

Risk Factors Comparison 2024-07-15 to 2023-06-26 Form: 10-K

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The Company is subject to various risks. The following is a discussion of risks that could materially and adversely affect the Company's business, operating results, and financial condition. Risks Related to the Company's Business, Industry, and Markets Recent and future disruptions in domestic and global economic and market conditions could have adverse consequences for the used automotive retail industry in the future and may have greater consequences for the non- prime segment of the industry. In the normal course of business, the used automotive retail industry is subject to changes in regional U. S. economic conditions, including, but not limited to, interest rates, gasoline prices, inflation, personal discretionary spending levels, and consumer sentiment about the economy in general. Recent and future disruptions in domestic and global economic and market conditions, including rising interest rates and higher grocery and gasoline **prices**, or significant changes in the political environment (such as the ongoing military ~~conflict~~ **conflicts between in the Middle East, and** Ukraine and Russia) and / or public policy, could adversely affect consumer demand or increase the Company's costs, resulting in lower profitability for the Company. Due to the Company's focus on non- prime customers, its actual rate of delinquencies, repossessions and credit losses on contracts could be higher under adverse economic conditions than those experienced in the automotive retail finance industry in general. The outlook for the U. S. economy and the impacts of efforts to reduce inflation through interest rate increases remains uncertain, which may adversely affect the Company's financial condition, results of operations and liquidity. Periods of economic slowdown or recession are often characterized by high unemployment and diminished availability of credit, generally resulting in increases in delinquencies, defaults, repossessions and credit losses. Further, periods of economic slowdown may also be accompanied by temporary or prolonged decreased consumer demand for motor vehicles and declining used vehicle prices. Significant increases in the inventory of used vehicles during periods of economic slowdown or recession may also depress the prices at which repossessed automobiles may be sold or delay the timing of these sales. The prices of used vehicles are variable and a rise or decline in the used vehicle prices may have an adverse effect on the Company's business. The Company is unable to predict with certainty the future impact of the most recent global and domestic economic conditions on consumer demand in our markets or on the Company's costs. A reduction in the availability or access to sources of inventory could adversely affect the Company's business by increasing the costs of vehicles purchased. The Company acquires vehicles primarily through wholesalers, new car dealers, individuals and auctions. There can be no assurance that sufficient inventory will continue to be available to the Company or will be available at comparable costs. Any reduction in the availability of inventory or increases in the cost of vehicles could adversely affect gross margin percentages as the Company focuses on keeping payments affordable to its customer base. The Company could have to absorb a portion of cost increases. The supply of vehicles at appropriate prices available to the Company is significantly affected by overall new car sales volumes, which were negatively impacted by the business and economic and supply chain disruptions following the outbreak of the COVID- 19 pandemic and have historically been materially and adversely affected by prior economic downturns. Any future decline in new car sales could further adversely affect the Company's access to and costs of inventory. Our ability to source vehicles could also be impacted by the closure of auctions and wholesalers as a result of any future public health crisis, adverse economic conditions, or other factors. The used automotive retail industry is fragmented and highly competitive, which could result in increased costs to the Company for vehicles and adverse price competition. Increased competition on the financing side of the business could result in increased credit losses. The Company competes principally with other independent Integrated Auto Sales and Finance dealers, and with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions. The Company competes for both the purchase and resale, which includes, in most cases, financing for the customer, of used vehicles. The Company's competitors may sell the same or similar makes of vehicles that Car- Mart offers in the same or similar markets at competitive prices. Increased competition in the market, including new entrants to the market, could result in increased wholesale costs for used vehicles and lower- than- expected vehicle sales and margins. Further, if any of the Company's competitors seek to gain or retain market share by reducing prices for used vehicles, the Company would likely reduce its prices in order to remain competitive, which may result in a decrease in its sales and profitability and require a change in its operating strategies. Increased competition on the financing side puts pressure on contract structures and increases the risk for higher credit losses. More qualified applicants have more financing options on the front- end, and if events adversely affecting the borrower occur after the sale, the increased competition may tempt the borrower to default on their contract with the Company in favor of other financing options, which in turn increases the likelihood of the Company not being able to save that account. The used automotive retail industry operates in a highly regulated environment with significant attendant compliance costs and penalties for non- compliance. The used automotive retail industry is subject to a wide range of federal, state, and local laws and regulations, such as local licensing requirements and laws regarding advertising, vehicle sales, financing, and employment practices. Facilities and operations are also subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. The violation of these laws and regulations could result in administrative, civil, or criminal penalties against the Company or in a cease and desist order. As a result, the Company has incurred, and will continue to incur, capital and operating expenditures, and other costs of complying with these laws and regulations. Further, over the past several years, private plaintiffs and federal, state, and local regulatory and law enforcement authorities have increased their scrutiny of advertising, sales and finance activities in the sale of motor vehicles. Additionally, the Company's finance subsidiary, Colonial, is deemed a " larger participant " in the automobile finance market and is therefore subject to examination

and supervision by the CFPB, which has broad regulatory powers over consumer credit products and services such as those offered by the Company. The Company's business is geographically concentrated; therefore, the Company's results of operations may be adversely affected by unfavorable conditions in its local markets. The Company's performance is subject to local economic, competitive, and other conditions prevailing in the twelve states where the Company operates. The Company provides financing in connection with the sale of substantially all of its vehicles. These sales are made primarily to customers residing in Alabama, Arkansas, Georgia, Illinois, Kentucky, Mississippi, Missouri, Oklahoma, Tennessee and Texas with approximately 27.4% of revenues resulting from sales to Arkansas customers. The Company's current results of operations depend substantially on general economic conditions and consumer spending habits in these local markets. Any decline in the general economic conditions or decreased consumer spending in these markets may have a negative effect on the Company's results of operations. The Company's growth strategy is dependent upon the following factors:

- Favorable operating performance. Our ability to **increase revenues at existing dealerships or** expand our business through additional dealership openings or strategic acquisitions is dependent on a sufficiently favorable level of operating performance to support the management, personnel and capital resources necessary to successfully **grow existing locations,** open and operate **new locations,** or acquire new locations.
- Ability to successfully identify, complete and integrate new acquisitions. Part of our current growth strategy includes strategic acquisitions of dealerships. We could have difficulty identifying attractive target dealerships, completing the acquisition or integrating the acquired business' assets, personnel and operations with our own. Acquisitions are accompanied by a number of inherent risks, including, without limitation, the difficulty of integrating acquired companies and operations; potential disruption of our ongoing business and distraction of our management or the management of the target company; difficulties in maintaining controls, procedures and policies; potential impairment of relationships with associates and partners as a result of any integration of new personnel; potential inability to manage an increased number of locations and associates; failure to realize expected efficiencies, synergies and cost savings; reaction to the transaction among the companies' customers and potential customers; and the effect of any government regulations which relate to the businesses acquired.
- Availability of suitable dealership sites. Our ability to open new dealerships is subject to the availability of suitable dealership sites in locations and on terms favorable to the Company. If and when the Company decides to open new dealerships, the inability to acquire suitable real estate, either through lease or purchase, at favorable terms could limit the expansion of the Company's dealership base. In addition, if a new dealership is unsuccessful and we are forced to close the dealership, we could incur additional costs if we are unable to dispose of the property in a timely manner or on terms favorable to the Company. Any of these circumstances could have a material adverse effect on the Company's expansion strategy and future operating results.
- Ability to attract and retain management for new **and existing** dealerships. The success of new dealerships is dependent upon the Company being able to hire and retain additional competent personnel. The market for qualified employees in the industry and in the regions in which the Company operates is highly competitive. If we are unable to hire and retain qualified and competent personnel to operate our new dealerships, these dealerships may not be profitable, which could have a material adverse effect on our future financial condition and operating results.
- Availability and cost of vehicles. The cost and availability of sources of inventory could affect the Company's ability to open new dealerships. The long-term impacts of the economic downturn due to COVID-19 on new car sales volumes and the ability of auctions and wholesalers to continue to operate is uncertain. Any of these factors could potentially have a significant negative effect on the supply of vehicles at appropriate prices available to the Company in future periods. This could also make it difficult for the Company to supply appropriate levels of inventory for an increasing number of dealerships without significant additional costs, which could limit our future sales or reduce future profit margins if we are required to incur substantially higher costs to maintain appropriate inventory levels.
- Acceptable levels of credit losses at new dealerships. Credit losses tend to be higher at new dealerships due to fewer repeat customers and less experienced associates; therefore, the opening of new dealerships tends to increase the Company's overall credit losses. **This in addition, new dealerships may experience higher than anticipated credit losses, which** may require the Company to incur additional costs to reduce future credit losses or to close the underperforming locations altogether. Any of these circumstances could have a material adverse effect on the Company's future financial condition and operating results.

The Company's business is subject to seasonal fluctuations. Historically, the Company's third fiscal quarter (November through January) has been the slowest period for vehicle sales. Conversely, the Company's first and fourth fiscal quarters (May through July and February through April) have historically been the busiest times for vehicle sales. Therefore, the Company generally realizes a higher proportion of its revenue and operating profit during the first and fourth fiscal quarters. The Company expects this pattern to continue in future years. If conditions arise that impair vehicle sales during the first or fourth fiscal quarters, the adverse effect on the Company's revenues and operating results for the year could be disproportionately large. The effects of any future public health crisis could have a significant impact on our business, sales, results of operations and financial condition. The global outbreak of COVID-19 led to severe disruptions in general economic activities, particularly retail operations, as businesses and federal, state, and local governments implemented mandates to mitigate this public health crisis. The pandemic has affected consumer demand and the overall health of the U. S. economy. The effects of any future outbreaks of the pandemic or similar health crises could negatively impact all aspects of our business, including used vehicle sales and financing, finance receivable collections, repossession activity and inventory acquisition. Our business is also dependent on the continued health and productivity of our associates, including management teams, throughout this crisis. The consequences of any future adverse public health developments could have a material adverse effect on our business, sales, results of operations and financial condition. Additionally, our liquidity could be negatively impacted if economic conditions were to once again deteriorate due to a future COVID-19 outbreak or other public health crisis, which could require us to pursue additional sources of financing to obtain working capital, maintain appropriate inventory levels, support the origination of vehicle financing, and meet our financial obligations. Capital and credit markets were significantly affected by onset of the crisis and could be disrupted once again by any future wave of the virus or outbreak of a new

coronavirus variant, and our ability to obtain any new or additional financing is not guaranteed and largely dependent upon evolving market conditions and other factors. Risks Related to the Company's Operations The Company may have a higher risk of delinquency and default than traditional lenders because it finances its sales of used vehicles to credit-impaired borrowers. Substantially all of the Company's automobile contracts involve financing to individuals with impaired or limited credit histories, or higher debt-to-income ratios than permitted by traditional lenders. Financing made to borrowers who are restricted in their ability to obtain financing from traditional lenders generally entails a higher risk of delinquency, default and repossession, and higher losses than financing made to borrowers with better credit. Delinquency interrupts the flow of projected interest income and repayment of principal from a contract, and a default can ultimately lead to a loss if the net realizable value of the automobile securing the contract is insufficient to cover the principal and interest due on the contract or if the vehicle cannot be recovered. The Company's profitability depends, in part, upon its ability to properly evaluate the creditworthiness of non-prime borrowers and efficiently service such contracts. Although the Company believes that its underwriting criteria and collection methods enable it to manage the higher risks inherent in financing made to non-prime borrowers, no assurance can be given that such criteria or methods will afford adequate protection against such risks. If the Company experiences higher losses than anticipated, its financial condition, results of operations and business prospects could be materially and adversely affected. The Company's allowance for credit losses may not be sufficient to cover actual credit losses, which could adversely affect its financial condition and operating results. When applicable, the Company has to recognize losses resulting from the inability of certain borrowers to pay contracts and the insufficient realizable value of the collateral securing contracts. The Company maintains an allowance for credit losses in an attempt to cover net credit losses expected over the remaining life of the contracts in the portfolio at the measurement date. Additional credit losses will likely occur in the future and may occur at a rate greater than the Company has experienced to date. The allowance for credit losses represents management's best estimate of lifetime expected losses based on reasonable and supportable forecasts, historical credit loss experience, changes in contractual characteristics (i.e., average amount financed, term, and interest rates), and other qualitative considerations, such as credit quality trends, collateral values, current and forecasted economic conditions, underwriting and collections practices, concentration risk, credit review, and other external factors. This evaluation is inherently subjective as it requires estimates of material factors that may be susceptible to significant change. If the Company's assumptions and judgments prove to be incorrect, its current allowance for credit losses may not be sufficient and adjustments may be necessary to allow for different economic conditions or adverse developments in its contract portfolio which could adversely affect the Company's financial condition and results of operations. At April 30, ~~2023~~ **2024** the Company ~~increased its~~ **had an** allowance for credit losses **at 25.32 % (compared to 23.91 % from 23.65 % at April 30, 2023)** of the principal balance of finance receivables, net of deferred revenue ~~and pending APP claims. The increase in the allowance for credit losses was~~ primarily due to ~~increases in historical losses as a result of the ending of federal stimulus programs, continuing inflationary pressure on customers and increasing interest rates from federal monetary policy~~ **the update to our calculation methodology and the performance of our loan portfolio in the second quarter of the fiscal year 2024**. Any future deterioration in economic conditions or consumer financial health may result in additional future credit losses that may not be fully reflected in the allowance for credit losses. The Company's success depends upon the continued contributions of its management teams and the ability to attract and retain qualified employees. The Company is dependent upon the continued contributions of its management teams. Because the Company maintains a decentralized operation in which each dealership is responsible for ~~buying~~ **inspecting** and selling its own vehicles, making credit decisions and collecting contracts it originates, the key employees at each dealership are important factors in the Company's ability to implement its business strategy. Consequently, the loss of the services of key employees could have a material adverse effect on the Company's results of operations. In addition, when the Company decides to open new dealerships, the Company will need to hire additional personnel. The market for qualified employees in the industry and in the regions in which the Company operates is highly competitive and may subject the Company to increased labor costs during periods of low unemployment or times of increased competition for labor. The Company's business is dependent upon the efficient operation of its information systems. The Company relies on its information systems in managing its sales, inventory, consumer financing, and customer information effectively. The failure of the Company's information systems to perform as designed, or the failure to maintain and continually enhance or protect the integrity of these systems, could disrupt the Company's business, impact sales and profitability, or expose the Company to customer or third-party claims. Security breaches, cyber-attacks or fraudulent activity could result in damage to the Company's operations or lead to reputational damage. Our information and technology systems are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by our employees, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. A security breach of the Company's computer systems could also interrupt or damage its operations or harm its reputation. In addition, the Company could be subject to liability if confidential customer information is misappropriated from its computer systems. Any compromise of security, including security breaches perpetrated on persons with whom the Company has commercial relationships, that result in the unauthorized release of its users' personal information, could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to the Company's reputation, and a loss of confidence in the Company's security measures, which could harm its business. Any compromise of security could deter people from entering into transactions that involve transmitting confidential information to the Company's systems and could harm relationships with the Company's suppliers, which could have a material adverse effect on the Company's business. Actual or anticipated attacks may cause the Company to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Despite the implementation of security measures, these systems may still be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. The Company may not have the resources or technical sophistication to

anticipate or prevent rapidly evolving types of cyber- attacks. Most of the Company' s customers provide personal information when applying for financing. The Company relies on encryption and authentication technology to provide security to effectively store and securely transmit confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by the Company to protect transaction data being breached or compromised. In addition, many of the third parties who provide products, services, or support to the Company could also experience any of the above cyber risks or security breaches, which could impact the Company' s customers and its business and could result in a loss of customers, suppliers, or revenue. We may be unable to keep pace with technological advances and changes in consumer behavior affecting our business, which could adversely affect our business, financial condition and results of operations. We rely on our information technology systems to facilitate digital sales leads. Our ability to optimize our digital sales platform is affected by online search engines and classified sites that are not direct competitors but that may direct online traffic to the websites of competing automotive retailers. These third- party sites could make it more difficult for us to market our vehicles online and attract customers to our online offerings. Further, to address changes in consumer buying preferences and to improve customer experience, inventory procurement and recruiting and training, we make corresponding technology and systems upgrades. We may not be able to establish sufficient technological upgrades to support evolving consumer buying preferences and to keep pace with our competitors. If these systems fail to perform as designed or if we fail to respond effectively to consumer buying preferences or keep pace with technological advances by our competitors, it could have a material adverse effect on our business, financial condition and results of operations. Changes in the availability or cost of capital and working capital financing could adversely affect the Company' s growth and business strategies, and volatility and disruption of the capital and credit markets and adverse changes in the global economy could have a negative impact on the Company' s ability to access the credit markets in the future and / or obtain credit on favorable terms. The Company generates cash from income from continuing operations. The cash is primarily used to fund finance receivables growth. To the extent finance receivables growth exceeds income from continuing operations, the Company generally increases its borrowings under its revolving credit facilities and, more recently, has issued non- recourse notes through asset- back securitization transactions to provide the cash necessary to fund operations. On a long- term basis, the Company expects its principal sources of liquidity to consist of income from continuing operations and borrowings under revolving credit facilities and / or term securitizations. Any adverse changes in the Company' s ability to borrow under revolving credit facilities or by accessing the securitization market, or any increase in the cost of such borrowings, would likely have a negative impact on the Company' s ability to finance receivables growth which would adversely affect the Company' s growth and business strategies. Further, the Company' s current credit facilities and non- recourse notes payable contain various reporting and / or financial performance covenants. Any failure of the Company to comply with these covenants could have a material adverse effect on the Company' s **operating results, financial condition, cash flow and** ability to implement its business strategy. If the capital and credit markets experience disruptions and / or the availability of funds becomes restricted, it is possible that the Company' s ability to access the capital and credit markets may be limited or available on less favorable terms which could have an impact on the Company' s ability to refinance maturing debt or react to changing economic and business conditions. In addition, if negative domestic or global economic conditions persist for an extended period of time or worsen substantially, the Company' s business may suffer in a manner which could cause the Company to fail to satisfy the financial and other restrictive covenants under its credit facilities. The impact of climate- change related events, including efforts to reduce or mitigate the effects of climate change and inclement weather can adversely impact the Company' s operating results. The effects of climate change such as natural disasters or the occurrence of weather events, such as rain, snow, wind, storms, hurricanes, or other natural disasters, which **can** adversely affect consumer traffic **and operations** at the Company' s automotive dealerships **as well as customers' ability to make their car payments**, could negatively impact the Company' s operating results. Further, the pricing of used vehicles is affected by, among other factors, consumer preferences, which may be impacted by consumer perceptions of climate change and consumer efforts to mitigate or reduce climate change- related events by purchasing vehicles that are viewed as more fuel efficient (including vehicles powered primarily or solely through electricity). An increase in the supply or a decrease in the demand for used vehicles may impact the resale value of the vehicles the Company sells. Moreover, the implementation of new or revised laws or regulations designed to address or mitigate the potential impacts of climate change (including laws which may adversely impact the auto industry in particular as a result of efforts to mitigate the factors contributing to climate change) could have a significant impact on the Company. Consequently, the impact of climate change- related events, including efforts to reduce or mitigate the effects of climate change, may adversely impact the Company' s operating results.

Risks Related to the Company' s Common Stock The Company' s stock trading volume may result in greater volatility in the market price of the Company' s common stock and may not provide adequate liquidity for investors. Although shares of the Company' s common stock are traded on the NASDAQ Global Select Market, the average daily trading volume in the Company' s common stock is less than that of other larger automotive retail companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the average daily trading volume of the Company' s common stock, the market price of the Company' s common stock may be subject to greater volatility than companies with larger trading volumes as smaller transactions can more significantly impact the Company' s stock price. Significant sales of the Company' s common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of the Company' s common stock. The price of the Company' s common stock may also be subject to wide fluctuations based upon the Company' s operating results, general economic and market conditions, general trends and prospects for our industry, announcements by competitors, the Company' s ability to achieve any long- term targets or performance metrics and other factors. Any such fluctuations could increase the Company' s risk of being subject to securities

class action litigation, which could result in substantial costs, divert management's attention and resources and have other material adverse impacts on the Company's business. Additionally, low trading volumes may limit a stockholder's ability to sell shares of the Company's common stock. The Company currently does not intend to pay future dividends on its common stock. The Company historically has not paid cash dividends on its common stock and currently does not anticipate paying future cash dividends on its common stock. Any determination to pay future dividends and other distributions in cash, stock, or property by the Company in the future will be at the discretion of the Company's Board of Directors and will be dependent on then-existing conditions, including the Company's financial condition and results of operations and contractual restrictions. The Company is also limited in its ability to pay dividends or make other distributions to its shareholders without the consent of its lender. Therefore, stockholders should not rely on future dividend income from shares of the Company's common stock.