs resulting from steep market depreciation.

While wholesale vehicle unit sales declined 11.2% compared to the prior year quarter, it was an improvement from the 36.7% and 19.3% year-over-year declines during the prior fiscal year's third and fourth quarters, respectively, as well as the 13.6% decline during the current fiscal year's first quarter.

**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)/income, advertising and subscription revenues earned by our Edmunds business, and other revenues, which are predominantly comprised of service department 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 decreased 5.7% in the second quarter of fiscal 2024, primarily reflecting a 7.3% decline in EPP revenue resulting from the decline in our retail unit sales.

Other sales and revenues decreased 5.4% in the first six months of fiscal 2024, reflecting a decline in EPP revenue and a decrease in net third-party finance (fees)/income. EPP revenues decreased 5.9%, largely reflecting the decline in our retail unit sales, partially offset by a favorable year-over-year return reserve adjustment. Net third-party finance (fees)/income declined as a result of lower Tier 2 volume, for which we generally receive a fee.

**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.

## GROSS PROFIT

<i>(In millions)</i>	Three Months Ended August 31 <sup>(1)</sup>			Six Months Ended August 31 <sup>(1)</sup>		
	2023	2022	Change	2023	2022	Change
Used vehicle gross profit	\$ 452.1	\$ 495.0	(8.7)%	\$ 966.7	\$ 1,058.5	(8.7)%
Wholesale vehicle gross profit	136.6	140.7	(2.9)%	304.4	332.3	(8.4)%
Other gross profit	108.1	101.4	6.4 %	243.1	221.7	9.6 %
<b>Total</b>	<b>\$ 696.8</b>	<b>\$ 737.1</b>	<b>(5.5)%</b>	<b>\$ 1,514.2</b>	<b>\$ 1,612.5</b>	<b>(6.1)%</b>

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

## GROSS PROFIT PER UNIT

	Three Months Ended August 31 <sup>(1)</sup>				Six Months Ended August 31 <sup>(1)</sup>			
	2023		2022		2023		2022	
	\$ 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	\$ 2,251	8.1	\$ 2,282	7.9	\$ 2,309	8.3	\$ 2,312	8.0
Wholesale vehicle gross profit	\$ 963	10.3	\$ 881	8.3	\$ 1,005	10.7	\$ 961	8.7
Other gross profit	\$ 538	67.2	\$ 468	59.6	\$ 580	73.2	\$ 484	63.2

<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 category, which is 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 and dealers 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. In any given period, our gross profit may also be impacted by the age mix of vehicles sold, as older vehicles are generally more profitable. 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 decreased 8.7% in the second quarter of fiscal 2024, driven primarily by the 7.4% decrease in total used unit sales. Used vehicle gross profit decreased 8.7% in the first six months of fiscal 2024, driven by the 8.5% decrease in total used unit sales. Used vehicle gross profit per unit for both the second quarter and first six months of fiscal 2024 was relatively consistent with the comparable prior year periods. We continue to focus on striking the right balance between covering cost increases, maintaining margin and passing along efficiencies to consumers to support vehicle affordability.

**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 decreased 2.9% in the second quarter of fiscal 2024, primarily driven by an 11.2% decrease in wholesale unit sales, partially offset by an \$82 increase in wholesale vehicle gross profit per unit, despite steep market depreciation during the quarter. Wholesale vehicle gross profit decreased 8.4% in the first six months of fiscal 2024, primarily driven by a 12.5% decrease in wholesale unit sales, partially offset by a \$44 increase in wholesale vehicle gross profit per unit. Wholesale gross profit for the second quarter of fiscal 2023 was impacted by our decision to source a higher mix of older vehicles for retail sale. When those vehicles cannot be reconditioned to our standards for consumer sales, we shift them to wholesale, which often sell at lower margins. Since then, we have been able to more efficiently incorporate older vehicles.

**Other Gross Profit.** Other gross profit includes profits related to EPP revenues, net third-party finance (fees)/income, 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. We have no cost of sales related to EPP revenues or net third-party finance (fees)/income, as these represent revenues paid to us by certain third-party providers. Third-party finance income is 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 6.4% in the second quarter of fiscal 2024, primarily driven by a \$19.6 million improvement in service department margins, partially offset by a decrease in EPP revenues. Other gross profit increased 9.6% in the first six months of fiscal 2024, primarily driven by a \$45.9 million increase in service department margins, partially offset by a decrease in EPP revenues and a decline in net third-party finance (fees)/income, as discussed above, as well as a decrease in advertising and subscription margins. The increase in service department profits for both the second quarter and first six months of fiscal 2024 was driven by efficiency and cost coverage measures that we have put in place. We expect year-over-year improvements in service in fiscal 2024 as compared to the full year of fiscal 2023.

## SG&A Expenses

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

**Three Months Ended August 31, 2023    Six Months Ended August 31, 2023**

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

<i>(In millions except per unit data)</i>	<b>Three Months Ended August 31</b>			<b>Six Months Ended August 31</b>		
	<b>2023</b>	<b>2022</b>	<b>Change</b>	<b>2023</b>	<b>2022</b>	<b>Change</b>
Compensation and benefits:						
Compensation and benefits, excluding share-based compensation expense	\$ 305.7	\$ 333.8	(8.4)%	\$ 636.4	\$ 679.0	(6.3)%
Share-based compensation expense	31.3	24.5	27.5 %	66.6	46.8	42.4 %
Total compensation and benefits <sup>(2)</sup>	\$ 337.0	\$ 358.3	(5.9)%	\$ 703.0	\$ 725.8	(3.1)%
Occupancy costs	67.8	68.8	(1.6)%	133.9	134.7	(0.6)%
Advertising expense	66.3	82.9	(20.0)%	138.2	171.8	(19.5)%
Other overhead costs <sup>(3)</sup>	114.6	156.0	(26.6)%	170.4	290.5	(41.4)%
Total SG&A expenses	\$ 585.7	\$ 666.0	(12.1)%	\$ 1,145.5	\$ 1,322.8	(13.4)%
SG&A as a % of gross profit	84.1 %	90.4 %	(6.3)%	75.7 %	82.0 %	(6.3)%

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

<sup>(2)</sup> Excludes compensation and benefits related to reconditioning and vehicle repair service, which are included in cost of sales. See Note 10 for details of share-based compensation expense by grant type.

<sup>(3)</sup> Includes IT expenses, non-CAF bad debt, preopening and relocation costs, insurance, charitable contributions, travel and other administrative expenses.

SG&A expenses decreased 12.1% in the second quarter of fiscal 2024. Factors contributing to the net decrease include the following:

- \$41.4 million decrease in other overhead costs driven by improvements in non-CAF uncollectible receivables that reflect improved execution at our stores and home office as well as at DMV locations, favorability in staffing-related costs and a reduction in technology and strategic initiative spend, including a shift in timing.

- \$28.1 million decrease in compensation and benefits, excluding share-based compensation expense, driven by our continued focus in our stores and CECs on driving efficiency gains and aligning staffing levels to sales.

- \$16.6 million decrease in advertising expense driven by our deliberate efforts to reduce marketing spend to align with sales as well as a shift in the timing of our spend.

For the second quarter of fiscal 2024, other overhead costs also included additional settlement proceeds from the class action lawsuit related to Takata airbags discussed in the first quarter, which were offset by unfavorable self-insured losses related to multiple hailstorm events.

SG&A expenses decreased 13.4% in the first six months of fiscal 2024. Factors contributing to the net decrease include the following:

- \$120.1 million decrease in other overhead costs, which included a \$67.2 million benefit in connection with the receipt of settlement proceeds in a class action lawsuit related to the economic loss associated with vehicles containing Takata airbags. Other overhead costs were also positively impacted by improvements in non-CAF uncollectible receivables that reflect improved execution at our stores and home office as well as at DMV locations, favorability in staffing-related costs and a reduction in technology and strategic initiative spend, including a shift in timing.
- \$42.6 million decrease in compensation and benefits, excluding share-based compensation expense, driven by our continued focus in our stores and CECs on driving efficiency gains and aligning staffing levels to sales.
- \$33.6 million decrease in advertising expense driven by our deliberate efforts to reduce marketing spend to align with sales as well as a shift in the timing of our spend.
- \$19.8 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.

As noted previously, as we enter the second half of fiscal 2024, we have largely anniversaried over the year-over-year benefits from our cost management efforts. We also expect the timing shifts in advertising and technology spend to impact the second half of fiscal 2024. We expect our full year advertising spend on a per unit basis to be similar to fiscal 2023. As a result, our advertising spend in the second half of fiscal 2024 will exceed the per unit spend during the first six months of fiscal 2024. We also expect that approximately \$10 million of the year-to-date favorability experienced in other overhead related to technology will be offset in the second half of fiscal 2024.

**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 \$31.6 million and \$62.1 million in the second quarter and first six months of fiscal 2024, respectively, was relatively consistent with \$32.7 million and \$61.5 million in the second quarter and first six months of fiscal 2023, respectively.

**Other Income.** Other income of \$2.6 million and \$3.8 million in the second quarter and first six months of fiscal 2024, respectively, was relatively consistent with \$4.0 million and \$1.9 million in the second quarter and first six months of fiscal 2023, respectively.

**Income Taxes.** The effective income tax rate was 25.1% in the second quarter of fiscal 2024 and 25.5% in the first six months of fiscal 2024 versus 24.9% in the second quarter of fiscal 2023 and 25.0% in the first six months of fiscal 2023.

## **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 as well as changes in the mix of credit quality originated.

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 in our core portfolio, which excludes Tier 2 and Tier 3 originations, with an underlying risk profile that we believe will, in the aggregate, result in cumulative net losses in the 2% to 2.5% range (excluding CECL-required recovery costs) 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 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 also originates a small portion of auto loans to customers who typically would be financed by our Tier 2 and Tier 3 finance providers, in order to better understand the performance of these loans, mitigate risk and add incremental profits. Historically, CAF has targeted originating approximately 5% of the total Tier 3 loan volume, which we increased to 10% during fiscal 2022 and throughout most of fiscal 2023. In response to the current environment, CAF adjusted its underwriting standards, including, towards the end of the fourth quarter of fiscal 2023, reducing its targeted percentage of Tier 3 volume from 10% to 5%. During the second quarter of fiscal 2024, CAF further adjusted its targeted percentage of Tier 3 volume to less than 5%. Within the Tier 2 space, CAF continues to originate loans on a test basis and we slightly increased our investment in this space during the second quarter of fiscal 2024. Any future adjustments in Tier 2 and Tier 3 will consider the broader lending environment along with the long-term sustainability of the change. These loans have higher loss and delinquency rates than the remainder of the CAF portfolio, as well as higher contract rates.

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

#### SELECTED CAF FINANCIAL INFORMATION

<i>(In millions)</i>	Three Months Ended August 31				Six Months Ended August 31			
	2023	% <sup>(1)</sup>	2022	% <sup>(1)</sup>	2023	% <sup>(1)</sup>	2022	% <sup>(1)</sup>
Interest margin:								
Interest and fee income	\$ 416.9	9.6	\$ 357.2	8.8	\$ 817.4	9.5	\$ 703.9	8.8
Interest expense	(152.0)	(3.5)	(62.5)	(1.5)	(294.6)	(3.4)	(111.3)	(1.4)
Total interest margin	\$ 264.9	6.1	\$ 294.7	7.3	\$ 522.8	6.1	\$ 592.6	7.4
Provision for loan losses	\$ (89.8)	(2.1)	\$ (75.5)	(1.9)	\$ (170.7)	(2.0)	\$ (133.3)	(1.7)
CarMax Auto Finance income	\$ 135.0	3.1	\$ 182.9	4.5	\$ 272.3	3.2	\$ 387.3	4.8

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

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

	Three Months Ended August 31		Six Months Ended August 31	
	2023	2022	2023	2022
Net loans originated <i>(in millions)</i>	\$ 2,197.2	\$ 2,334.0	\$ 4,537.6	\$ 4,780.8
Vehicle units financed	86,010	89,443	179,060	184,106
Net penetration rate <sup>(1)</sup>	42.8 %	41.2 %	42.8 %	40.2 %
Weighted average contract rate	11.1 %	9.4 %	11.1 %	9.2 %
Weighted average credit score <sup>(2)</sup>	721	709	718	706
Weighted average loan-to-value (LTV) <sup>(3)</sup>	88.8 %	88.1 %	88.4 %	87.8 %
Weighted average term <i>(in months)</i>	65.0	66.3	65.2	66.3

<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 4. 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 August 31		As of and for the Six Months Ended August 31	
	2023	2022	2023	2022
Total ending managed receivables	\$ 17,442.8	\$ 16,349.3	\$ 17,442.8	\$ 16,349.3
Total average managed receivables	\$ 17,315.6	\$ 16,176.2	\$ 17,159.5	\$ 15,996.6
Allowance for loan losses	\$ 538.0	\$ 477.5	\$ 538.0	\$ 477.5
Allowance for loan losses as a percentage of ending managed receivables	3.08 %	2.92 %	3.08 %	2.92 %
Net credit losses on managed receivables	\$ 87.2	\$ 56.2	\$ 139.9	\$ 88.8
Annualized net credit losses as a percentage of total average managed receivables	2.01 %	1.39 %	1.63 %	1.11 %
Past due accounts as a percentage of ending managed receivables	5.45 %	4.64 %	5.45 %	4.64 %
Average recovery rate <sup>(1)</sup>	53.9 %	67.3 %	56.6 %	69.1 %

<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 71%, and it is primarily affected by the wholesale market environment.

- CAF Income (Decrease of \$47.9 million, or 26.2%, and decrease of \$115.0 million, or 29.7%, in the second quarter and first six months of fiscal 2024, respectively)
  - The decrease in CAF income for both the second quarter and first six months of fiscal 2024 reflects a decrease in the net interest margin percentage and an increase in the provision for loan losses, as discussed below, partially offset by an increase in average managed receivables.
- Total Interest Margin (Decreased to 6.1% in both the second quarter and first six months of fiscal 2024, from 7.3% and 7.4% in the second quarter and first six months of fiscal 2023, respectively)
  - The decrease in the total interest margin percentage for both the second quarter and first six months of fiscal 2024 was primarily driven by higher funding costs, partially offset by higher customer rates. While total interest margin for the second quarter decreased year-over-year, it was consistent with the first quarter of fiscal 2024 at 6.1%.
- Provision for Loan Losses
  - The provision for loan losses resulted in expense of \$89.8 million and \$170.7 million in the second quarter and first six months of fiscal 2024, respectively, compared with expense of \$75.5 million and \$133.3 million in the second quarter and first six months of fiscal 2023.
  - The increase in the provision for both the second quarter and first six months of fiscal 2024 was primarily due to the effects of unfavorable loss performance within CAF's portfolio as well as the uncertain macroeconomic environment.
  - The allowance for loan losses as a percentage of ending managed receivables was 3.08% as of August 31, 2023, compared with 2.92% as of August 31, 2022 and 3.02% as of February 28, 2023. The increase in the allowance percentage from February primarily reflects the factors noted above. CAF has continued to tighten its underwriting standards in response to the current environment. As a result, the allowance percentage decreased slightly from 3.11% as of May 31, 2023.
- Loan Origination and Performance
  - The decrease in net loan originations in the second quarter and first six months of fiscal 2024 resulted from a decrease in used unit sales and a decrease in the average amount financed, partially offset by an increase in the net penetration rate.
  - CAF net penetration increased in the second quarter and first six months of fiscal 2024 compared to the prior year periods, primarily reflecting changes in the underlying credit mix of customers applying for financing.
  - The weighted average contract rate increased to 11.1% in both the second quarter and first six months of fiscal 2024, compared with 9.4% and 9.2% in the second quarter and first six months of fiscal 2023, respectively. The increases for both periods were primarily due to higher rates charged to customers in response to the current interest rate environment.
  - The year-over-year increase in past due accounts as a percentage of ending managed receivables in the second quarter and first six months of fiscal 2024 reflects an increase in delinquencies as well as our expansion of Tier 2 and Tier 3



originations within CAF's portfolio in the prior year. The increase in delinquencies primarily reflects customer hardship in the current economic environment.

## **PLANNED FUTURE ACTIVITIES**

We anticipate opening a total of five stores in fiscal 2024, including two more stores in the New York metro market, as well as our first offsite production location in the Atlanta metro market. We currently estimate capital expenditures will total approximately \$450 million in fiscal 2024. Capital expenditures were \$422.7 million in fiscal 2023. Planned capital spending in fiscal 2024 largely reflects spending to support our future long-term growth, including investments in auction, sales and production facilities, as well as our new stores.

## **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. Given our recent performance and continued market uncertainties, we are taking a conservative approach to our capital structure in order to maintain the flexibility that allows us to efficiently access the capital markets for both CAF and CarMax as a whole. We have taken steps to better align our expenses to sales as well as slowed the rate of our store growth. While we paused our share repurchases during the third quarter of fiscal 2023, we intend to resume repurchases during the third quarter of the current fiscal year. We expect a modest initial pace, or approximately \$50 million per quarter, that would be below the average quarterly pace of approximately \$150 million prior to our pause and, when annualized, would roughly offset annual dilution. 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.

We have historically targeted 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 below our targeted range for the second quarter of fiscal 2024. 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 six months of fiscal 2024, net cash used in operating activities totaled \$61.1 million, compared with cash provided by operating activities of \$479.6 million in the prior year period.

As of August 31, 2023, total inventory was \$3.84 billion, representing an increase of \$113.1 million 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 due to market appreciation at the beginning of the current fiscal year as well as an increase in saleable inventory to meet target levels.

Our operating cash flows are significantly impacted by changes in auto loans receivable, which increased \$828.6 million in the current year period compared with \$804.9 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 \$647.5 million in the current year period compared with \$654.4 million 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.

The change in net cash (used in) provided by operating activities for the first six months of the current fiscal year compared with the prior year period reflected the change in inventory, as discussed above, combined with the prior year decrease in inventory.

*Investing Activities.* During the first six months of fiscal 2024, net cash used in investing activities totaled \$211.8 million compared with \$207.3 million in fiscal 2023. Capital expenditures were \$210.2 million in the current year period versus \$204.5 million in the prior year period. Capital expenditures primarily included land purchases and construction costs to



support our growth capacity initiatives and new store openings as well as investments in technology. We maintain a multi-year pipeline of sites to support our store and capacity growth, so portions of capital spending in one year may relate to stores that we open in subsequent fiscal years.

As of August 31, 2023, 158 of our 241 used car stores were located on owned sites and 83 were located on leased sites, including 27 land-only leases and 56 land and building leases.

**Financing Activities.** During the first six months of fiscal 2024, net cash provided by financing activities totaled \$547.0 million compared with net cash used in financing activities of \$322.2 million in the prior year period. Included in these amounts were net issuances of non-recourse notes payable of \$647.5 million compared with \$654.4 million 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 six months of fiscal 2024, cash provided by financing activities was impacted by net payments on our long-term debt of \$105.5 million. During the first six months of fiscal 2023, cash used in financing activities was impacted by net payments on our long-term debt of \$644.7 million as well as stock repurchases of \$325.2 million.

### TOTAL DEBT AND CASH AND CASH EQUIVALENTS

<i>(In thousands)</i>		As of August 31	As of February 28
Debt Description <sup>(1)</sup>	Maturity Date	2023	2023
Revolving credit facility <sup>(2)</sup>	June 2028	\$ —	\$ —
Term loan <sup>(2)</sup>	June 2024	300,000	300,000
Term loan <sup>(2)</sup>	October 2026	699,563	699,493
3.86% Senior notes	April 2023	—	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	522,075	522,526
Non-recourse notes payable	Various dates through December 2030	17,007,618	16,360,092
Total debt <sup>(3)</sup>		\$ 18,929,256	\$ 18,382,111
Cash and cash equivalents		\$ 521,098	\$ 314,758

<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 SOFR, 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 9 for additional information.

Borrowings under our \$2.00 billion unsecured revolving credit facility are available for working capital and general corporate purposes, and the unused portion is fully available to us. In June 2023, the credit facility was amended to extend the maturity date to June 2028 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 August 31, 2023, we were in compliance with these financial covenants.

See Note 9 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 August 31, 2023, \$12.59 billion and \$4.42 billion of non-recourse notes payable were outstanding related to asset-backed term funding transactions and our warehouse facilities, respectively. During the first six months of fiscal 2024, we funded a total of \$3.00 billion in asset-backed term funding transactions. As of August 31, 2023, we had \$1.18 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 9 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, as well as covenants and performance triggers related to events of default. 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 August 31, 2023, a total of \$4 billion of board authorizations for repurchases was outstanding, with no expiration date, of which \$2.45 billion remained available for repurchase. While we previously paused the repurchase of our common stock, we intend to resume share repurchases in the third quarter of the current fiscal year, as mentioned previously. See Note 10 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 6 for more information on fair value measurements.

### **FORWARD-LOOKING STATEMENTS**

We caution readers that the statements contained in this report that are not statements of historical fact, including statements 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, expectations and assumptions and involve risks and uncertainties 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:

- Changes in the competitive landscape and/or our failure to successfully adjust to such changes.
- Changes in general or regional U.S. economic conditions, including inflationary pressures, climbing interest rates and the potential impact of Russia's invasion of Ukraine.
- Changes in the availability or cost of capital and working capital financing, including changes related to the asset-backed securitization market.
- Events that damage our reputation or harm the perception of the quality of our brand.
- Significant changes in prices of new and used vehicles.
- A reduction in the availability of or access to sources of inventory or a failure to expeditiously liquidate inventory.
- Our inability to realize the benefits associated with our omni-channel initiatives and strategic investments.
- Factors related to geographic and sales growth, including the inability to effectively manage our growth.
- 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.
- Changes in economic conditions or other factors that result in greater credit losses for CAF’s portfolio of auto loans receivable than anticipated.



- The failure or inability to realize the benefits associated with our strategic transactions.
- The effect and consequences of the Coronavirus (“COVID-19”) public health crisis 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 consumer credit availability provided by our third-party finance providers.
- Changes in the availability of extended protection plan products from third-party providers.
- The performance of the third-party vendors we rely on for key components of our business.
- Adverse conditions affecting one or more automotive manufacturers, and manufacturer recalls.
- 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 failure or inability to adequately protect our intellectual property.
- The occurrence of severe weather events.
- Factors related to the geographic concentration of our stores.
- Security breaches or other events that result in the misappropriation, loss or other unauthorized disclosure of confidential customer, associate or corporate information.
- The failure of or inability to sufficiently enhance key information systems.
- Factors related to the regulatory and legislative environment in which we operate.
- The effect of various litigation matters.
- The volatility in the market price for our common stock.

For more details on factors that could affect expectations, see Part II, Item 1A, “Risk Factors” on Page 45 of this report, our Annual Report on Form 10-K for the fiscal year ended February 28, 2023, 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, 2023. 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, 2023.

### 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.** There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended August 31, 2023, 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 15 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, 2023, 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. In April 2022, the board increased our share repurchase authorization by \$2 billion. 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 second quarter of fiscal 2024. The table does not include transactions related to employee equity awards or exercise of employee stock options. While we paused our share repurchases during the third quarter of fiscal 2023, we intend to resume repurchases during the third quarter of the current fiscal year. We expect a modest initial pace, or approximately \$50 million per quarter, that would be below the average quarterly pace of approximately \$150 million prior to our pause and, when annualized, would roughly offset annual dilution.

<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>
June 1 - 30, 2023	—	\$ —	—	\$ 2,451,306,850
July 1 - 31, 2023	—	\$ —	—	\$ 2,451,306,850
August 1 - 31, 2023	—	\$ —	—	\$ 2,451,306,850
<b>Total</b>	<b>—</b>		<b>—</b>	

Item 6. Exhibits

- [10.1](#) Amended and Restated Credit Agreement, dated as of June 21, 2023, among CarMax Auto Superstores, Inc., CarMax, Inc., certain subsidiaries of CarMax named therein, Bank of America, N.A., as a lender and as administrative agent, and the other lending institutions named therein, filed as Exhibit 10.1 to CarMax's Quarterly Report on Form 10-Q, filed June 26, 2023 (File 1-31420), is incorporated by this reference.
- [10.2](#) CarMax, Inc. 2002 Stock Incentive Plan, as amended and restated June 27, 2023, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed on June 28, 2023 (File No. 1-31420), is incorporated by this reference.\*
- [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.

\* Indicates management contract, compensatory plan or arrangement of the company required to be filed as an exhibit.

**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  
Executive Vice President and  
Chief Financial Officer

September 29, 2023