CarMax Analyst Day 2021 Transcript

Stacy Frole:

Good morning. I'm Stacy Frole, Vice President of Investor Relations at CarMax. It's my pleasure to welcome you to CarMax's Analyst Day 2021. We appreciate your interest in CarMax and are excited to share with you a more in depth look at our omni-channel strategy, our digital transformation and our long-term growth plans.

Before we get started, I would like to remind you, our statements today regarding the company's future business plans, prospects, and financial performance are forward-looking statements we make pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current knowledge and assumptions about future events that involve risks and uncertainties that could cause actual results to differ materially from our expectations. In providing projections and other forward-looking statements, the Company disclaims any intent or obligation to update them. For additional information on important factors that could affect these expectations, please see the company's Form 8-K issued this morning and its Annual Report on Form 10-K for the fiscal year ended February 28, 2021 filed with the SEC. In addition, in accordance with Regulation G, non-GAAP financial measures used today are required to be reconciled to the most directly comparable GAAP measures. During today's event, we will refer to SG&A, excluding depreciation and amortization, as a percent of Gross Profit dollars. The required reconciliation is available to investors on our website via the Analyst Day 2021 access page.

With that, let's get this event started…

Bill Nash:

Good morning and thank you for joining us. We've got a great line up for you today with several of our leaders here to talk about the digital transformation, and future growth opportunities at CarMax. It is an exciting time to be at CarMax. I've been here since the early days and this is by far the largest transformation in company history. At the end of today I'm confident you'll have a better understanding of why CarMax is best positioned to win now and in the future.

So Why CarMax? And Why Now? I can boil it down into five key points. First, we are the leader in a massive and highly fragmented market with ongoing opportunity to gain share. Second, we have distinct competitive advantages: not just our size and scale, but even more importantly the robust technology and extensive data we have and how we use it. Third, we have built our omni-channel capability on the foundation of the most customer-centric experience in the used auto industry. This unmatched experience gives our customers the ability to choose how they shop, with seamless transitions from digital to in-person. Fourth, we are expanding our reach within the used auto ecosystem, through investments, acquisitions and strategic partnerships, opening up new areas of growth that leverage our scale, technology, data and talent. And finally, all of this results in a diversified and highly profitable operating and financial model that will continue delivering superior long-term value to our shareholders.

When CarMax was founded, our goal was to change the used auto industry. This is one of the main reasons I came to CarMax. I wanted to join a company that would bring a big box mentality, but do it in a way that would bring transparency and integrity to every interaction. Keep in mind, in 1993 most people didn't want to walk into a used dealership much less work for one because of their less than stellar reputation. We focused on taking out all the things people didn't like and building trust in everything we do. At our core, we are no-haggle, high integrity retail. But more than that, over the past 28 years, we've created a leading, world-class buying and selling experience that no one has been able to replicate in the used auto industry.

This position has enabled our success and growth into three highly complementary lines of business – Retail, Wholesale and Auto Finance. We are the largest seller – and buyer – of used autos to and from consumers. And, as our digital investments and omni-channel experience mature, we will become the largest online seller and buyer of used autos. We are already buying and selling more than one million vehicles annually through our retail and wholesale channels – more than anyone else. We have high expectations for the impact of our omni-channel strategy, enhanced digital capabilities, and our enhanced focus on vehicle acquisition. I'm excited to share for the first time: We expect to be selling two million vehicles – through both retail and wholesale combined - within the next five years. And, we will of course do it profitably.

We are excited about the tremendous opportunities ahead of us. There are more than 20 million 0 to 10-year-old used vehicles sold each year. With our omni-channel strategy, we are agnostic about whether these used autos are sold to customers who want to transact online, in person or a combination of the two. But the 0 to 10-year-old market is only one piece of the pie we care about. When you take into account older vehicles, the total number of used autos sold on an annual basis is closer to 40 million. With the capabilities we have today, including our auction business, we can buy any car, and we can sell any car, positioning us well for future growth and continued market share gains.

CarMax has an unmatched national footprint and infrastructure that gives us a cost advantage and increases our flexibility to adapt to customer and market needs. We currently have more than 220 locations across the United States. We're going to continue expanding our reach into new markets and deepening our presence where there is further opportunity. Our locations combine different functions, from retail to production to warranty and repair services, and they also serve as fulfilment centers for our online transactions. Having this broad footprint gives us the ability to operate a powerful logistics infrastructure, and as we move a large volume of vehicles from location to location, we benefit from significant efficiencies of scale that no other player in our industry can match. Keep in mind, we are moving more than 2 million cars a year. That said, today 60% of our vehicles are sold in their local markets, which gives us a cost advantage and enhances our profitability.

Our scale also leads to another distinct competitive advantage: our ability to leverage technology across that scale and the massive amount of data it generates to fuel our business. When I talk about data and technology, I'm really highlighting the results and changes that came from the digital transformation we have undergone over the past several years. This morning, Shamim Mohammad, our executive vice president and chief information and technology officer, will share more detail on how we rebuilt our tech stack on modern architecture and why we believe our approach to technology is a competitive advantage and gives us incredible flexibility, increases our agility and sets us up for long term growth. It also sits on a tremendous amount of data. We've got rich data that is both deep and broad. Depth starts with how we've been in business since 1993. The data we've accumulated and the insights we've gained throughout the entire car buying journey and about our customers during this time is a very powerful thing. On an annual basis we have more than 300 million digital interactions, process more than 1 million credit applications, value more than 8 million vehicles, transport more than 2 million and recondition more than 825,000. That's tremendously deep data: but to be clear, we don't just have transactional data. We also have vehicle data, images, operational data, website activity and more – that makes our data extremely broad.

We've always used our data as an advantage - to be better at everything that we do. So to use it even more effectively, we took this vast amount of proprietary and valuable data, cleaned it up and put it in the cloud, creating an architecture that allows our relationship with and knowledge about a customer to seamlessly transition from online to a centralized Customer Experience Center to an in-person interaction with one of our associates. We have also significantly increased our investment in data science and AI, and as a result we are making even better use of our data. We continue to develop and enhance proprietary algorithms, leveraging that data to offer more personalized experiences and improve all aspects of our business. Shamim will walk through some examples shortly.

The richness of our data is a critical differentiator that no other used auto retailer can match, and it is part of what makes us so profitable. Our omni-channel strategy recognizes the importance of digital to the used auto industry, and is designed to give our customers a seamless, personalized experience at CarMax, regardless of how, where and when they choose to shop with us. Our seamless integration of in-person and online activities is unmatched. No one has the national scale of our physical footprint, our inventory and logistics capabilities with the same speed and cost advantages. On the digital side, we have robust technology and a wealth of expertise and data. With the enhancements we are making to our online capabilities, we are on track to offer a customer experience that is on par with the customer-centric in-person experience we pioneered in this industry. Personalization is key to a customer- centric experience, and our ability to extend that personalization to digital is a differentiator for CarMax. Let me give you an example.

Say I'm a big fan of Suburbans, and I'm ready to upgrade. I come home and start searching for them on my iPhone on Carmax.com. I also enter the information about my trade in. And here's our advantage... We know from our data that a meaningful percentage of people trading in a Suburban, who search for a Suburban from an IOS device, might end up buying an Expedition, so we will feature a few Expeditions in their search results. Now say I've found the vehicle I want. I apply for financing online and reserve the car. Then the next day I show up at the store, and the sales associate says, hello Mr. Nash, I know you're here about the Suburban. We've got it on hold for you and it's ready for a test drive. I see you've qualified for financing on the vehicle, congratulations on that. I also see you've purchased 10 cars at 6 different CarMax locations in the past 4 years, and we want to thank you for your business. And I know you just had your Accord serviced with us last week, how did that go? This level of personalization and the fact that we can make it seamless across channels is a powerful advantage for CarMax. It gives the customer credit for what they did the night before and credit for what they have done with CarMax in the past.

We also think it's important for investors to fully understand CarMax's growth opportunities from our vantage point. We are already a business that reaches beyond retail and wholesale. CarMax Auto Finance or CAF is one of the largest lenders in the used auto space with a $14 billion loan portfolio servicing more than one million customers. This profitable and synergistic business will continue to grow as we expand our retail business. The interconnected and complementary nature of our businesses across retail, wholesale and auto finance is a key part of our success.

When we think about the opportunities ahead of us, we aren't just thinking about these businesses but also a broader used auto ecosystem that includes logistics, dealer services and more. We have unparalleled access to the flow of used vehicles, data, and anyone who is buying or selling used autos. This includes consumers, dealers and others seeking or providing related services. We believe a driver of our long-term growth will come from using our position and our unique strengths to create new products that better address needs, bridge gaps or define and claim whitespace adjacencies to our existing service offerings. Our planned acquisition of Edmunds, which we'll discuss a little later, is a great example of how we can participate in the broader used auto ecosystem.

We are confident our diverse business model is positioned for long-term growth. With the continued expansion of our footprint, platform and omni-channel strategy, we expect to increase our national market share to more than 5% by 2025, up from 3.5% in 2020. We also expect revenues to grow to approximately $33 billion in FY26, that is a double-digit CAGR over the next five years. But it's not just about accelerating growth, it's also about doing so profitably. We have a business that generates a significant amount of cash giving us great flexibility. And through a disciplined approach to capital allocation, we exercise that flexibility to reinvest in our business for organic growth, invest in strategic partnerships and grow through acquisitions. It also gives us the ability to return cash to shareholders, which we have done on a regular basis since 2013 when we started our share repurchase program. With significant cash generation, we remain committed to this program. Enrique Mayor-Mora, our chief financial officer, will take a deeper dive into these long-term targets as well as our disciplined approach to cost and capital allocation. This is a winning equation for the company, and for our investors. A big enabler of our ability to deliver this growth and shareholder value is the digital transformation we have undergone.

One of our goals for today is to help you better understand how we have transformed CarMax and fundamentally changed our business to enable our omni-channel strategy and position us for the future. We're going to take a deeper dive into the changes we've made across our organization as part of realizing our omni-channel strategy. We'll plan on hosting other events in the future to focus on our CarMax Auto Finance and Wholesale businesses.

Taking a step back, as we built our scale and expanded our footprint over the last two decades, we recognized the increasing importance technology was playing in our industry. It became clear to us to expand our leadership position and pursue even more growth opportunities, we needed to embrace the shift to digital that was already occurring across most other retail sectors. While there were elements of digital transformation in the auto industry over the past decade plus, as a highly considered product with lots of variables to any transaction, the digital revolution faced a number of obstacles due to the unique nature of this industry. We approach our business with the view that to succeed, we need to own the car, own the customer and own the experience. And that means we need to provide our customers with a best-in-class digital experience integrated seamlessly with the best-in-class in-store experience our company was built on. To do this, we had to fundamentally change the way we approach our business. In short, we focused on embracing change for our people, processes and technology. We're proud of the disciplined and thoughtful approach that enabled us to maintain our high-performance culture and talent, and to attract new talent with the skills and backgrounds that will continue to move us forward in a digital age.

I'm a big believer that your success is ultimately dependent on your people and your culture. These are your only two sustainable differentiators if you take care of both. Our success over the last 28 years has been because of those two differentiators and our success going forward will be because of those two. You will hear more on this from Diane Cafritz, our chief human resources officer, but to transform CarMax we had to bring more than 25,000 associates along with us. One of our values is putting people first, and our associates are at the core of that. We are proud to offer an award-winning workplace and have been one of Fortune's 100 Best places to work for 17 years in a row. I'm also proud to say that diversity and inclusion have always been at the heart of our culture. The fact is, our highly engaged and diverse associates are important enablers of customer experience and shareholder value. EVERY associate plays a critical role. So as we began our transformation, we had to rethink our entire organization's structure and every role in it. We re-imagined the way our stores operate to better fulfill our omni-channel strategy. And of course, we built a whole set of digital and hybrid processes to accommodate our customers in whatever way they want to interact with us. Our process changes aren't just on the retail sales side – we are running our wholesale business differently, we are reconditioning cars differently, and we are optimizing our logistics differently.

You'll also hear Shamim and Jim Lyski, our Executive Vice President of Strategy, Product, and Marketing talk about our tech and product teams and how we have instilled a culture of continuous testing and improvement allowing us to introduce new products while enhancing existing ones. To continue expanding our leadership position we need to be agile -- meeting the rapidly changing needs of our customers and responding to the environment we operate in. These process changes would have been impossible to make without the nimble approach to technology we have embraced over the past several years. We realized we needed a robust, flexible platform that would position us for growth and enable our business through technology. So we began modernizing our platforms, “cleaning” our data, transitioning it to the cloud, and embedding best practices from leading tech companies to make us quicker and more agile. Additionally, we started applying AI and Machine learning to our transactional data to help move customers through the sales funnel, making their shopping experience better through personalization and increasing conversion. Along with our technology investments, we also invested in our people to expand our capabilities, which meant more than doubling our engineering and digital talent over the last five years. With that background of how we got to where we stand today, I can tell you our multi-year investments are paying off. In August last year, we completed the national rollout of our omni-channel platform. Since then we've continued to roll out new features.

You'll hear more today on how we are relentlessly experimenting and applying our learnings to enhance this essential digital experience. Importantly, by the end of the second quarter of this fiscal year, most CarMax customers will have the ability to completely buy a car online, independently if they choose. Shortly, Jim will walk us through how we're accomplishing that, and how we're going to continue evolving and refining the experience. To be clear, we are agnostic about where our customers shop. There is no question the number of customers who will buy a car online without stepping into a store will grow over time, and it doesn't matter to us whether that's 10 percent or 50 percent of customers. We're making sure we are positioned to give customers a world-class buying experience, regardless of how they shop with us. The whole objective of our omni-channel strategy is to support our customers however and wherever they want to buy and sell cars. We've got a great line up for the rest of the presentation. Let me walk you through the agenda.

Next up is Diane who will talk more about the importance of our culture and the steps we've taken to evolve our approach to human capital. Jim will take you through our product organization, innovation and our online capabilities, including self-service transactions and our new Online Instant Appraisal Offer. Shamim will provide insights and a deeper dive into how we are accomplishing our digital transformation and how we're using our proprietary tech stack, data science and machine learning to enable growth. We'll then go back to Jim who will put on his brand hat and talk to you about how we are amplifying the CarMax brand to build awareness of our omni-channel offerings and drive customer acquisition. After Jim, we'll take a short commercial break to bring our marketing campaign to life, and then I'll be back to talk a little more about the broader used car ecosystem and our recent announced acquisition of Edmunds. Enrique will talk about our highly profitable growth and the new KPIs we think will help you better understand omni-channel adoption and other key drivers of that growth. He'll also discuss our long-term outlook in more detail. I'll be back for some closing thoughts, and then we'll open it up for Q&A. With that, I'd like to introduce Diane.

Diane Cafritz:

Thank you, Bill, and thanks to all of you joining us today. I am Diane Cafritz, CarMax's chief human resources officer. Bill just shared our exciting, bold growth strategy and we all know that exceptional talent is essential to bring any business strategy to its full potential.

Today, I'm going to share about our award-winning culture, how we completely transformed our organization at the people level, and our continued focus to infuse new product and digital talent within our organization. At CarMax we have a strong people-first culture – it is a key value driver for our customers and investors, and one of our greatest strategic advantages. We pride ourselves on providing a superior Associate and customer experience – it's in our DNA. This is reinforced by our purpose – to drive integrity by being honest and transparent in every interaction.

We understood early on that developing our existing talent would be key to our success. We are focused on making sure our workforce is flexible and resilient. We respond to every major business change by rescaling, retraining and repurposing our people. This way we are able to meet our business goals and our customer needs, while also supporting our associates and making the organization more effective. By investing in our people, we know that they will always go the extra mile for our customers and our company. As a testament to our efforts we have been named to Training Magazine's Top 125 for 14 years. And as Bill mentioned, Fortune Magazine, has named CarMax one of its 100 Best Companies to Work For for the17th year in a row. We are particularly proud of this award because it is in large part based on Associate feedback surveys – and even in these challenging times our Associates continued to vote CarMax one of the best places to work.

We constantly measure the health of our culture by monitoring employee engagement. We have a strong track record with engagement in the 97th percentile compared with external company-level benchmarks. Despite a difficult year and the acceleration of our omni-channel roll out, on average, our Associates were more willing to recommend CarMax as a great place to work in 2020 than in 2019. Our surveys show our sales teams are even more engaged 6 months after our omni-channel rollout. We are proud of this strong vote of confidence from our Associates. Additionally, diversity and inclusion are core to who we are. Our Vision is for everyone, everywhere, to have the same opportunity to reach their full potential. We believe our success lies in having diverse perspectives and we are committed to an inclusive workplace where everyone feels they have a voice and belong. Our work in this space has resulted in being named to Fortune's 100 Best Workplaces for Diversity every year since 2015.

Over the last few years, we pivoted our entire company, transforming the country's largest brick & mortar used-car retailer to a seamless omni-channel platform with exceptional digital capabilities, innovating every aspect of how we operate our business. With this massive transformation, we earned the trust of our more than 25,000 Associates, who changed with us, and remained engaged. Thanks to our front-line leaders and best-in-class change management efforts, this transformation was a huge success from a people and business perspective. Let me walk you through some of the key people changes where we reimagined every store function redefining virtually every store Associate's role as they adapted to new ways of working.

To provide customers an appraisal experience that is fast and efficient, with the best possible offer, we overhauled our buying organization. We did this by creating new vehicle condition assessor roles to quickly and accurately collect vehicle information. That allowed our highly skilled buyers to focus their time on pricing offers. It is because of our expert buying organization in combination with our pricing data science teams that we can ensure our digital and instore customers get the best possible offer and why we buy cars better than any other retailer. In our sales organization, we took support for phone and web leads out of the stores by centralizing them in our new Customer Experience Centers. This was a key transformation that improved the effectiveness and efficiency of our customer experience. Our CECs focus entirely on the remote customer. In contrast, our floor sales consultants now focus entirely on the in-person shopping experience where our customers are further along in their shopping journey. We built associate profiles, training, career paths, customized incentive pay plans, and processes with the remote and floor customer in mind.

Within just two years, we have grown to more than 1,900 associates in our CECs. Meanwhile, through attrition and retraining programs we reduced sales consultants in our stores by approximately 2,300. Our Fleet logistics operations have also dramatically expanded. Historically, we outsourced most of our logistics. However, today we have more than 260 CarMax trucks and more than 525 drivers, who were responsible for approximately half of our moves this past year. This is up considerably from a few years ago when our internal fleet handled less than 20% of our moves. By investing in our own internal fleet, we have been able to cut lead times by around half and further improve delivery speed for our customers.

Lastly, in addition to transforming the retail customer experience with our omni-channel offering, we are continuing to optimize our reconditioning process. Most recently, we converted approximately 60 production stores to our new operating model, allowing us to produce vehicles faster and at a lower cost while maintaining quality. As part of these conversions, we restructured lead and management roles to better utilize our most highly skilled technicians. This complete transformation was only possible due to our thoughtful change management process which requires that we win the hearts and minds of our Associates while providing them with what they need to adapt to their new roles. What we are most proud of is that we were able to offer impacted associates new roles within the organization and training to set them up for success. This demonstrates how we truly value our Associates.

Transforming to an omni-channel platform and maintaining an agile culture in a digital world not only required changes in our stores, but also a substantial build of our product department. A key input was infusing new talent – and a lot of it – in a relatively short period of time. We brought into the organization hundreds of product and technology experts to fill innovation roles. The talent dedicated to innovation has grown from 5 to more than 50 product teams in the past few years. At the beginning of our commitment to building a product organization, we intentionally hired teams to focus only on digital experiences that had minimal impact on the stores. We looked for quick wins to help the organization and our Associates learn about the value of our product teams and their methodology. For instance, after the overhaul of our website we were able to start making consumer facing changes in a matter of days, when it would have previously taken weeks – and we've further progressed to a continuous delivery cycle. By focusing on and celebrating the Product team's quick wins, our operators saw the value of this work and wanted to join the product teams' efforts to ensure a seamless integration of our digital and in-person experience.

Not only did we significantly grow our product function, over the past five years we have more than doubled our technology department and are actively recruiting for more than 200 positions this year. We have hired talent with expertise in areas most relevant to the omni-channel experience, such as ecommerce, supply chain, data science, machine learning and cloud technology. Much of the talent comes from world class digitally native companies. We have grown our talent internally and also attracted talent from top local and national universities.

To foster out of the box thinking and a continuous learning culture, we have adopted several best in class practices such as hackathons, learning guilds and DevOps day. These inspire our digital talent to think creatively and sharpen their knowledge. Each year, we host a competition, we call it the Innovation garage, where associates can spend several days innovating on any project they want. Our Associates form their own teams and work on ideas completely outside of their typical areas of responsibility. Our leaders vote on the prototypes worthy of funding and deploying to production. This is a high energy, fun event that our associates look forward to and the competition is fierce. Because our talented Associates drive our innovation, Product, technology and data science talent will continue to be a priority going forward. To conclude, let me say that we are extremely proud of how quickly and seamlessly we were able to effect CarMax's omni-channel transformation at the people-level. We fundamentally changed the way we work while keeping engagement high, offering our associates new career opportunities, and providing them training to ensure success.

The biggest takeaway, related to our omni-channel transformation from a people perspective, is this: by leveraging our strong and agile culture to make big, bold change, we are able to activate our talent to quickly pivot towards our highest business priorities. Our culture and focus on people is a strategic advantage and will always be a key growth driver as we continue to evolve and transform the organization. I really appreciate your time today. Now let's hand it over to Jim who is going to share how the Product teams have enabled us to accelerate the delivery of digital experiences

Jim Lyski:

Hello, I'm Jim Lyski, Executive Vice President of Strategy, Product & Marketing. Diane just discussed our people and how they are the foundation for everything we do, including how we grow and cultivate our digital talent. Now I would like to spend some time sharing how we are deploying this talent to expand our leadership position as the most customer centric used auto retailer, enabling customers to shop anywhere, anytime.

We have evolved our extremely successful, yet operator-led, people-based, brick & mortar business into one that is also customer-led, data based, and digital first.

With this shift, we have grown from 5 digital Product teams to more than 50 during the past five years and, as you will hear later from Shamim, we modeled our organization after the practices perfected by Silicon Valley's leading digital players.

Our teams operate in a 'dual track agile' methodology. It's an iterative and cyclical model that allows us to discover new product ideas by witnessing the behaviors of thousands of customers and associates in action. It also allows our teams to simultaneously test those ideas, with hundreds of experiments every month, to perfect and scale these products. Customer discovery is a core principle of how we operate, which means we deploy better, customer- validated products. These new products and capabilities are being released to the market continuously.

Enabling customers to shop anywhere, anytime requires integrated digital and physical experiences that empower the customer throughout their journey and give them confidence to make decisions. It starts with digital, technology-driven experiences that put customers in the driver seat.

Today, I will share two of those in detail: Our end-to-end digital experience empowering customers to buy a car fully online and, our new online instant appraisal offer, which enables customers to receive an offer on their car in less than two minutes – which I'll share in detail now.

This instant offer is available today on both CarMax.com and Edmunds.com, and the rapid growth we are seeing as a result is positioning us to become the largest online buyer of used autos. We developed the initial experience last year in partnership with Edmunds, which provides CarMax offers to Edmunds customers interested in the value of their cars.

The Edmunds partnership created a testing ground to rapidly iterate on the customer experience and refine the car valuation algorithms that leverage the data we've collected from millions of transactions over 20-plus years. In turn, these tests accelerated our ability to bring instant offers to CarMax.com. In about 5 months, we developed and released the experience I'll share with you now.

An instant offer requires a delicate balance between the volume of information collected and the customer experience. On one hand we want highly accurate offers, on the other, a quick and easy experience – one that does not burden the customer with too many questions or take up too much of their time.

So, what you'll see is the result of our effort to walk that fine line. First, the customer inputs their car's license plate, state, and zip code. Leveraging the license plate and a VIN decoding algorithm, we populate year, make, model, and VIN. The customer then selects the trim which allows us to populate features that the customer then validates.

The customer rates their vehicle's condition on a 5-point scale, provides their mileage, and then answers a short list of questions that confirm the vehicle's condition and provides the customer with confidence the final value is highly accurate.

After a few final questions here, the information is run through our proprietary algorithm and the result is revealed. This is a transactable offer for the customer's vehicle. No haggle, no bait and switch. Customers then may either save the offer for later use or set an appointment to visit a CarMax location to complete the transaction. With more than 80% of the U.S. population within 60-miles of a CarMax store, our customers can receive an instant offer and leave with payment in hand on the same day.

Early performance of our instant offer has exceeded our expectations. Since launching the experience nationwide in February, we have reached an annual run rate in the hundreds of thousands of instant offer buys and customers are absolutely raving about the experience – with 4 of 5 recommending it to a friend.

Even with this initial success, we're not done. We continue to iterate on the experience with plans this year to: Drive submission accuracy – and therefore better offer accuracy – without sacrificing experience, by enabling customers to provide details more easily about their car's features and condition. Integrate the standalone instant appraisal offer into our end-to-end online buying experience (which you will hear about shortly). Speed the in-store in-and-out experience for customers who choose to act on the offer and sell us their vehicle. And, drive appraisals and buys by leveraging the experiences we've built for Edmunds and CarMax.com and expanding into other opportunities.

The development and implementation of CarMax's Online Instant Appraisal Offers is a perfect example of how we are approaching digital innovation to drive growth. This is only one piece, however, of the larger end-to-end digital experience that a growing segment of the market is looking for. We believe it's important to offer all of our customers the ability to buy a car fully online with CarMax – and make it simple and seamless with the capability for same day delivery.

Through customer discovery, we know that enabling the confidence and control customers want in such a market-leading experience requires three attributes: The first attribute: Fast. From vehicle selection to digital signatures, our fully online experience takes just over 6 minutes to complete. We've done this by guiding our customers through the process of six simple steps that dramatically simplify a complex transaction. We have innovated to streamline the process for our customers. This is done through small wins, such as auto-populating the customer's information and saving information across sessions, and also big wins like a single application with penny perfect financing offers that a customer can use to transact.

The second attribute: Easy. We want to remove all hurdles that a customer could experience while progressing online on their own. That's why we leverage the customer's profile information to recognize and provide state specific considerations like taxes and fees. It's why we collect the information required to register the customer's vehicle, saving them from a dreaded trip to the DMV. And, it's why our customers are given the option to upload financing documentation and sign documents digitally. There are two additional experiences we are working on to deploy during Q2 to bring more "EASY" to buying a car online. To trade-in a vehicle today, our customers are routed to the CEC to finalize the transaction. Within the next quarter, however, we will integrate instant offers into this end-to-end buying experience to bring EASY to customers who have a trade-in. Similarly, many of our customers choose to transfer a car and are routed to the CEC to do that. Within the next several months, these customers will have the easy option of self-service transfer requests online, with the ability to track and manage their car's move.

The third attribute: Empowering. Empowering digital experiences enables customers to confidently take steps online through the car buying (and selling) journey. In the traditional car buying model, confidence is built by touching and feeling the car or learning about it from our associates. In CarMax's digital model, we build confidence by empowering customers with all the right information, right at their fingertips. Here are a few examples of how we do this in our end-to-end online experience: We build confidence in the condition of the car by linking the vehicle history, and providing all angles of the vehicle through 360-degree views of both the exterior and interior complete with hot spots featuring trim highlights and CarMax reconditioning work.

We build confidence in affordability with a simple credit application that provides a penny perfect breakdown of taxes and fees so the customer knows exactly how much the car will cost. We present the resulting financing offers from both CAF and our financing partners alongside tips that provide linked contextual support on stipulations or required documentation.

We also build confidence by letting customers know that if they have a question or a special situation, we are there for them through embedded live chat with a customer experience consultant who will know exactly where the customer is in their journey.

By the end of Q2, we will further empower customers with knowledge of affordability and financing as the first step in their shopping journey across our entire inventory in the search results. Customers can then shop with greater confidence that they can afford the vehicle they select.

This online buying experience we just shared is now available to 40% of our customers today, up from 25% at the end of Q4, and we plan to expand this experience to most of our customers by the end of Q2.

As these new experiences become a more prominent part of our business, we have defined milestones that allow us to track this customer journey. As you saw in the video, the customer completed an end-to-end transaction online which includes: Reserving the vehicle; Financing the vehicle, if needed; Trading-in or opting out of a trade in; and, Creating an online sales order. When a customer completes all four of these major transactional activities remotely, we define this an "online sale."

When a customer completes at least one of these activities remotely, we define this an "omni-channel sale." This is regardless of whether the customer chooses to complete the transaction in a store or at their home.

Nearly all customers engage with us digitally. Additionally, in Q4, about three-quarters of our customers advanced their transaction digitally, with approximately 5% taking all four steps and being defined as an online sale. We expect this number to grow as we expand access, build consumer awareness, and further refine this fast, easy and empowering online experience. We will provide updates on this metric in the coming quarters.

This is a pivotal year for CarMax that sets the foundation for our long-term runway of growth. While many of our competitors today have a subset, and some, maybe all of the capabilities to enable an online sale, success is not going to be just about the capabilities – it's about how those capabilities come together to create a superior and personalized customer experience.

Our digital Product approach allows us to discover firsthand with our customers, and it enables the innovative and seamless experiences that meet our customers where they are and with what they want. Additionally, our established physical assets – the largest inventory in the country, best-in-class logistics, nationwide reconditioning capacity, and physical footprint – create a competitive moat for CarMax. It positions us to grow our overall share while also becoming the largest and most customer-centric online retailer in used auto.

These combined capabilities and assets are critical to offering a seamless experience for our customers and enabling us to capture the full potential of our addressable market.

Looking ahead, as the digital consumer evolves and the segment continues to grow, CarMax's end-to-end digital experience creates a platform on which we will continue to build. An important component, and competitive advantage, to our end-to-end digital experience is the seamless integration with our best-in-class Customer Experience Centers to support customers whenever they need it.

Next, Shamim will share how we have leveraged data science and machine learning to support our customer-centric omni-channel experience.

Shamim Mohammad:

Thank you, Jim, and hello to everyone joining us today. I'm Shamim Mohammad, the Chief Information - and Technology Officer for CarMax. I have the pleasure to share with you some key insights of our digital transformation, and how we're using: technology, data science and machine learning to enhance and differentiate our business.

When we set out on our massive digital transformation five years ago, we had one simple goal: position our company for rapid change to deliver exciting, differentiated and industry leading experiences for our customers. For years, CarMax has been a household name among used auto consumers, with a reputation for being an industry disruptor. We are also known for providing exceptional customer experiences, and technology has been a critical part of that. As used auto consumer behaviors began to evolve over time, we knew we needed to disrupt ourselves and change how we work, think and operate. This meant taking the qualities that made CarMax the leader in the industry -- great qualities such as: our people, our entrepreneurial spirit and our deep automotive industry experience – and infusing those with many of the practices you would see in leading digital companies.

So, we adopted a data-driven and product development mindset. We embraced the concept of rapid experimentation as a cornerstone of our transformation. In order to rapidly test, learn and innovate tech-enabled products designed to enhance both the customer and associate experience, we prioritized the creation of digital platforms. In a moment, I will share with you some examples of innovations we are continually testing and iterating, such as vehicle merchandising, vehicle recommendations and smart routing at our CECs.

Today, modern, cloud-based platforms serve as the digital backbone for CarMax, seamlessly connecting our three key lines of business: retail, wholesale and finance. Our teams are integrated in these lines of business and operate like a technology startup – leveraging both established and emerging Silicon Valley best practices. We've more than doubled our engineering and digital talent since our transformation began in 2016. Today, our teams are innovating faster than ever. With business agility in mind, we have been very deliberate about how we have designed and developed our proprietary technology stack. Let me remind you, when we got into this business in 1993 there were no options to rent nor buy technology solutions. We had to develop everything ourselves. We developed tremendous systems, some of which we still leverage today. But now we have a philosophy of: "Rent before you buy, buy before you build and Build only when it drives competitive advantage". This philosophy leverages best in class technology and seamlessly integrates it with solutions we have developed in house to create a unique cloud-based approach.

We also adopted a "Cloud First, Mobile First" strategy to meet consumers' expectations, especially as it relates to personalization, seamlessness, and speed. And with the cloud platforms we are implementing, we are able to leverage machine learning and AI to provide that great experience for our customers and associates. A noteworthy example of this involves our partnership with Salesforce. Our customers are likely to interact with multiple associates during their unique car buying journeys, from remote support specialists to in-store associates. To enable a more seamless experience, we partnered with Salesforce to create a centralized view of the customer across all touchpoints. With a 360-degree view, we are able to know exactly where a customer is on their car buying journey. Whether it's our sales, support, or delivery teams, they can give the customer an outstanding experience. Together, these approaches have enabled us to integrate our innovative proprietary technologies with industry leading, and best in class solutions to create a powerful, scalable and resilient digital backbone.

Investing significantly in our digital backbone over the past few years has helped us offer customers a range of new services, including delivering the industry's most comprehensive omnichannel experience. And we're taking the same approach across all parts of our business. Notably, we've modernized our logistics platform and developed several new and innovative auto finance products. We've also adopted many continuous integration/ continuous delivery best practices to allow our teams to modify products on-demand in response to user feedback or market shifts in near real time. APIs and Microservices based architecture allow us to easily partner with technology companies like Adobe, Salesforce, Microsoft, and many more to quickly deliver solutions and experiences.

Before our transformation, we released code about once every two months. Now, our product teams are running hundreds of experiments at any given moment and are releasing code multiple times a day. It truly is continuous delivery. And as we talked about earlier, constant experimentation allows us to roll out products, updates, enhancements and fixes to the market at a much faster pace – while also meeting the needs of our associates and customers.

The COVID-19 pandemic really highlighted the importance of our technology backbone and our innovative and agile approach. It took us just three weeks to develop and launch CarMax Curbside, which enhanced our online shopping capabilities. With this product, our customers could adhere to social distancing practices by doing more of their transaction online. Another great example of our nimbleness is the migration of our wholesale auction business into a virtual-only platform in just a couple of weeks. It was truly a remarkable accomplishment. The ability we have built to quickly adapt our products to meet rapidly changing demands is a competitive advantage that further differentiates CarMax from its peers.

It's an advantage that is made even greater by how we leverage data. As Bill mentioned earlier, we've got rich data that is both deep and broad due to millions of customers visiting our site each month and the tens of millions of cars we've touched over the years. As part of our tansformation, we are working to unlock the true potential of this data by significantly investing in Data Science and Machine Learning capabilities. One of the benefits of cloud-based technology is that it makes our data broadly accessible to our systems and data scientists, and accessible in real time. It's great to have a lot of good data, but if that data can't be leveraged where and when necessary, it is not as powerful as it could be. To take advantage of that data, we have a team of highly talented scientists and engineers to efficiently process and model large amounts of data in our highly scalable, cloud-based proprietary technology environment. Today, our business is being optimized by data and machine learning algorithms. Let me give you a few examples.

The first is our proprietary vehicle recommendation engine on CarMax.com that creates a highly tailored and personalized shopping experience. The tool is specifically designed to help customers who are just beginning their car buying journey. At this stage, they may not know exactly which car they want or need. Our sophisticated algorithm helps shoppers navigate through various cars, so that they can begin to narrow down their choices to find the car that best fits their needs. Let me show you how this works.

Here a customer starts with a wide search. We prioritize search results using what we know about that visitor and as the customer engages with the vehicle, our recommendation system quickly personalizes by responding with make and model recommendations as well as recommendations for similar cars. As the consumer progresses further, our recommendations evolve incorporating the latest information. In this case, within a few clicks our system adapts to highlight white SUVs. Just what this customer wants. With each click we are re-evaluating our inventory in real time. Selecting the most relevant cars and delivering a batch of recommendations in less than 300 milliseconds. With each click our tool learns from our shoppers' actions and as we learn, we personalize.

Another example is how we are using algorithms to create a more consistent look and feel for all vehicle photos uploaded to CarMax.com. This patent-pending technology analyzes vehicle photos taken at any of our locations and in a matter of seconds, can modify the surrounding background to create an enhanced and more visually appealing offering for consumers.

First, let's talk about how we built it. We took thousands of cars, all different types of makes and models, in studio environments and fed it into our machine learning engine as "training data." Once we accumulated all the information and defined the output, we're able to input a photo like this. The model understands the photo and all of the different aspects such as where the car is and what the environment looks like. The model then produces an image that looks like this. So essentially what you have seen here is we have altered the image without impacting the vehicle. It's the environment that is different, not the car. Let me show you again. Here's an image with an environment that is not ideal with dirty floors. We can run it through the model and in under 5 seconds we have a new image that looks like this. Here is one more example with dirty floors and a door in the background. Again, in under 5 seconds, we have an image with a more consistent look and feel.

The next example is the scoring and routing system used at our customer experience centers. Centralized CECs have really been a differentiator for us and provide opportunities to gain efficiencies through: automation, data-driven algorithms and smart routing to get the right customer to the right associate at the right time. We understand where our customers are at every step along the way during their buying journeys. Our CECs are continuing to become more efficient and effective and a lot of that progress has been attributed to our investments in technology and data science. These are just a few examples of our technology innovation. We've got more ahead of us that we're really excited about. For example, we think we're just scratching the surface on what our CECs are capable of, and most of the future enhancements we are working on are going to be AI driven.

We're also nearly finished with a complete technology overhaul of CAF which will provide us with many benefits including: opportunities for customers to do more self-serve, a more customized consumer experience, and a better operating environment for our associates. In addition, we are currently re-platforming our wholesale auction business to provide a better dealer experience and set us up for future growth.

In summary, we believe our proprietary technology stack, flexible digital backbone and our strong data science and machine learning capabilities have only widened our competitive moat. Our investments in technology and data have set the stage for us to move faster and more effectively against all opportunities in front of us. And we are positioned to excel in the future no matter how it takes shape. And with that, I'll now turn the presentation over to Jim.

Jim Lyski:

Thank you, Shamim. With the rollout of omni-channel complete, our next step is to make sure more customers and potential customers are aware of the new CarMax, and the value we are delivering. This is where marketing plays a critical role, and I'm going to talk about how we are re-introducing CarMax to customers and aggressively sharing the news about our new digital experiences and customer offerings.

It all starts with investing in the CarMax brand. Our brand has always had a strong reputation because of our commitment to integrity and our track record of providing customers with an exceptional buying and selling experience. However, our reputation has been challenged in recent years as other auto retailers have attempted to paint us as the "old school" way of doing things. However, we knew that the completion of our omni-channel rollout was the perfect opportunity to counter this false narrative with a fresh approach to our brand.

As we began introducing our omni-channel story to the market, we launched a modern refresh of our brand visuals, tone and message. Even before the launch of our recent campaign, we saw good growth in awareness of omni-channel and the ability for customers to choose how they shop with us.

We innovated on behalf of our customers again with the creation of the industry- leading "Love Your Car Guarantee", which we launched in January of this year. This new signature experience provides unparalleled confidence to customers, by giving them 24 hours for test drives and a 30-day money back guarantee. This offering is unmatched and sets a new bar in the automotive industry, like the high bar we set with the "no-haggle" buying and selling experience almost 30 years ago.

It's a great offering that gives real value and certainty to our customers, giving them additional confidence when they make the decision to purchase a vehicle from us. It's also a message that lends itself easily to visuals through both traditional and digital media. While the "Love Your Car Guarantee" is currently rolled out across our marketing channels, this is just the beginning of our new orientation towards communicating our innovative approach. Going forward, we'll continue to disrupt the industry by rolling out new, wow-worthy experiences and offerings.

We are always looking for creative ways to connect with existing and future customers. Our strong partnerships, as well as our creative and media agencies, have brought forward a number of great opportunities. Ideas like: podcast sponsorships, unique activations, like our recent "Doing Donuts" promotion for the 24-hour test drive with Dunkin, influencer opportunities, and even fun out-of-home promotions for the 24-hour test drive, using neon billboards in several of our top markets.

One excellent example I wanted to highlight is CarMax's partnership with the WNBA and NBA. We've sponsored individual NBA teams for more than a decade, and in December 2020, we expanded our partnership to the league level. We are now the presenting sponsor of TNT's NBA Tip-Off show and we are the first automotive retail sponsor in WNBA history. Recently, our ads featuring four-time WNBA champion Sue Bird and three-time NBA champion Stephen Curry made national headlines and went viral on social media, striking a cord with fans regarding the message we were sending. It was certainly one of the pinnacle moments of our partnership with the WNBA and NBA.

While the customer- facing side of marketing is fun to talk about, it is backed by the same data-driven disciplined approach we take to the rest of our business. Our ultimate goal is to maximize the returns on our marketing spend. It is why we practice a portfolio management approach to our investments in acquisition marketing, with numerous investments across 8 Product teams, and unique performance- marketing programs, such as search engine marketing, performance display, YouTube, social and recently, a new Google product ad program.

We are leveraging data and analytics to make increased investments in our performance marketing portfolio and grow visits to CarMax from the highly competitive base of in-market shoppers.

Over the past several years, we have built out multiple always-on programs in our marketing portfolio, with dedicated teams of internal and external partners, continuously working to optimize each program – retargeting and social acquisition programs are examples of those.

Similar to the product teams I discussed earlier, these marketing teams are fully dedicated to each program and consist of a variety of roles, including a leader akin to the Product Manager, a dedicated analyst and project manager, as well as multiple support resources depending on the program, sometimes developers, creatives, agency partners and data scientists. Their focus is on driving greater ROI efficiency through the application of data science, experimentation and creative optimizations.

We are constantly monitoring the overall health of our marketing portfolio and managing the budget across each program every week to maximize returns. With strong analytics, we can predict the performance of various spend levels on overall profitability and through ongoing program optimizations. Our aim is to move this curve up each month, each quarter and each year. As a result of improved efficiencies, we have continued to invest more in this area, expanding and optimizing the growing set of marketing programs. As we continue to improve in these areas, we are planning to make multiple new investments in the upcoming year to continue build out new programs and strengthen the existing ones.

You can expect to see expansion of similar programs in the Vehicle Acquisition space, continued partnerships with big media companies like Google and Facebook, and expanded data science and landing page optimization capabilities that should help us drive even greater performance of these investments.

Because of the great results we have seen thus far, our advertising spend will remain at the current per-unit levels experienced since the second half of fiscal 2021. This increased spend will focus on both awareness and acquisition marketing programs, building on the great momentum we are seeing and further growing our market share.

At this point we're going to take a short commercial break in our presentation before we resume with the rest of our Analyst Day agenda. We hope you'll enjoy these highlights from our current advertising campaign. We'll be back with Bill in five minutes.

Stacy Frole:

Welcome back, everyone. I hope you enjoyed our commercials and got a chance to catch your breath. So far, we have focused on our omni-channel strategy, our digital transformation and the strength of our brand. Next, Bill will discuss the broader used car ecosystem and Enrique will cover our highly profitable growth and long-term outlook in more detail. Okay…now, if you're ready, we're anxious to share with you the rest of our CarMax story. Once again, here's Bill Nash.

Bill Nash:

Today's event has largely been focused on our digital transformation and how that's enabled our omni-channel experience. We're proud of the work our teams have done to put CarMax in the excellent position we're in today. Looking forward, we're even more excited about the opportunities ahead of us.

Digital adoption by consumers and dealers is going to grow, and we're going to build on our foundational investments in omni-channel, our proprietary, integrated technology stack and our strong brand reputation by continuing to rapidly innovate to enhance our B2C and B2B offerings. But as I mentioned earlier, we're not just thinking about the sizable opportunities we see in retail. When we think about our future, we're thinking about opportunities in the broader used auto ecosystem, and the work we've done to transform our technology and approach to digital are enabling those too.

One area of the used auto ecosystem where we've always played a role is in finance. As we've grown CarMax, CAF has grown along with it. As a result, today CAF is a $14 billion finance company, and one of the top finance providers in the used auto industry. It has been a steady performer and cash generator for us. Importantly, it is a core part of our customer offering. In a low-interest rate environment, it's a business that generates great results, but it's in the down cycles when the competitive advantage of having a captive finance business with strong third-party relationships really shows. In those situations, CAF gives us another lever to support retail sales while appropriately managing risk. While we haven't spent much time on it today, CAF has played a significant role in our omni-channel experience through the work CAF associates and our product teams have done to digitize the finance application and approval process and move the financing decision further up the online sales funnel. As we continue to grow our retail market share and revenue, CAF will also continue to grow, and drive conversion and profitability.

Wholesale is another part of the used auto ecosystem we've competed in for years as our auctions are fundamentally linked to our retail business. Our cash offers for vehicles have always been a way to create value for our customers and source inventory. We realized early on that having an auction business allowed us to provide the best offer on all cars. We can buy cars from customers regardless of whether they meet our retail standards because we can dispose of them and because of our auctions, we can do so at a great profit. Over the years, we have become one of the largest used auto auctions, selling more than 425,000 cars last year. However, it's worth looking at some broader numbers. We estimate more than 25 million customers will sell their car this year. Among these customers, more than 10 million will sell directly to another consumer with the remaining selling to a dealer. Assuming these forecasts are true, this translates to a market of $230 billion in potential revenue. This is an opportunity that we're excited about. Every used auto company wants to buy a retail car, but unlike others in the car buying market, we want to buy every car – from newer and lower-mileage vehicles to older and higher mileage ones.

With the rollout of our online instant appraisal offer across the Edmunds and CarMax platforms that Jim walked you through, we have changed our approach to wholesale growth. We are now positioned to become the largest online buyer of used autos from consumers and have a revenue driver that not only supports our retail business, but also has growth opportunities of its own.

Looking beyond CAF and Wholesale, I want to talk about the broader used auto ecosystem. We think of the ecosystem as an expansive way to describe the entire value chain for used autos It's not just retailing, buying, and financing – it's logistics, customer acquisition, merchandising, and so much more. If you look at our business and its infrastructure, technology and scale, we have the ability to grow in so many connected areas. Logistics is a great example. As you heard earlier, we have more than 260 trucks and more than 525 drivers. We also have an additional 125 trucks as part of our own dedicated fleet. We see our hub and spoke system, with 26 strategically located transport hubs, all built in the last four years, as a significant competitive advantage as no other used auto retailer has this nationwide infrastructure in place. This system, combined with our own and dedicated fleet, allows us to efficiently move cars across the country each year by reducing our reliance on 3rd party haulers and improving our service, cost, consistency, and control. We're going to continue investing in this area and plan to add roughly 100 trucks this next year as we look to enhance the customer experience and expand our last mile delivery capabilities. Additionally, we believe there are ways we can leverage this scale and capability to benefit our wholesale dealers as well as the dealers serviced by Edmunds. For example, we've been running a pilot where we move cars for dealers who have purchased them at our auctions.

Beyond auctions, we are piloting new ways to buy used vehicles directly from dealers. Our focus is identifying a range of opportunities where we can leverage our strengths and capabilities, like our ability to generate additional value from our vast, ever-expanding data assets, or the unmatched footprint that places us within 60 miles of most U.S. car owners. We estimate this ecosystem represents a more than one trillion-dollar market opportunity, and like the traditional used car market, it is highly fragmented.

Moving ahead, we have the opportunity to continue expanding in key areas across the used auto ecosystem through continued investments, partnerships, and acquisitions, like we recently announced with Edmunds. Our acquisition of Edmunds is a first step into expanding our role and reach within the used auto ecosystem. Jim already spoke about instant offer, but Edmunds is much more than that. Edmunds is an important and trusted source that consumers rely on when they research vehicles. Because of its reach, Edmunds further expands our digital footprint, brings us closer to a broader set of consumers and brings us closer to dealers. Over the past year, we've collaborated with them on instant offer and other strategic initiatives, and have been very impressed with their technology, content, online experience, and importantly, their talent. They're serious about being "the global expert on all things cars and trucks." As a trusted source for consumer information, Edmunds' content is accessed by 15 million web visitors a month and seen by their close to 300K TikTok followers and more than 300k YouTube subscribers, who visit to see reviews for new vehicles and importantly to see reviews for older vehicles, which go back more than 10 years. Edmunds' has strong B2B relationships in the industry as well, including a wide base of more than 25,000 dealers across the United States, that we believe can serve as a springboard for many new initiatives in the broader used auto ecosystem. I'd like to share a quick video from our colleagues at Edmunds to show you the breadth of what they do.

I hope that gives you a little more flavor for why we are so excited about this acquisition and how it fits into our future growth plans. We will continue pursuing ways to partner, build, or buy new capabilities, new offerings or potentially even new businesses that don't exist today. We'll do that through the lens of the long list of strengths we spoke about earlier and how we can further use and extend them or enhance them to pursue new opportunities. With that, I'll turn it over to Enrique to talk about how we expect to create that growth and drive shareholder value through our financial model and long-term outlook.

Enrique Mayor-Mora

Good morning and thanks Bill. I'm pleased to have the opportunity to speak with you about our financial outlook and our strong foundation to create long-term value.

The foundational investments we have made over the past several years in our people, processes, technology, and brand have set us up for significant, ongoing growth and gain in market share. I'll speak to our KPIs and long-term financial expectations shortly, but first, let me start by reiterating the growth opportunities and power of our financial model.

As you've heard today, CarMax is differentiated from our peers - in part due to our unparalleled national platform for buying, selling, producing and moving vehicles. The efficiencies of scale we enjoy, along with our diligent focus on cost management, are key to our ability to consistently deliver strong profitability while continuing to drive growth.

We have a nearly 30-year history of solid execution as our approach has proven to be resilient across market cycles, defensible in the face of old and new competitors, and adaptable to meet changing market conditions. And with the investments we are continuing to make in digital, CarMax is positioned for long-term growth and success. We are confident in our path forward as each of our businesses have meaningful growth opportunities.

For retail, we will grow with the continued penetration into the largest addressable market within the used auto industry. We will also grow from the continued enhancements of our digital offerings and the use of data, machine learning and AI making us more efficient and more accessible to all customers' needs. And, our sourcing and production of vehicles better than anyone else in the industry make each sale more profitable.

For wholesale, growth is coming from the rapid digitization of the entire experience for both customers and dealers. Since going virtual our auctions have experienced more than a 20% increase in unique attendees. And the performance of our recently launched on-line instant appraisal offering for customers is exceeding our expectations. This growth benefits us in two ways: increasing our self-sufficiency rates and increasing the number of units sold at our auctions, which as Bill mentioned, we do very profitably.

For auto finance, growth comes from the improvement in the online approval and flow process, the renegotiation of our third-party participation fees, and from the optimization of CAF's penetration, beginning with an increase in Tier 3 originations from 5% to 10%. Our growth is reinforced by our ability to fund our loans. We have a world class securitization platform and multiple alternative funding vehicles through our portfolio of financing partners.

And finally, as Bill discussed, we are also working on incremental growth opportunities across the used auto ecosystem that build upon our strengths in these businesses and our extensive capabilities.

The transformation of our business through our omni-channel strategy has positioned us for accelerated topline growth. Importantly, it is also creating opportunities for improved efficiency as online engagement and online sales ramp. As Shamim discussed earlier, by leveraging cloud-based platforms, AI and machine learning we are improving the efficiency and effectiveness of our operating model, especially when it comes to our CECs. Improvements in helping customers progress online and how our Customer Experience Consultants respond to requests are contributing to our model's strength. We currently estimate that a 1 point improvement in CEC conversion would contribute to hundreds of millions of dollars in incremental revenue from the related used unit sales.

Our new labor model is becoming more effective in converting customers to a sale, and as our CECs continue to scale, we expect they will become more efficient than the old model in the near term, resulting in a lower operating cost labor model. And because our omni-channel strategy is allowing customers to progress their transaction further on their own, when customers come to our locations, they tend to be further along in their car buying journey. As a result, our sales associates are converting at higher rates than in the past.

We're continuing our focus on efficient operations in areas like production as well, and seek to deliver those savings to consumers. Lower production costs give us the flexibility to lower retail pricing where appropriate and ultimately drive greater sales volume, while still maintaining the attractive GPUs we are known for.

Our business model generates exceptional cash flow. This is a result of the diversification of our business model and owning different touch points in the used auto life cycle. It's also a testament to our scale. Our cash generation, underpinned by our strong balance sheet and low debt leverage, provide the financial flexibility to aggressively invest in our associates and our businesses, and pursue strategic partnerships and acquisitions. Case in point, we will be able to easily absorb the acquisition of Edmunds into our capital structure framework. From this capital structure standpoint, we ended the year modestly below our historical leverage target of 35% to 45% adjusted debt to capital when netting out cash, and we remain committed to maintaining our leverage ratio within this range over the long-term.

This leads me to our capital allocation. Our capital allocation philosophy is focused on two priorities: growing the business by pursuing investments with attractive return profiles and strategically returning capital to create further value for shareholders. In the ten-year period through FY20, our commitment to this philosophy and our continued operational excellence resulted in a Revenue CAGR of 11% and an EPS CAGR of 16%.

We believe that our strategic plan will enable the continuation of our trajectory as a growth company. Our plan remains consistent moving forward: First, we will continue investing for return generating growth across our core businesses. Second, we will deploy capital to purse new growth opportunities that meet our investment hurdles. And third, we will continue to return excess cash to shareholders.

In addition to the P&L investments we've already talked about, on an annual basis we target approximately 80% of our capex spend towards growth with the remainder for maintenance, a mix we expect to maintain moving forward. As we pivot our business to be more technology-driven, the profile of our growth capex spend is also following suit. Approximately one-third of our total spend in fiscal 2022 will be directed to investments in technology and our digital assets, up from 8% five years ago. This increase in share of spend on technology has been largely focused on setting the foundation for our omni-channel experience, including significant spend modernizing our platforms, with CAF to be completed within the next year; standing up our CECs; and developing new capabilities to enhance the experience for our customers, both retail and wholesale, and our associates. Moving forward we will continue to invest in our ecommerce capabilities while shifting spend to other aspects of our business including modernizing our order entry, inventory management and wholesale platforms.

At the same time as we've invested in digital and omni-channel experiences, we have continued to invest in the expansion of our footprint to further extend our reach and stay close to our customers through new location growth. In fiscal 2022 we plan to open ten new locations. As was the case with our more recent openings, these locations are predominantly our smaller, cross functional stores that leverage our scale and other locations in nearby markets. These locations also act as fulfillment centers, serving as a place to hold vehicles, stage test drives, or schedule curbside pickup if customers choose, while providing the industry-leading customer support we're known for. It's all about their choice. The key to a true omni-channel offering – and one of our greatest strengths and opportunities – is capturing the significant amount of value that comes from having physical locations in close enough proximity to quickly and efficiently deliver cars to customers all around the country. Over the next several years we plan to open a similar number of new locations annually as in FY22 across the U.S., further enhancing our competitive advantages in scale and logistics.

As Bill just discussed, in addition to investing in our core businesses, we are also focused on growth through strategic partnerships and acquisitions. Importantly, the ability to opportunistically pursue these types of investments is made possible because of our significant cash generation and commitment to maintaining balance sheet strength and flexibility.

Creating long-term sustainable shareholder value is a top priority for our team and, for us, this equation includes returning excess cash to shareholders through our share repurchase program. Since the start of our share repurchase program in fiscal year 2013, we've returned more than $5.2 billion of capital to our shareholders. That's 38% of the then outstanding share count. As a growth company with significant strength in cash generation, we will continue to have the capacity to aggressively invest in growth and create incremental shareholder value through share repurchases. At the end of the fourth quarter we had $1.34 billion of authorizations remaining under our current program.

As our business evolves it's important that we also provide visibility on our progress along the way. Accordingly, we will be introducing a few new KPIs to track progress on our path forward, these include: The percent of used units sold online, as Jim defined earlier. The percent of revenue coming from online transactions. The number of online appraisal buys; and SG&A, excluding depreciation and amortization, as a percent of Gross Profit dollars.

Historically we've communicated SG&A spend in the context of our retail comp growth. But, as we grow our Wholesale business and CAF, and with the acquisition of Edmunds and expansion into the broader used auto ecosystem, our SG&A supports more than just our Retail business. We believe a better measure is SG&A excluding depreciation and amortization as a percentage of total Gross Profit, excluding CAF, as this measure effectively captures the broader economics of our businesses. This metric was approximately 72% in FY21 as we completed the rollout of our omni-channel platform and increased advertising spend to build awareness.

In FY22, we expect this measure to improve slightly from FY21 reflecting our continued investments in advertising and our omni-channel experience, and technology initiatives across all of our businesses in support of the used auto ecosystem. Over the medium term, we expect it to continue to leverage as gross profit increases, but this leverage will be tempered given the structural changes in our business and due to our continuing investments as we have embraced digital throughout the organization.

As you've heard today, we are very bullish on our near-term opportunities. With a strong foundation in place, we are uniquely positioned to accelerate market share gains and pursue growth opportunities throughout the broader used auto ecosystem.

We've started fiscal 2022 with great momentum across all aspects of our business. For retail, the majority of our locations delivered record sales resulting in more than 100 thousand cars sold in the month of March for the first time in the company's history, and this strength continued into April. Our wholesale business is benefitting from our new online instant appraisal offer and significant market price appreciation, and is also off to a strong start. And, CAF continues to efficiently fund our business through the ABS market with its most recent transaction in April very well received by investors.

Given current market conditions and the increased capabilities provided by our new digital offerings, we expect to deliver robust top line, bottom line and market share gains in fiscal year 2022. We remain steadfast in our belief that consumer shopping patterns post the COVID-19 pandemic will benefit those companies who can offer customers world class on-line and in-store experiences, truly delivering on the promise of omni-channel.

Looking at our retail business, our wholesale business and CAF, along with the strategic investments and opportunities we see ahead of us, we are also bullish on our long-term growth opportunities. Over the next five years, we expect our diversified model, the scale of our operations, our investments, and omni transformation to create a rock-solid foundation for further growth. As Bill mentioned earlier, based on our projections, we expect to grow our share of the national used auto market of cars 0-10 years old to more than 5% in calendar year 2025, a roughly 50% increase from calendar year 2020. We are expecting this accelerated growth in market share as a result of our leading position and opportunity to capture the largest total addressable market for buying and selling used autos, due to the breadth of our capabilities, our footprint, and our brand.

By fiscal 2026, we are confident the investments we are making in our digital transformation will enable us to sell 2 million units per year, through retail and wholesale combined, representing a CAGR of over 10% and a 70% increase from fiscal 2021 levels. In addition, we expect our consolidated revenues to grow at roughly a 12% CAGR from fiscal 2021 through fiscal 2026. As Bill mentioned, that gets us to approximately $33 billion in expected total revenues for FY26, a 75% increase over the next five years.

In summary, we expect double-digit revenue and unit increases over the next 5 years, with industry-leading profitability and shareholder value creation through growth and return of capital. With that, I would like to turn the presentation back to Bill for some brief closing remarks before we open it up for questions. Bill…

Bill Nash

Thank you, Enrique – That wraps up our speakers for today. Our goal for this presentation was to help you better understand our transformation through people, processes and technology, how that has enabled our omni-channel strategy, and all the factors we expect to fuel our future growth and opportunities.

Let me take a moment to recap why we think CarMax is in the best position to win now and in the future. We are the leader in a massive and highly fragmented market with ongoing opportunity to gain share. Our scale, technology, data and proprietary algorithms will continue to provide competitive advantages and differentiate us from others. We are continuing to enhance our omni-channel experience with a digital first approach to deliver the most customer-centric offering in the market.

We are the largest seller and buyer of used autos to and from consumers. And we will become the largest ONLINE seller and buyer of used autos. We are expanding our reach within the used auto ecosystem, through investments, strategic partnerships and acquisitions, opening up new areas of growth that leverage our scale, technology, data and talent. We believe in our ability to continue to drive growth and widen our competitive moat, and we've shared long-term targets today that reflect our expectations.

Our diversified operating and financial model enables that growth, and makes it possible to deliver sustainable shareholder value. I am proud of what we have achieved together as a company, and I hope you share our excitement about our future.

Stacy, I am going to turn it over to you for Q&A setup while I join the others.

Q&A Portion

Stacy Frole: Thank you, Bill. We're now going to transition to a Q&A session where a group of analysts are joining us by phone. To help us get to as many questions as possible today, I would like to ask our analysts to limit yourselves to one question.

Participating from CarMax will be Bill Nash, President and Chief Executive Officer; Enrique Mayor-Mora, Senior Vice President, Chief Financial Officer; Jim Lyski, Executive Vice President, Strategy, Product and Marketing; and Jon Daniels, our Senior Vice President of CarMax Auto Finance.

With that, I'd like to turn it over to our operator, (Lara), to begin taking questions.

Operator: Thank you. At this time, in order to ask a question, please press star then the number one on your telephone keypad. Again, in order to ask a question, please press star then the number one on your telephone keypad. If you would like to withdraw your question, you can press the pound key.

Your first question will come from the line of Brian Nagel. Your line is now live. Go ahead please.

Brian Nagel: Good morning.

Bill Nash: Good morning, Brian.

Brian Nagel: Thank you for hosting the event today. Thank you for all the information. Much appreciated.

So to kind of stay within Stacy's rules, I have two questions, but I will merge them into one, maybe a little long. I apologize.

First off, a lot of chat and I know we talked about this on the recent Q4 call. But there's still clearly, we can see in our data, inventory constraints out there. In your comments, you talked about, obviously, this is strong margin and strength continuing you to able.

But the question I have is, to what extent is inventory continuing to hold back sales? And how should we think about that going forward?

And then the second question I have – I guess, a little bit bigger picture in nature. But all that you laid out today, I mean, clearly, the message today was to the extent to which CarMax has invested aggressively digitally and enhanced the business. And you talked about now the path towards accelerating growth of the company as a result of these investments.

What are the key – if you look at your business now, what are the key building blocks? What can you help us point to that's giving you that confidence that these investments are leading this path towards better growth? Thank you.

Bill Nash: Yes. Thank you for your questions, Brian. So first, on the first question on inventory, you're absolutely right. Our inventory is lower than we would traditionally have it this year. It's certainly lower than our targets would be, so substantially lower. But I'll tell you, and this goes a little bit back to the fourth quarter, the inventory level today is a function of sales and production, not necessarily a function of supply.

While supply is down, what happened in the fourth quarter was that we ran into some weather, we ran into some COVID shutdowns in our production facilities. So in a time where we're normally building our inventory, we weren't able to do that. And so now you've come into this period, and it's – that's really what you're seeing, is a reflection of getting a little bit behind on the earlier build and then the sales that we're currently seeing. The time to get back to the inventory really depend on how the sales trends continue to go.

On your second question, the building blocks. Listen, we spent this morning talking about a whole bunch of the great initiatives that we've been working on. And I would tell you that – I think the most exciting for me and the team here is that the growth is going to come from all facets of the business.

When you look at the core business, whether it's retail, retail is certainly going to grow because of the omnichannel, and that's going to be a big thruster for growth. We talked about continuing to add stores, although that won't add as much growth as it has historically because we're doing smaller stores, not as many. That's another contributor.

But the beauty of our businesses as retail grows, so does wholesale and so does CAF. And then in addition to that, we talked today about investing in both of those parts of the business. So in the wholesale side, whether it's the digital enhancements to making in the virtual or an auction platform or an instant cash offer, on the finance we talked earlier about moving that financing experience up to the front of the shopping. So we're making improvements there.

And we're continuing to work with our partners and make sure that we walk the right line from a penetration standpoint, that kind of thing. So you've got that core business, which is going to continue to grow. And then we really also talked about that larger ecosystem. And our acquisition of Edmunds is a great example for that, and we'll continue to look for strategic fits that help us accelerate our growth as we go forward.

Enrique Mayor-Mora: We're really excited about our core growth. And as we laid out, we're expecting double-digit growth when it comes to used wholesale units to allow for more than double-digit CAGR growth over the next five years, and almost a 75 percent increase in our revenue at that point in time as well. So really excited about our growth potential.

Brian Nagel: Well, thanks, guys. If I may, just let me follow-up on that just with one. So when you talk – Bill, when you talk about the omnichannel, are you seeing right now, now that the business as omnichannels turn on? I mean are you seeing right now in certain markets, there's clear indications. If you can help us with this one.

Bill Nash: Yes. I mean, we're absolutely seeing a benefit of all the investments we've made in the omnichannel experience. And the continued iteration of how we make that experience better. But I'll tell you, there's a lot of things going on right now in the marketplace.

As you know, from a macro environment, it's really hard to parse out, OK, how much of it is omnichannel experience, how much is stimulus, how much is tax refund, how much is maybe the chip shortage on new cars.

So there's so many things at play, but we do feel very good about what we are seeing internally and feel like all those macro take those into consideration, we feel like we're adding on top of that. So we feel very good about it.

Brian Nagel: Thanks, again.

Bill Nash: Thank you, Brian.

Operator: Thank you, sir. Your next question will come from the line of Michael Montani. Your line is now live. Go ahead please.

Michael Montani: OK, great. Thanks for taking the question. First of all, just had one kind of higher-level question and then a follow-up, if I could. So on the high-level question, I guess, for Bill would be, you guys outlined quite a few initiatives today. I'm wondering if you could prioritize maybe the top two or three that you think are really going to move the needle in 2022 and beyond? And then I just have a follow-up question.

Bill Nash: Yes. So thanks for your question, Mike. Yes. I'll go a little bit back to what I talked to Brian. I mean we're really excited about multiple things in really all parts of the core business, whether it be retail, wholesale or CAF. And if you say, OK, if you really push me and say one or two things, we're absolutely fired up about the omnichannel experience because not only does that lift retail, it lifts the whole rest of the business.

So I forget all the great things that we talked about today, that we're going to be doing with wholesale and finance, that really is something that we're excited about. And look, it's been a while in coming. This has been a massive transformation for the company.

I feel like we're at this inflection point where we got that common platform out there at the end of last year. And now we've been quickly iterating, as Jim showed you earlier, some of the advancements we're doing there, some of the machine learning that Shamim talked about.

So if you push me, that's what I would tell you is, that's what I'm really excited about because it does lift all parts of the business. But I think also, that will continue on into the future because we're going to continue to reiterate and make that better, and customers are going to continue to demand more from that experience.

And I think there's very few people that are going to be able to provide that type of personalized experience like we can. And then I also think as you look down the road, this idea of a larger ecosystem that so many of our investments tie into all those different areas.

And now it's just a matter of deciding, OK, where do we want to go play. So that's another area that we're really excited about midterm, longer-term growth as well.

Michael Montani: OK. Great. And then just a follow-up, if I could. If I look at the last 10 years, I'd kind of break it down into two time periods, one was 2011 through '15, real growth period for the company, 5 percent comps, 9 percent unit growth, double-digit EBIT growth and a 30 percent premium to the market.

Then you had kind of transformational years, sort of 2016 through '19, 3.5 percent comps, 7.5 percent unit growth, 4 percent EBIT growth and the stock kind of derated versus the S&P. So thinking out over the next few years, I'm kind of backing into from your goal, something that's like 6 percent comp, 8 percent to 9 percent top line unit growth.

And basically, just wondering why wouldn't it be possible to have double-digit EBIT growth once again given some of the efficiencies you guys are seeing on the CEC side, the move from variable to fixed costs.

Can you balance out the investments you need to make in advertising, and then still kind of unlock this more accretive margin, cash flow, ROIC profile in the next four to five years?

Bill Nash: Yes. So Mike, I'll touch on the EBIT. I'm going to pass it over to Enrique. So while we didn't put a specific target for EBIT out there, I don't want anybody to think that we're not still focused on being the most profitable used car company out there.

And we would expect that profit to continue to flow down. And I'll let Enrique talk a little bit about how the growth is a little different today than maybe back in the early years that you cited coming out of the recession.

Enrique Mayor-Mora: Yes. Great question. Thank you. And so when you take a look at the past 10 years of growth that we've had on the top line from a revenue perspective, it's been significantly impacted by our new store growth, and that's been a strong support to our overall revenue growth.

Now moving forward, as we know, we're going to open up fewer stores, and they're going to be smaller as well. So there's a larger expectation that, that growth is going to come from our comp store base, and we do expect that to materialize. Again, overall, we're expecting double-digit CAGR growth in revenue and in unit growth.

Now when it comes to profitability, we still expect robust earnings growth and shareholder value creation. And we're going to use the same formula that we've been using for the past while. Double-digit revenue growth, supported by our new initiatives, continued focus on cost efficiencies and cost management, and a return of capital back to our shareholders. And that formula, we expect, will continue to deliver robust earnings growth.

Michael Montani: Great. Thank you and good luck.

Bill Nash: Thank you, Mike.

Operator: Thank you, sir. Your next question will come from the line of Sharon Zackfia. Your line is now live. Go ahead please.

Sharon Zackfia: Hi. Thanks for taking the question. I had kind of two-related questions on digital appraisals. I guess, first, I'm just curious whether you think there is any evidence yet that those digital appraisals are kind of penetrating that third of used car sales that historically have been peer to peer. Just wondering if you're thinking that, that might broaden the TAM of your sourcing availability?

And then secondarily, I guess, curious whether you've given some thought to the rise of instant appraisals from yourself and others as kind of increasing transparency to the consumer on the value of their cars and then effectively competing away what has historically been a beneficial GPU from consumer sourced vehicles versus auction sourced?

Bill Nash: Great. Thank you for your question, Sharon. Yes. So on the peer-to-peer, obviously, it's a little early. But as Jim talked about earlier, we're really excited about the volume that we're already seeing. And we're not talking about a few cars here. We're talking about hundreds of thousands of cars. And so it's a little early to tell, OK, are we're pulling that from here to peer, or is that really the consumers that are the ones that are willing to sell to a dealer. So stay tuned for that.

As far as the transparency, look, this space has been super competitive for like the last five or six years. And I would tell you, I think that we can put the best figure on any car. And the reason we can do that is because we want every car. Most traditional dealerships only want the cars that they can get rid of on their front lot. We want those, but we want every car.

So it doesn't matter how old the car is, it doesn't matter what condition the car is, we want every car because we have a place for every car, and that's really enabled by the cash offer and our great auction system that we've built up over the last 28 years.

So while it may be even more transparent, I'm OK with that because I think we have the upper edge on that and can put the best figure on the vehicle for the consumer.

Sharon Zackfia: OK. Thank you.

Bill Nash: Thank you, Sharon.

Operator: Thank you. Your next question will come from the line of John Healy. Your line is now live. Go ahead please.

John Healy: Thank you. And I want to give some complements to Stacy without jinxing everything in terms of how smoothly everything has gone today. But one of the things I wanted to ask about was just the wholesale and the financing business.

I've always viewed those as good business as you guys have had, but I feel like the phrase you've used about auto – used auto market expansion, I feel like it could impact those businesses quite a bit. So just thinking about the wholesale business, I know that's largely been internalized in a way for you to move units of your own on trade.

Is there any thoughts of potentially expanding that a little bit more broadly, especially now that what you said the 20 percent increase in attendance and activity in the digital solution? And kind of thinking about the financing business the same way. You have a lot of infrastructure there and a lot of knowledge. Would it make sense to maybe expand into the financing business, more on the dealer side, so competing with some of the offerings that have traditionally been offered by auction houses?

Bill Nash: Yes. So thank you for the question, John. Look, I think the first focus that we have, particularly with the wholesale business, we're seeing a lot of volume there. And with our new instant cash offer, we want to make sure we can certainly take care of all of our own volume first.

But keep in mind, everything that we're building, all the capabilities we're building, we're building for a longer-term experience. And so I would say our focus right now is taking care of what we've got going on, and I think same thing for finance, John.

And I'll let Jon talk a little bit about how we think about findings and what are the key things we're looking at. But what I want you to know is that as we evolve these things, we talked a little bit – we're doing the big technology transformation with CAF as well.

And everything that we do, whether it with CAF or wholesale, we're building in a way that's very fungible that will allow us to do different things in the future. So Jon, you want to talk a little bit about CAF and just kind of our goals there right now?

Jon Daniels: Yes. Absolutely. I appreciate the question and the recognition of the finance side of the business. CAF in combination with our lenders, that lending platform has served us tremendously well over the years. We think that platform is incredibly scalable as we grow to 1 million and 2 million cars, sustainable in good and bad lending environments, and so we are very excited for the growth just from the CarMax business and continuing to contribute to the bottom line there.

As far as potential of financing outside of the CarMax origination channel, certainly, it's something that we believe we have knowledge and skill to potentially do that. I think right now, our focal point is serving the current business of CarMax, and continuing to evolve that credit experience to customers.

You heard a lot about that today. We're really excited about where we can go with providing that digital experience, direct to the customer, offers on all cars, penny perfect decisions. So I think that right now is our focal point. And if, for some reason, there's a possibility outside of the CarMax channel, we might pursue that, but not our focus right now.

John Healy: Great. Thank you.

Jon Daniels: Thank you.

Operator: Thank you. Your next question will come from the line of Ali Faghri. Your line is now live. Go ahead please.

Ali Faghri: Good morning and thanks for taking my question. Back to Mike's earlier question on bottom line growth. Directionally, is it fair to assume that you expect EBIT growth will be above the 12 percent revenue growth and that EPS faster than EBIT through 2025?

It seems like based on your forecast, that 15 percent to 20 percent EPS growth is possible. But I just want to make sure I'm not missing anything. And then as part of that, you mentioned SG&A as a percentage of gross profit being a key focus KPI. Where do you expect that to go by calendar 2025 versus the low 70 percent range currently?

Enrique Mayor-Mora: Yes. So in terms of profitability, what I tell you, Ali, and thank you for the question, is that we expect to continue to deliver robust earnings growth. Our focal point today with the Analyst Day is really to communicate our excitement around our top line growth and our growth opportunities.

But rest assured from a bottom line standpoint, as we've delivered in the past, in terms of earnings growth and shareholder value creation, it is our intent to do so again, moving forward using the formula that I stated before.

And in terms of SG&A, we are moving the metrics. So historically, all of our SG&A has been based on a per used unit basis. Now we think, given the investments we've been making in the business, in appraisals, in wholesale, the acquisition of Edmunds, taking a look and exploring different opportunities within the used auto ecosystem. Given that basis, we think it's much more reflective of our business and how we're going to manage SG&A to look at it as a percent of gross profit.

We do expect that to lever over time through strong gross profit growth, but also through a continued focus on cost efficiencies and a bending of the curve on SG&A. So if you take a look at the years out from now, five years from now, we absolutely expect that leverage number to come down.

Ali Faghri: Great. Thanks for taking my question.

Bill Nash: Thank you, Ali.

Enrique Mayor-Mora: Sure.

Operator: Thank you. Your next question will come from the line of Seth Basham. Your line is now live. Go ahead please.

Seth Basham: Thanks a lot. Good morning and thanks for all the information this morning. My question is just around the unit economics of an online sale versus sales through your traditional model in the stores. Perhaps provide a little bit more color on the difference in unit economics now and where you expect them to be in five years and how that will affect the earnings growth model?

Bill Nash: Yes. Thank you for the question, Seth. Yes. And we've said this before, we would expect the new model and the new model being one that has the customer experience center. We would expect this new model to be more cost-efficient than the old model. And we're not quite there.

We're really close. I mean it's a near-term thing. And a lot of that is reflective of some of the stuff that Shamim talked earlier about some of the AI and machine learning that we're using in the customer experience centers.

And when you think about that world, if more things are going through a customer experience. And the customer is progressing further online, they're spending less time in the store, and there's less things that need to be done in the store. And so we've changed our compensation structure accordingly.

So if it's an online sale or – well, let's take an omni sales. Jim defined it earlier, omni is when they do one of those core components. Well, let's say, they go into the store, that's a reduced commission that we have to pay. If they do a fully online sale and then they go into the store, there's no commission that has to be paid or if they decide to bring it to their house, again, there's no commission, but you've got a little bit of last mile of delivery.

So those are the reasons why we think this is going to be absolutely more efficient. And the great news is, if you look back over the last 12 months, the last – we've had them open since – for about two years now, we've improved every year. And like I said, it's very close to turning that corner.

And the other great thing about this model is we have more visibility into our customers than we ever did before when calls were being routed into the stores, not having the right technology. So again, I think Shamim talked it about nicely. We think there's a lot of opportunity still to go there.

Enrique Mayor-Mora: And the only thing I'd add to that is the way to think about the business, too, is that we'll be moving more towards a fixed cost basis. So historically that mix of variable to fix is going to teeter a little bit more towards fixed costs. And what that means through the centralization of our CECs, what that really means is that every incremental sale is going to flow through at a stronger clip. So again, delivering to that bottom line as well.

Seth Basham: That's helpful color. And just a follow-up thinking about the gross profit per unit equation here. Can you give us an update on how your price tests are progressing? And how you're thinking about GPU going forward through this year and beyond?

Bill Nash: Yes. Look, I'll kind of go back to what I talked about in the fourth quarter. With the price testing, we're continuing to monitor the macro factors as well as do our pricing. I think the one thing I would want to make sure that everybody understands is we're going to still have industry-leading margins.

There's so many different initiatives that we're working on. And if you think about the way we manage margin and we pick up, whether it's cost efficiencies, through the reconditioning or even through the buying side, if our self-sufficiency goes up, that is all money that we can pass on to the customer as far as prices, or we can use to manage margins.

So we'll give you an update on the price testing when we actually lead right around the corner in another month or so when we do our quarterly calls, we'll give you an update on that.

Seth Basham: Thank you.

Bill Nash: Thank you, Seth.

Operator: Thank you. Your next question will come from the line of Scot Ciccarelli. Your line is now live. Go ahead please.

Scot Ciccarelli: Good morning, guys. Scot Ciccarelli.

Bill Nash: Good morning, Scot.

Scot Ciccarelli: Bill, I know you've made some comments in the past regarding both comp growth and estimated market share in certain geographic markets where you rolled out your omnichannel capabilities. Just to help demonstrate the traction that it was getting. Can you provide any update or specific data around either comp growth or market share in specific markets where that offering has had some time to mature?

Bill Nash: Yes. So I mean, the market – the biggest market that we've been updating is the Atlanta market because that is kind of ground-zero for us. That's where we first rolled it out. That's where we iterate all the new things. It's the one that's been on it for the longest, roughly two years. We talked about in the fourth quarter, how that's outperformed.

And when I look across – remember, prior to COVID, we were rolling these out kind of methodically in waves. And when I look across the waves, you've got some older waves that are outperforming, you've got some older waves that are underperforming. But the problem is, because of what we've been experiencing the last year with COVID, there's been so many other factors playing into that.

You got to take into consideration stores that were shut down or operating on occupancy restrictions. What I'll tell you is, just as a whole, we're real pleased with where we are, and I think we're even more excited about where we're going with all the different enhancements that we're making.

Remember, when we rolled omni out everywhere, which was last fall that really is kind of the baseline. And everything that we've been doing now is just to add and make it better and better and better, which is one of the reasons why we feel good about going forward, the more functionality you get, the easier you make it for a consumer to do these online transactions or components of the online transaction, we think, is absolutely a winning combination for us.

Scot Ciccarelli: Got it. And then maybe a related follow-up, I guess. Is there any way to quantify maybe new customer count to CarMax, because of your omnichannel, somebody that is now giving CarMax a shot or an opportunity to purchase a vehicle from there, whereas maybe they would not have tried that before?

Bill Nash: Yes. It's hard to tell. I mean, I think ultimately, I go-to-market share, how are we doing on market share because we have customers that come to us that think, OK, I'm coming to CarMax because I've been there before. I'm going to go into the in-store experience.

I'm going online to look at the website, like I normally do, and they end up saying, "Oh, you know what, I didn't realize there's all this functionality here. I'm going to go ahead and do the whole thing online." So there's a store customer we would have gotten, but now they've done everything or the majority of it online.

And I think vice versa, I think it flows the other way as well. So I think really, what we're concerned about is making sure that we give the customer, every customer, the best experience that is most tailored to them, that's most personalized to them. And then we don't care how the delivery actually happens. And then that will flow through in sales and market share. And I think that's the best indication of picking up incremental customers.

Scot Ciccarelli: Got it. OK. Thanks a lot, guys.

Bill Nash: Thank you.

Operator: Thank you. Your next question will come from the line of Craig Kennison. Your line is now live. Go ahead please.

Craig Kennison: Great. Thanks. This has been a great day so thank you. My question, when we look at unit growth, and revenue growth, it's almost the same number, and that implies either very little ASP growth or a big shift in your wholesale mix. I wondered if you'd comment on both the inflation trend you expect in used car prices, and then whether you anticipate a big shift in mix in favor of wholesale as you roll out some of those capabilities?

Bill Nash: I'll talk a little bit about the wholesale. I'll let you talk a little bit about some of the estimates on ASP. So Craig, you've been following us long enough to know that, historically, for us, wholesale and retail have grown about the same now in a very short period of time, whether it's a yearly or every few years, you're going to see some different swings.

And take this year, we might see one grow a little bit more than the other because of the impacts of COVID. But I think if you think about it on that longer-term perspective, then – and the way we think about it is they should – over a longer period of time, they should both grow about the same. So when you think about those numbers we put out there, it's not like, oh, a disproportion of that is going to come wholesale. It's really – both are going to have robust growth, and then you want to talk a little bit about kind of the ASPs?

Enrique Mayor-Mora: Yes, Greg, for ASPs, the way I think about it, again, this is a five-year target we're setting. And absolutely, right now, we're living in an environment where prices are skyrocketing, as we know, right? But I would look at this as a five-year view. And we have a little bit of a bump up in ASPs over that point in time.

We took a look at historically where ASPs have risen over a period of time and applied that as well. But the real growth, the double-digit growth, again, is coming from the unit growth.

Craig Kennison: OK, thank you.

Bill Nash: Thank you, Craig.

Operator: Thank you. Your next question will come from the line of John Murphy. Your line is now live. Go ahead please.

John Murphy: Good morning, guys, and thanks for all the information today. One thing you keep mentioning is getting larger in the used car ecosystem. And it sounds like that goes well beyond just the retailing model that you're running now, which there's huge room for growth, so I certainly wouldn't be dismissive of that. But it does sound like you kind of designed as being a larger player in many ways in the used car ecosystem.

So just – I don't know if you can maybe explain more what that means because you're kind of saying it, and it's sounds like a pretty big statement. I mean does it mean something as extreme as referentially buying somebody like ADESA or KAR Auction Services that's – I mean, in the used car because some – a large company would give you a lot of potential growth opportunity, potential for digitization of that business. And if you see where their stock is and your stock is on valuations, it could be very accretive. I mean, is it something that big? What do you mean by the statement?

Bill Nash: Well, John, first of all, let's pull back a little bit because we haven't even gotten our first acquisition done with Edmunds, I'll let Jim talk a little bit about Edmunds and what we think that brings. But let me give you some other examples that are more near term.

And I highlighted a couple of these earlier today. If I think about the dealers that we serve in our auctions. One of the things we're piling right now is leveraging all the logistics capability that we've built over the last three to four years, the hub and spokes that we built and now leveraging that and moving those dealers' cars back to their dealerships for them.

So that's another example of getting into the larger ecosystem or how we're buying cars on some of our digital initiatives, buying cars differently than we have before directly from the dealers. So I think there's lots of different services. Obviously, Edmunds is a great example of kind of expanding in that ecosystem. And I'll let Jim talk a little bit about that.

Jim Lyski: Yes. I think Edmunds is a good example on a couple of fronts. So there, first and foremost, the preeminent research site for consumers looking for both new and used vehicles. And so the consumer really relies on their expertise and their objectivity. We think that, that could be leverageable, not only within the Edmunds brand but into the CarMax customer base.

Also, they have literally tens of thousands of dealer customers out there where they provide not only listings for them, which is another space that will be new to us, but also other dealer services. And you can imagine taking some of our core capabilities, whether those be in some of the aspects of our business that Bill covered, our brand-new capabilities and applying those through the Edmunds dealer based customers. So those are just a couple of examples of where we see new entree into that ecosystem that Bill articulated.

John Murphy: So is that – if I think about what you just mentioned, though, that some of that is overlapping with what Manheim and KAR are also trying to do. So I mean this is an outright no, that would be off the table in the near term, but maybe going that deep into auctions could be on the table longer term?

Bill Nash: Look, I think if you looked at the slide that popped up when I was talking earlier that it showed a whole host of different things. I would just tell you, look, we're – there's still a lot of opportunity there in general. And the way we think about the future is we should be looking at this larger ecosystem and thinking, OK, yes, we're the largest retail of used cars. But a lot of the things we do we can leverage those and do other things.

So I'll just leave it at that. We just think there's a lot of opportunity out there when you think about this more than $1 trillion industry.

Jim Lyski: It's a very fragmented trillion-dollar industry …

Bill Nash: Just like with retail.

Jim Lyski: With fragmentation comes opportunity.

John Murphy: OK. And maybe just one last follow-up. I mean, would you ever consider dropping below this 10-year mark and maybe going to 15 years as vehicle quality improves and you can still – or whatever number it might be, and you could still present a good product to the consumer?

Bill Nash: I'll tell you, John, we do that now with wholesale. And I think that's – wholesale is pretty good return, and you – you're basically turning every seven days. So I think we like where we are from a 0 to 10. Because the other thing we want to think about is, we have a very specific quality that we're going after. And although they are building cars much better today, they have longer, they last much longer, that would be the real factor of whether we decided to go beyond that. But I think we're very comfortable in that 0 to 10 from a retail standpoint at this point.

John Murphy: Great. Thank you very much.

Bill Nash: Thank you, John.

Operator: Thank you. Your next question will come from the line of Rajat Gupta. Your line is now live. Go ahead please.

Rajat Gupta: Great. Thanks for all the info and the presentation and thanks for taking my questions. You've talked about like the several investments made over the last few years. It's taken a slice into margins recently versus the pre-omnichannel years. It seems like the SG&A to gross comments for fiscal 2022 suggests the slight improvement. While these investments have happened, your growth expectations beyond fiscal 2022, once the COVID comps normalize, implies like 9 percent unit CAGR, which is exactly similar to what the company has done from fiscal 2010 to 2020.

So the question is like are these investments in online and appraisal technology, are they helping you just protect what your historical growth entitlement should have been? Or could there be some upside to these targets longer-term when you're just taking a bit of a conservative approach here? And I have a follow-up.

Enrique Mayor-Mora: Rajat, thank you for the question. Yes. So hopefully, there is upside to the projections, that would be fantastic. What I'd tell you is a couple of things for consideration is when looking at our historical unit growth, right, over the past 10 years, a large portion of that has been driven by our new store growth. So we were opening up between 13 and 15 stores a year. They were larger stores, they were our traditional stores, and that contributed to a fair chunk of that unit increase.

As we move forward for the next five years, as we know, we're opening up fewer stores between 8 and 10 stores a year, and those stores are smaller. And they're cross-functional in nature. So what that means is that a larger percentage of our growth is going to be coming from that comp base. So there is a larger expectation coming, again, relative to history from that comp base. That's number one.

Number two, is over the past 10 years, we have more than doubled our revenue. And so that denominator, when we're doing the math on actual growth, it's a lot more to overcome. But despite that, we're still saying that we're going to grow at a clip from a revenue perspective that's stronger than what we've grown over the past 10 years. So we believe these are robust targets. We believe they're achievable. And to your point, hopefully, we exceed them.

Rajat Gupta: Could there be more new store – could the new store addition be higher or different? Because – I mean, ultimately, it comes down to like how you're growing total unit or total bottom line. Your EPS CAGR on those first 10 years was roughly 15 percent to 16 percent. And assuming you're able to hold these current margins it would imply a similar growth rate. Just curious, like, is there a possibility to maybe expand that new store additions? Or I'm not sure if that's embedded here?

Bill Nash: Yes. So I think what's embedded in that number is more on the frame of 10-ish stores or so a year. Could we do more? Potentially. Part of what we want to understand, though, is how far we can reach with all these investments in the omni that may keep you from having to open up a store that's further down in the pipeline.

There's still a lot of – there are several larger markets we're not even in yet. So we're not in New York or Detroit or Pittsburgh, so there's opportunities there as well as in some of the fill in markets.

So I think one of the things that we want to do is be really thoughtful. If you look back over the last few years, we've been very thoughtful about this process. And we already changed the store format. It looks very, very different today. It's a much smaller footprint. It's more of a delivery center and we leverage the rest of the production and capabilities of the organization.

We'll continue doing that going forward. But we also want to understand how far can we reach with all these new initiatives. And if that prevents us from taking some of the stores at the end of this new store pipeline, if it takes them off, I think we'd all be great with that because that means we're getting comps out of the existing stores.

Operator: Thank you, sir. Your next question will come from the line of Rick Nelson. Your line is now live. Go ahead please.

Rick Nelson: Thanks for all the great information this morning. I was curious, as you push towards those 5 percent market share, do you think you also then need to push into more of the play into the older, higher mileage vehicles at retail? Does the average age go up? And if so, how that affects the operation?

Bill Nash: Yes. So Rick, thank you for the question. As we thought through that, look, we're going to sell whatever the consumer is looking for. And so if consumers are looking for that older vehicle, then we'll absolutely bump that inventory up. And you've followed us for a long time. You've seen different periods, even like the last quarter, we saw our older, let's call it, 5 to 10, we saw more of those sales in the fourth quarter than we saw in the third quarter. And that's really a reflection of what the consumers were looking for.

So we'll continue to move that around. As we put through these estimates, we didn't necessarily say, oh, we're going to sell a whole bunch more of the 5 to 10. We looked at it more from a historical perspective. If that goes up, I think that's also a good thing, though, too, because those vehicles generally are a little bit more profitable, which just makes it easier, and you can manage your sales prices that much easier. So we'll see, but we did not assume that we're going to sell a whole bunch more of those.

Jon Daniels: One thing I'll add to that actually is if you think about the broader operation, as vehicles move from older vehicles to newer vehicles and it changes over time for us, that's what's great about the lending platform and the different finance partners that we have in place.

A newer vehicle might appeal to a lender A, but an older vehicle might appeal more to a lender B. And so that complementary nature, we can provide credit to all customers, depending on the vehicle they choose, it really works well. So …

Bill Nash: Yes. And I think that's a huge competitive advantage. When you can give your customer the best financing. So it's not only the best vehicle, but the best financing offer. So good point, Jon.

Rick Nelson: Yes. So a follow-up to that. Curious about the credit quality. What you're seeing online versus in the stores? And do you think you're going to have to push more deeply into the subprime market over time?

Bill Nash: Yes.

Jon Daniels: Yes. Sure. Appreciate the question. Yes. So online, traditionally, you're going to see generally a lower credit quality customer starting through the process. And obviously, we're going to be able to support them from all different tiers of credit that we have available. They're going to progress and perhaps they're going to be able to adjust the vehicle that they're asking for, the amount that they're going to purchase. I think that's just great about our digital experience.

We're looking to provide them if they apply for vehicle A and they say, "Hey, we can't provide you financing on that entire amount", but we provide digital decisions immediately back on 10, 50, 100 other cars that they don't need more down payment or makes their payment a little bit lower and more easy for them to handle.

So that digital experience, I think, will help support the online customer, that is a little bit lower credit quality or all of our customers for that matter. So yes, traditionally, a little bit lower online, but we think that our lending platform supports our customers. I mean, we have over a 90 percent plus approval rate in good times and in not great times. And we want customers to apply wherever they want to, and we want all people to enjoy a CarMax's experience.

Operator: Thank you, sir. That will be our last question. Therefore, this concludes our Q&A. I will turn it back over to Bill for closing thoughts.

Bill Nash: Great. Thank you. Well, I really want to thank you for your questions. I also want to thank you for your support. We've given you a lot of information today.

The one big takeaway that I want to make sure that you come away with is that we're really excited about our future. And it's not just because we have the largest total addressable market when it comes to retail, but it's also the opportunities that exist in the other parts of the core business, when you think about wholesale and CAF.

And then we've had some discussion and even going beyond that in this bigger ecosystem. So all of this is supported by our investments, whether it's our omni experience or proprietary tech stack or some of the other things that we highlighted today.

But I always got – at the end of these calls, none of this would be possible without the unwavering commitment of our associates and how they've delivered just an amazing experience for our customers and how they take care of each other every day.

This has been a tremendous transformation for CarMax, and our associates have exceeded every challenge we have presented to them.

To our associates, it is absolutely an honor to work with each of you, and I want to thank you for what you do each and every day. And for everyone else on the call, again, I thank you for your time today, and we will talk again very soon.

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