



## Bearish Positions Accumulate in CarMax

**Ticker/Price:** KMX (\$58.60)

### Analysis:

**CarMax (KMX)** seeing buyers today of 2,000 March \$57.50 puts for \$1.70 to \$1.75, same spot where 1,000 were bought last week. KMX has over 650 March \$55 puts in open interest from buyers last week while the April \$57.50 puts bought today 350X. The Jan. 2020 \$52.50 puts bought 1,500X in late November and the 1,000 April \$70 ITM puts bought in September remain as well. KMX shares are showing relative weakness today in a session where much of the market is seeing a bounce off the lows and back near recent support at \$58. Shares broke a long-term uptrend in late December, now under weekly cloud support, and room back to support at \$52.50. The \$10.5B company trades 12X earnings, 0.58X sales, and 3X book with expectation for 6-7% revenue growth over the next two years. KMX faces headwinds from pricing as they face tough comps and more peers are consistently pricing lower across all makes and models. The company is also playing catch-up in the emerging omnichannel environment launching a new offering in December and planning to scale by 2020. Analysts have an average target for shares of \$80 with 11 buy ratings and 2 hold ratings. William Blair downgrading shares in November noting that there continues to be a dislocation in used vs. new pricing due to weaker new car trends and uncertainty on tariff dynamics, resulting in greater dealer emphasis on used cars. This is adding competitive pressures to KMX's primary channel. Wedbush downgraded shares on 1/18 with a \$60 PT. They believe the transition to omnichannel will not be easy and could be more expensive and disruptive to their core business than expected. They find it hard for KMX to change its weakened customer value perception in this highly competitive environment and comps continue to track well below consensus citing weakening CAF performance trends. Short interest is 7.1% and up slightly from December when it was 6.4%. Institutional ownership fell 12.4%.

### Hawk Vision:



**Trading Strategy:** KMX looks weak and fundamentally see the dealership industry as ripe grounds for shorting, though already a bit oversold near-term, could wait for better entry.

**Confidence Ranking:** \$\$