

# Update on Carvana Operating Plan

May 2022



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# Safe Harbor

## **Forward-Looking Statements**

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect Carvana's current expectations and projections with respect to, among other things, our financial condition, results of operations, plans, objectives, future performance, and business. These statements may be preceded by, followed by or include the words "aim," "anticipate," "believe," "estimate," "expect," "forecast," "intend," "likely," "outlook," "plan," "potential," "project," "projection," "seek," "can," "could," "may," "should," "would," "will," the negatives thereof and other words and terms of similar meaning.

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## **Market and Industry Data**

This presentation includes information concerning economic conditions, the Company's industry, the Company's markets and the Company's competitive position that is based on a variety of sources, including information from independent industry analysts and publications, as well as Carvana's own estimates and research. Carvana's estimates are derived from publicly available information released by third party sources, as well as data from its internal research, and are based on such data and the Company's knowledge of its industry, which the Company believes to be reasonable. The independent industry publications used in this presentation were not prepared on the Company's behalf. While the Company is not aware of any misstatements regarding any information in this presentation, forecasts, assumptions, expectations, beliefs, estimates and projects involve risk and uncertainties and are subject to change based on various factors.

## **Non-GAAP Measures**

To supplement the financial measures prepared and presented in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), we also include non-GAAP measures in this presentation. None of these should be considered as a substitute for other measures of financial performance reported in accordance with GAAP. In addition, the Company's definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies. A reconciliation of each of these non-GAAP measures to the most directly comparable GAAP financial measures can be found at the end of this presentation.

# Carvana Financial Objectives

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Since our IPO in 2017, we have focused on three financial objectives:

1. Grow retail units and revenue
2. Increase total gross profit per unit (GPU)
3. Demonstrate operating leverage

We have made significant progress on the first two objectives, while making progress, albeit more slowly, on the third as we have invested in rapid growth and GPU gains.

In light of the current environment, we are elevating SG&A leverage, profitability, and positive free cash flow as priorities. The purpose of this document is to outline our plan on these priorities and lay out our near-term and midterm goals on SG&A per retail unit sold.

# Objective #1: Grow Retail Units and Revenue

In our brief history, we have had great success with growth. In just 8 years, we became the second largest seller of used vehicles in the U.S. and one of the fastest growing technology companies in history through our nationwide expansion and consistent market share gains.

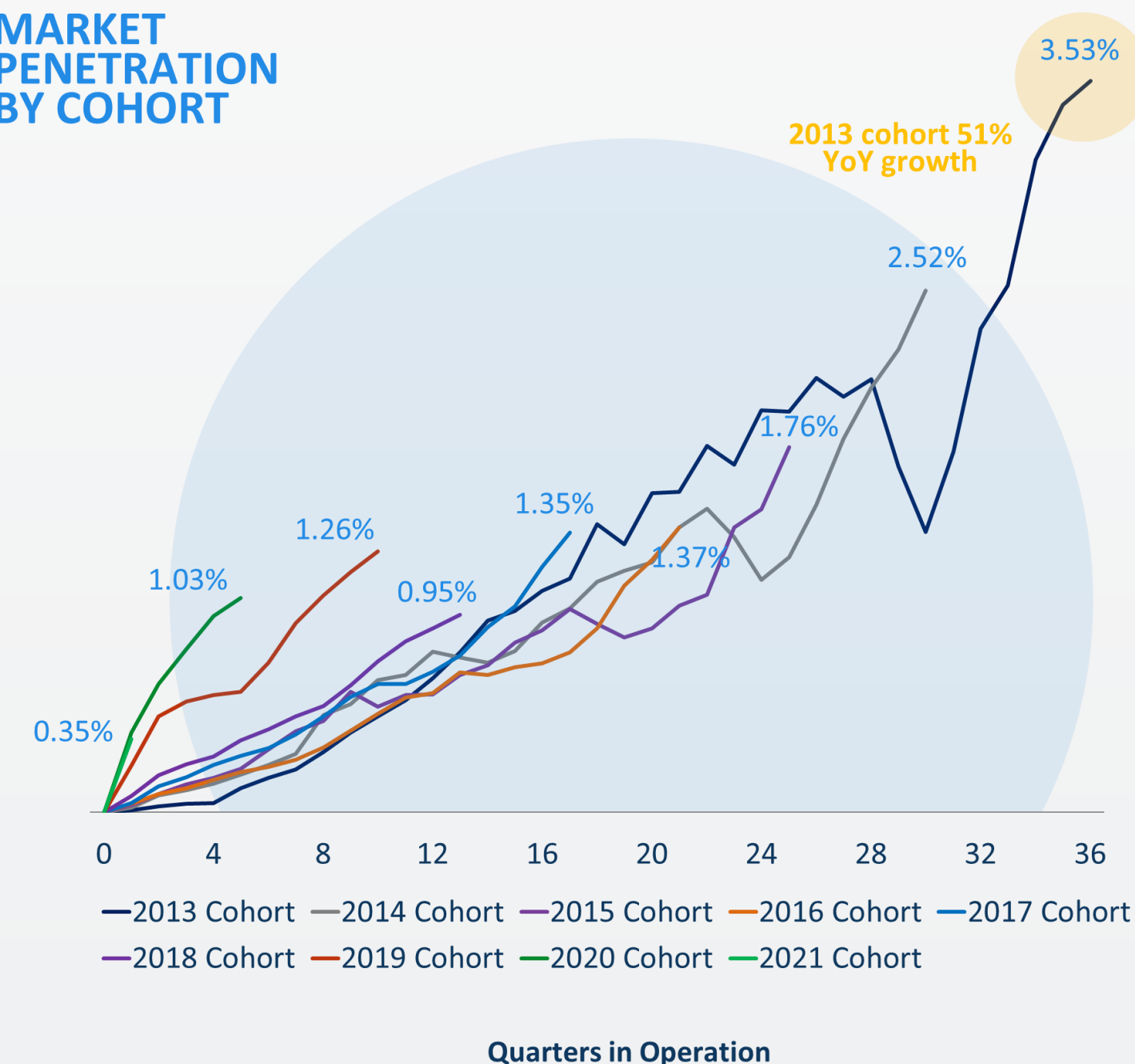
RETAIL UNITS SOLD



REVENUE (\$M)



MARKET PENETRATION BY COHORT



# Objective #2: Increase Total GPU

We have also had great success increasing total GPU to meet or exceed our midterm and long-term goals, leading to 8 straight years of total GPU gains to over \$4,500 in 2021.

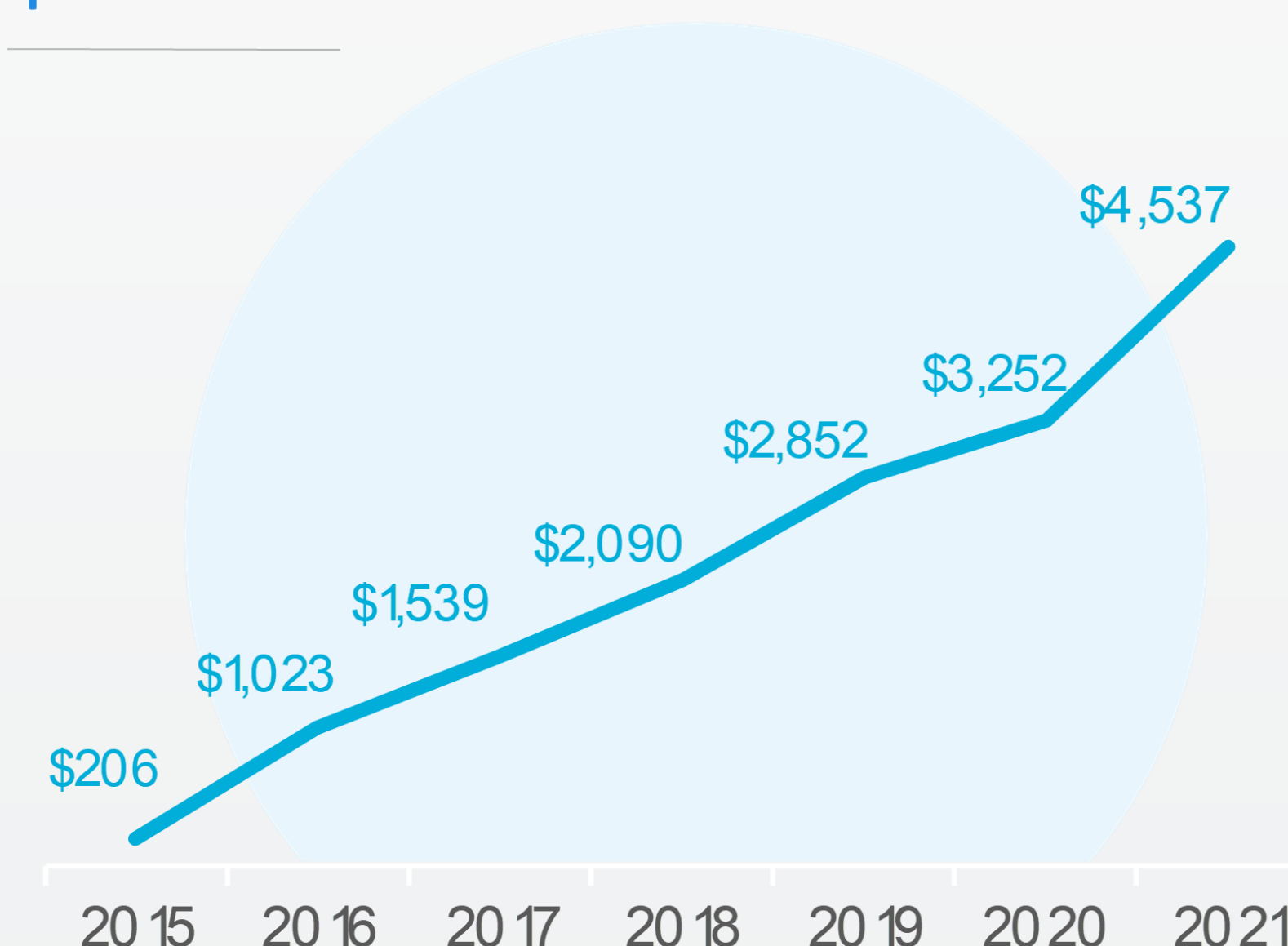
## Midterm Goal (Jun. 2017)

- On our first earnings call in June 2017, we set a midterm goal of \$3,000 total GPU. We had just completed a quarter with \$1,169 total GPU, but we had a detailed plan to drive future GPU gains. In Q2 2019, we achieved \$3,000 total GPU in a quarter for the first time before proceeding to our long-term model range.

## Long-Term Goal (Nov. 2018)

- On our first analyst day presentation in November 2018, we set a long-term gross margin range of 15 to 19%. In Q3 2020, we achieved 15% gross margin in a quarter for the first time. We also achieved 15% gross margin for the full year 2021.

## Gross Profit per Unit

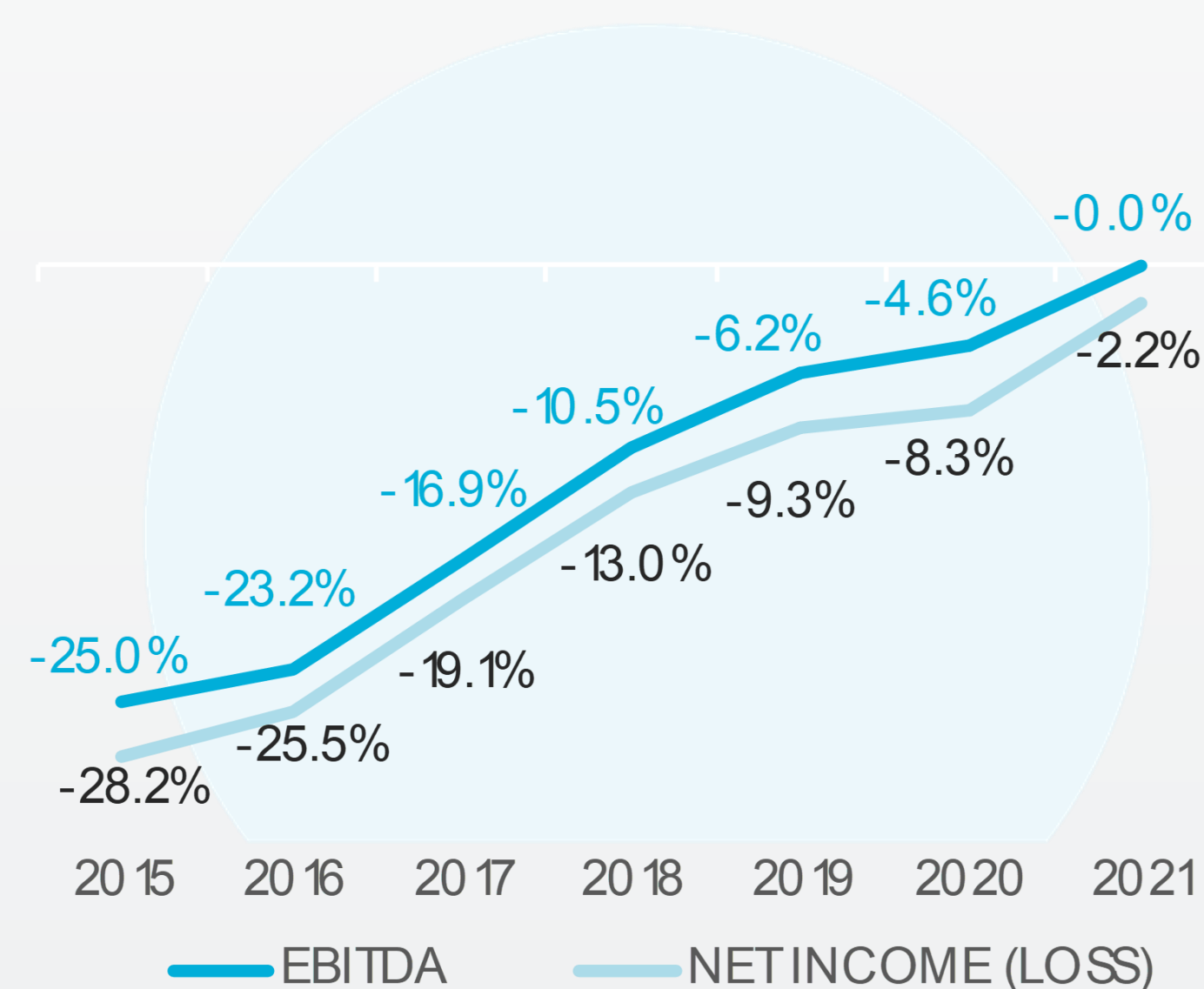




# Objective #3: Demonstrate Operating Leverage

We have demonstrated significant progress on net profit margins, driven by retail unit growth, increasing GPU, and SG&A leverage. However, our gains in SG&A leverage have been smaller than our gains in retail units and GPU, making SG&A our biggest opportunity.

**EBITDA MARGIN <sup>(1)</sup> &  
NET INCOME (LOSS) MARGIN**



**PROFITABLE UNIT ECONOMICS  
IN OLDER COHORTS\***

5 of our 9 cohorts had positive EBITDA margin

Our 2 oldest cohorts achieved EBITDA margin greater than 4%

Older cohorts have higher EBITDA margins than newer cohorts primarily due to lower SG&A expense as a percent of revenue.

(1) Please reference GAAP Reconciliation in Appendix

\* For the full year 2021

# Our Current Priorities

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In light of the current industry, macroeconomic, and financial market environment, our current priorities for managing the business are twofold:

1. Rapidly reduce SG&A expense per retail unit sold while taking care to minimize constraints on growth or impacts to customer experience. For reasons we discuss later in these slides, we currently view SG&A expense per retail unit sold as our highest priority and intend to lower it in both the near term and midterm while continuing to grow on the path toward our long-term goals.
2. Generate positive free cash flow through a combination of retail units, GPU, SG&A expense efficiencies, and management of capital expenditures to achieve self-funding without requiring additional equity or debt capital.



# The Path to Positive Free Cash Flow



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# Our Starting Point

Following the ADESA U.S. (“ADESA”) transactions, we had ~\$4.9 billion in pro forma total liquidity resources, including ~\$3 billion in cash and revolving availability, and ~\$1.9 billion in unpledged real estate and other assets.\* In addition, following the completion of our three in-progress Carvana IRCs, we will have ~1.4 million in annual inspection and reconditioning center capacity fully built out, giving us a strong infrastructure to drive profitable growth.

	March 31, 2022 (\$m)	ADESA Acquisition & Financing Transactions (\$m)	March 31, 2022 + ADESA Acquisition & Financing Transactions (\$m)
Cash and revolving availability	\$730	+\$2,230	\$2,960
Unpledged real estate*	\$824	+\$939	\$1,763
Unpledged other assets	\$153	-	\$153
Total liquidity resources	\$1,707	+\$3,169	\$4,876

\*Based on the company's cost basis or third-party real estate appraisals where available.

For additional information on total liquidity resources, please see our Form 10-Q.



# Defining Terms: Adjusted EBITDA ex SBC

Unless otherwise noted, all references to GPU, SG&A, EBITDA, and Adjusted EBITDA are for Carvana only and exclude ADESA operations.

An important metric on our path to positive free cash flow is Adjusted EBITDA excluding stock-based compensation (SBC). This in turn is driven by three primary operating metrics: retail units sold, total GPU, and SG&A per retail unit excluding depreciation and amortization (D&A) and SBC.

- Adjusted EBITDA<sup>(1)</sup> – bottom up
  - = Net income + taxes + interest + D&A + OI&E<sup>(2)</sup> + CEO'S Gift<sup>(3)</sup>
- Adjusted EBITDA<sup>(1)</sup> – top down
  - = Retail units sold \* (Total GPU – SG&A per Retail Unit ex D&A ex Gift)
- Adjusted EBITDA ex SBC
  - = Retail units sold \* (Total GPU – SG&A per Retail Unit ex D&A ex SBC)

(1) Adjusted EBITDA includes the expense associated with stock-based compensation, other than the CEO's gift of personal stock to Carvana employees.

(2) Other income and expense primarily includes changes in the fair value of Root warrants and beneficial interests in securitizations.

(3) In January 2022, our CEO gifted approximately \$100 million of his personal stock to Carvana employees. This gift is accounted for as payroll expense.



# Defining Terms: Core Free Cash Flow

Unless otherwise noted, all references to GPU, SG&A, EBITDA, and Adjusted EBITDA are for Carvana only and exclude ADESA operations.

A second important metric is core free cash flow. We define core free cash flow as Adjusted EBITDA ex SBC less capital expenditures less interest expense.

- Core Unlevered Free Cash Flow<sup>(1)</sup>
  - = Adjusted EBITDA ex SBC – capital expenditures
- Core Free Cash Flow<sup>(1)</sup>
  - = Adjusted EBITDA + SBC – capital expenditures – interest
  - = Core unlevered free cash flow – interest

(1) Our definition of core unlevered free cash flow and core free cash flow does not include changes in net working capital. We expect the sum of changes in net working capital to be a neutral or positive source of cash in the near term. In addition, we have historically financed a large portion of our changes in net working capital with matched sources of asset-based financing, including floor plan financing and beneficial interests financing.



# Defining Terms: Maintenance and Growth CapEx

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Our cash used for purchases of property and equipment can be broken down into three categories. Following the ADESA acquisition, the infrastructure we have already built and acquired gives us considerable flexibility to manage these investments going forward.

## 1. Maintenance capital expenditures

- Includes maintenance investments in real estate sites after their initial construction phase

## 2. Priority growth capital expenditures

- Includes technology and real estate improvement investments, particularly at ADESA sites. Priority growth capital expenditures will tend to be investments that generate near term benefits and have shorter payback periods vs. elective growth capital expenditures

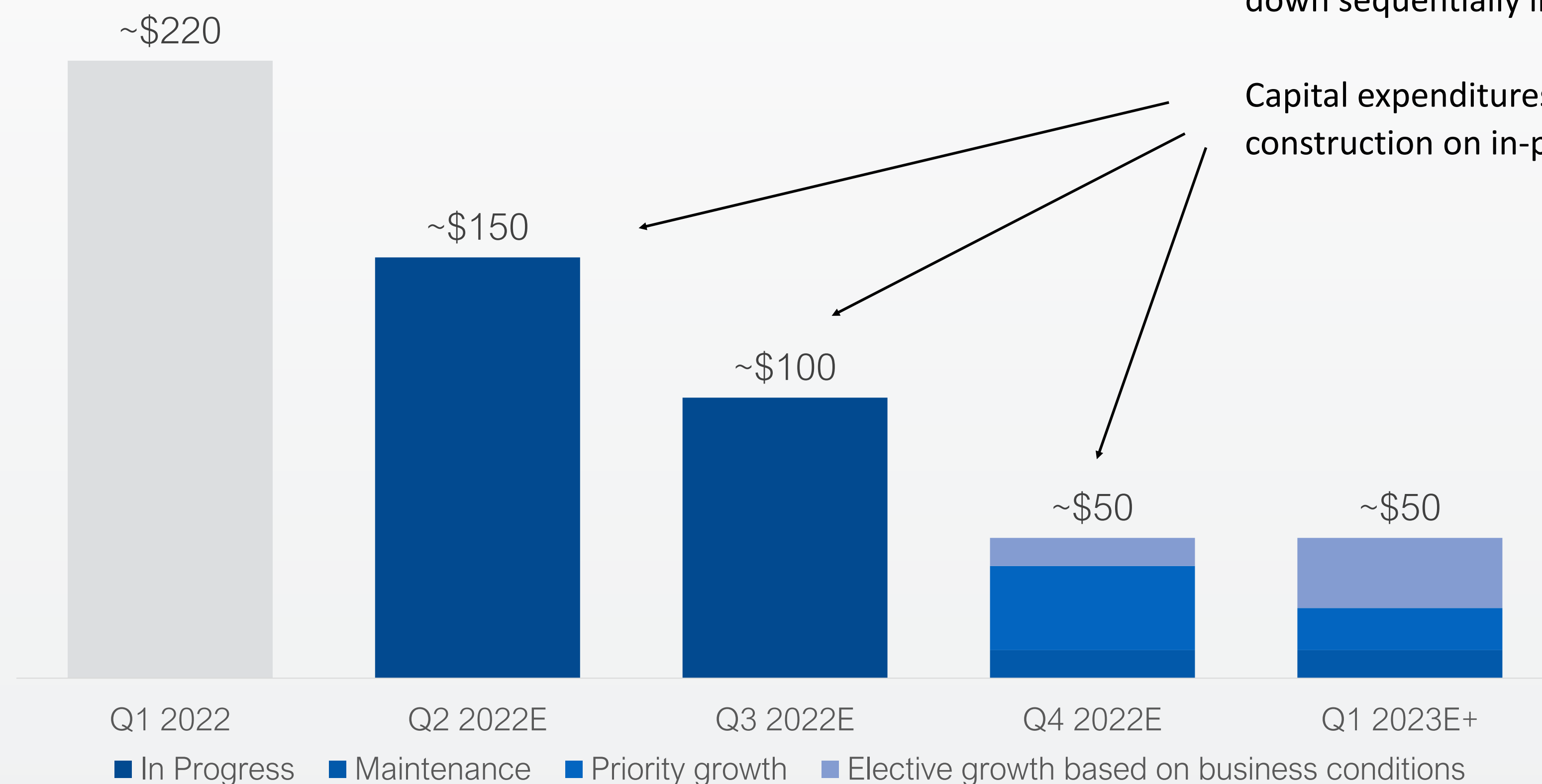
## 3. Elective growth capital expenditures

- If desired, primarily includes elective development of ADESA sites to add incremental production capacity in targeted locations



# Quarterly CapEx Budget

Capital Expenditure Budget by Quarter (\$m)



We expect our quarterly cash flows from capital expenditures to step down sequentially in each of Q2, Q3, and Q4.

Capital expenditures in these quarters primarily relate to completing construction on in-progress IRCs, and to a much lesser extent, VMs.

From Q4 onward, we are budgeting for ~\$50m per quarter unless business conditions suggest a higher or lower level of investment is desirable. This breaks down to components as follows:

- ~\$10m maintenance
- ~\$15m priority growth
- ~\$25m elective growth

# Four Key Metrics

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In summary, there are four key metrics that determine our Core Unlevered Free Cash Flow:

1. Retail units sold
2. Total GPU
3. SG&A per retail unit ex D&A and SBC
4. Capital expenditures

Of these, we currently believe SG&A per unit is the most important. In what follows, we show a range of scenarios that demonstrate the level of SG&A per retail unit ex D&A and SBC that we plan to target to generate positive free cash flow.

From there, we discuss our SG&A plan and define our near-term and midterm SG&A goals and key drivers on the path toward our long-term model.



# Bridge to Positive Core Free Cash Flow

The GPU and SG&A per unit amounts in the table below refer to Carvana only and do not include gross profit or SG&A from ADESA in the numerator.

The table below shows the level of SG&A per retail unit sold ex D&A and SBC that generates positive core free cash flow under a range of retail unit and total GPU scenarios.<sup>(1)</sup> We intend to use various levers to manage to these levels of per unit SG&A.

Total GPU	Annual retail units sold					
	500,000	600,000	700,000	800,000	900,000	1,000,000
\$3,750	\$2,550	\$2,750	\$2,893	\$3,000	\$3,083	\$3,150
\$4,000	\$2,800	\$3,000	\$3,143	\$3,250	\$3,333	\$3,400
\$4,250	\$3,050	\$3,250	\$3,393	\$3,500	\$3,583	\$3,650
\$4,500	\$3,300	\$3,500	\$3,643	\$3,750	\$3,833	\$3,900
\$4,750	\$3,550	\$3,750	\$3,893	\$4,000	\$4,083	\$4,150
\$5,000	\$3,800	\$4,000	\$4,143	\$4,250	\$4,333	\$4,400

All cells show SG&A per retail unit sold ex D&A and SBC that generates positive core free cash flow in a given scenario.

Cells shaded in blue reflect per unit amounts that we have already achieved within \$20 at the company level.

(1) Our scenario assumptions include (i) (~\$600m) annual interest expense, (ii) (~\$100m) annual maintenance and priority growth capex, and (iii) ~+\$100m of average ADESA physical auction Adjusted EBITDA. We are providing annualized estimates of these line items rounded to the nearest hundred million. Actual values may vary positively or negatively in any given period due to a variety of external or internal factors. We do not plan to update these rounded annualized estimates on an ongoing basis.



# SG&A Expense Plan



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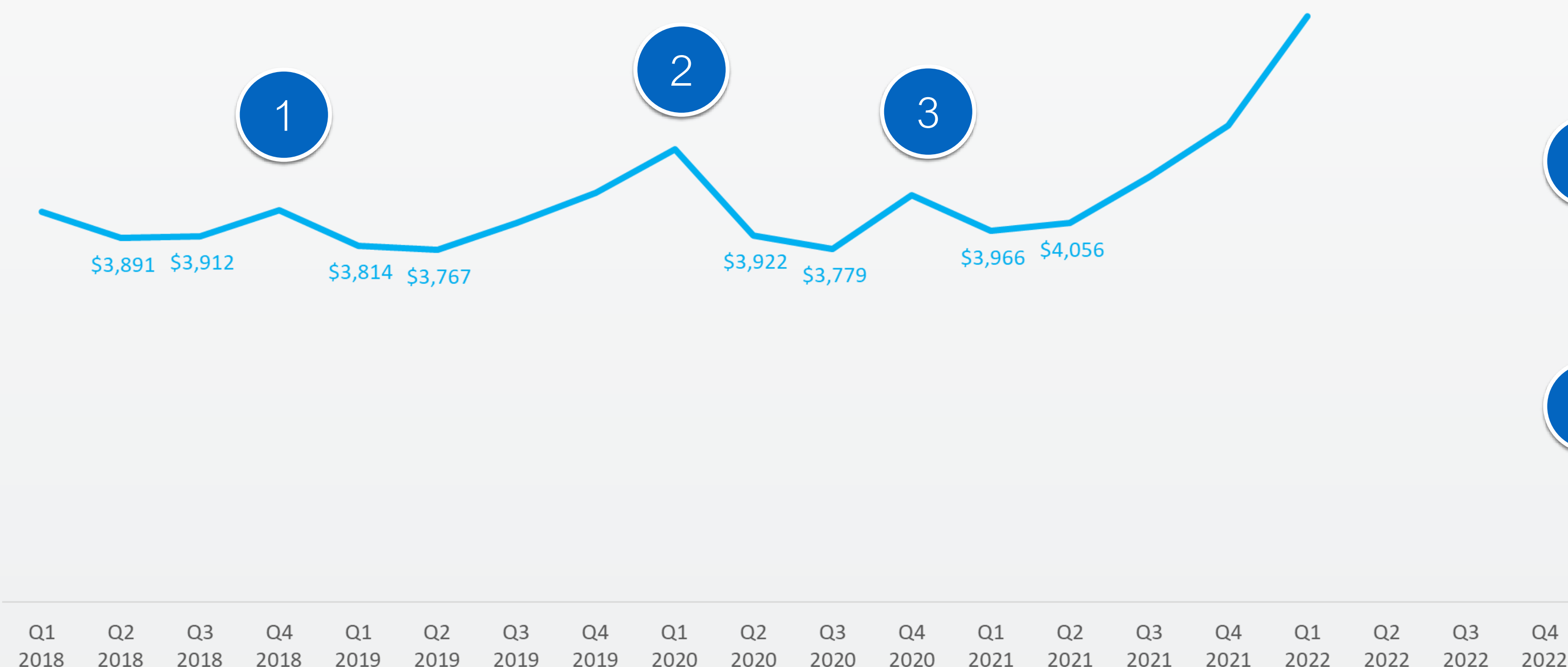
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# Historical patterns in SG&A expenses

In the past, we have typically executed a seasonal investment cycle in which we significantly ramp our infrastructure and operations in the second half of each year to prepare for seasonal demand late in the following Q1.

SG&A per Retail Unit ex D&A and SBC



1

In 2H18, we underinvested in our operational infrastructure, leading to pinch points that limited sales volume when seasonal demand increased in 1Q19.

2

In 2H19, we ramped our investment in preparation for seasonal growth in 1Q20; however, 1Q20 was significantly impacted by COVID-19, leading to elevated levels of SG&A per unit in Q1 followed by leverage in Q2 and Q3.

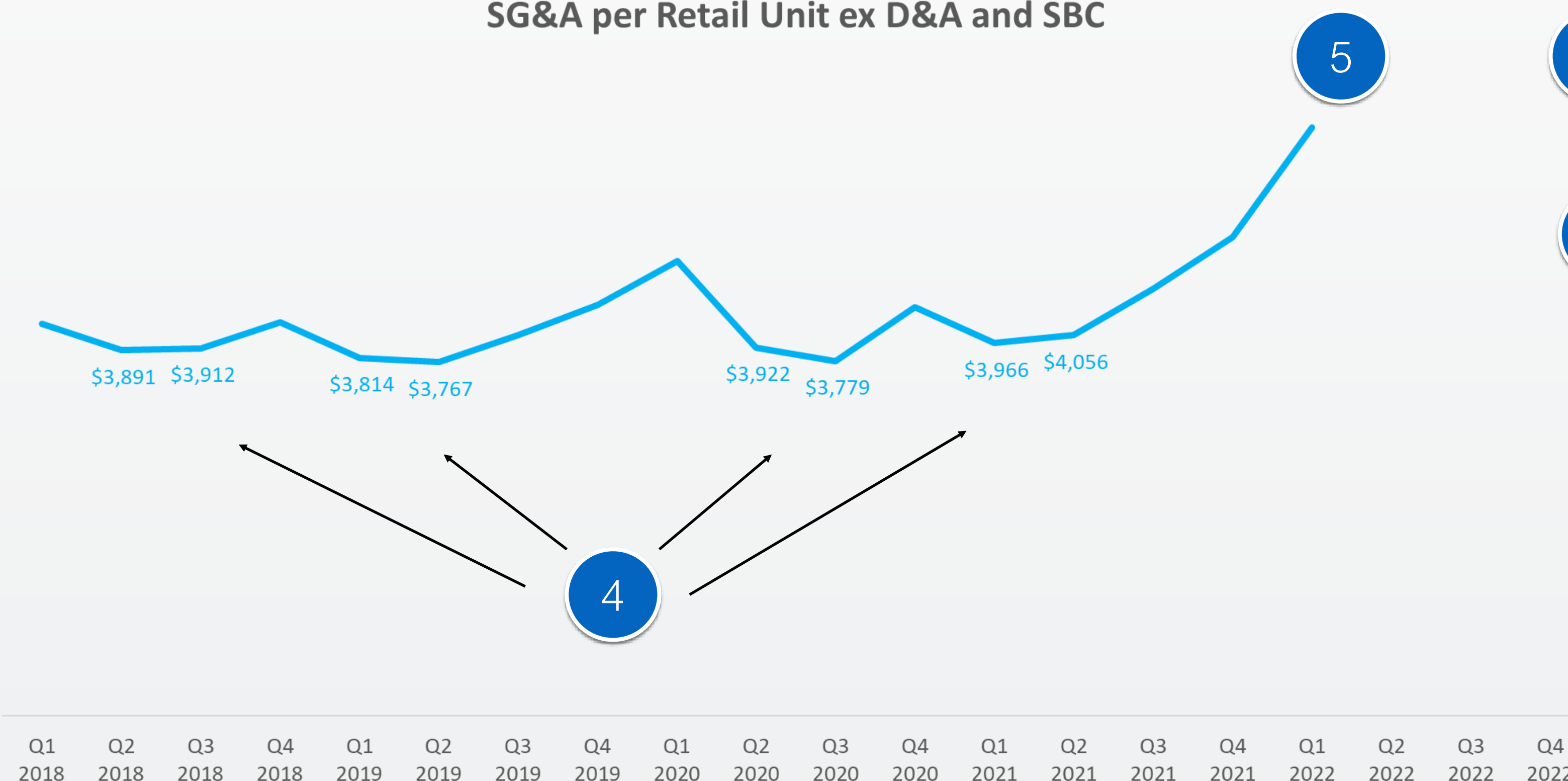
3

In 2H20, we maintained a lower level of seasonal investment due to uncertainties surrounding the COVID-19. This led to renewed constraints in 1H21 when demand significantly rebounded.

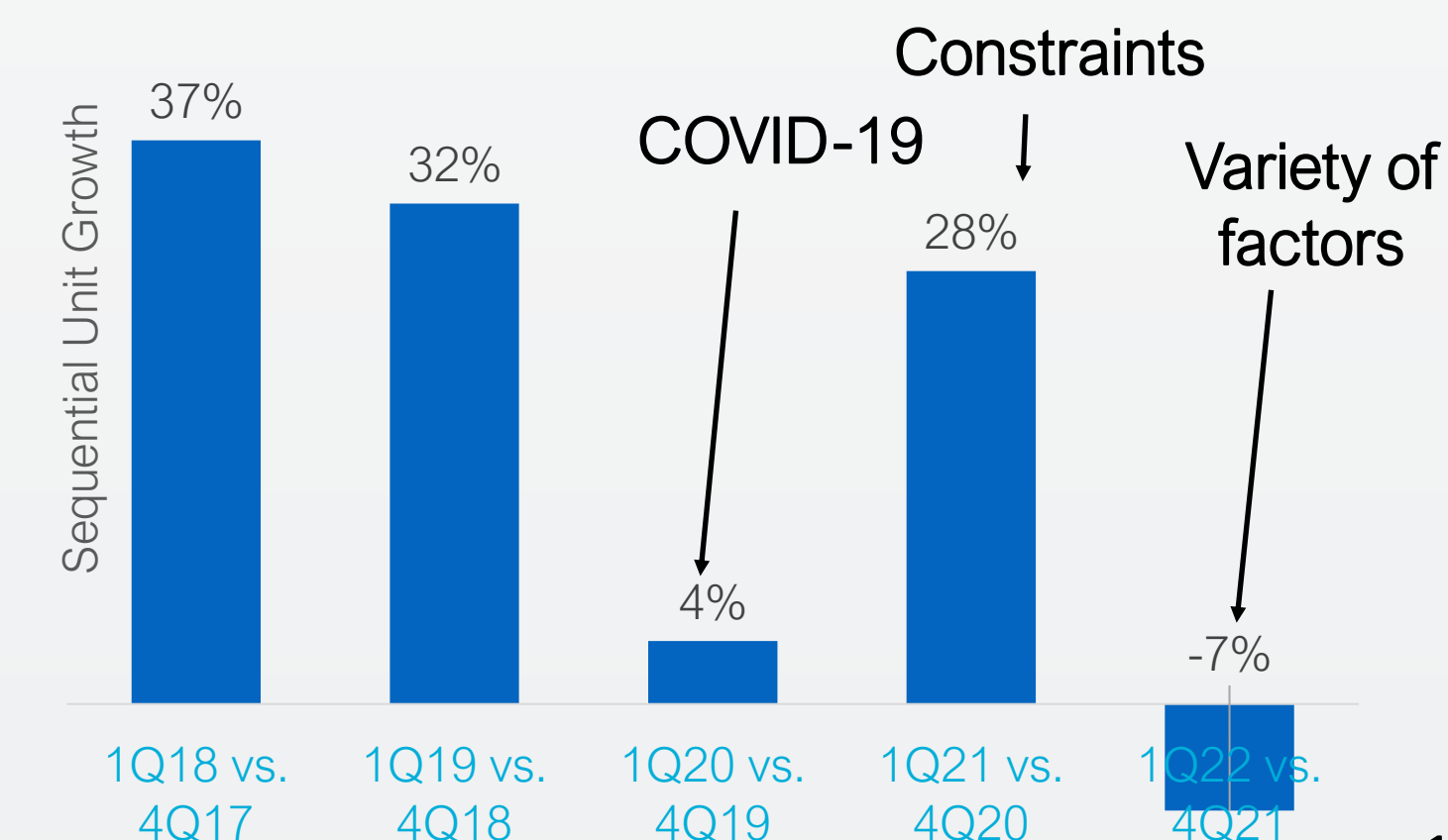
# What was different this year?

Following our seasonal ramps, we have consistently returned to SG&A per retail unit ex D&A and SBC below \$4k as we leverage our seasonal investments on higher sales volume. However, due to a variety of external and internal factors, we did not see the planned seasonal sales increase in Q1 2022, leading to elevated per unit SG&A.

SG&A per Retail Unit ex D&A and SBC



- 4 Following seasonal ramps, we have executed several quarters in the \$3.75-3.95k range of SG&A per retail unit ex D&A and SBC, despite significant growth expenses.
- 5 In Q1 2022, we did not see the typical sales increase due to a variety of external and internal factors, leading to higher per unit expenses.



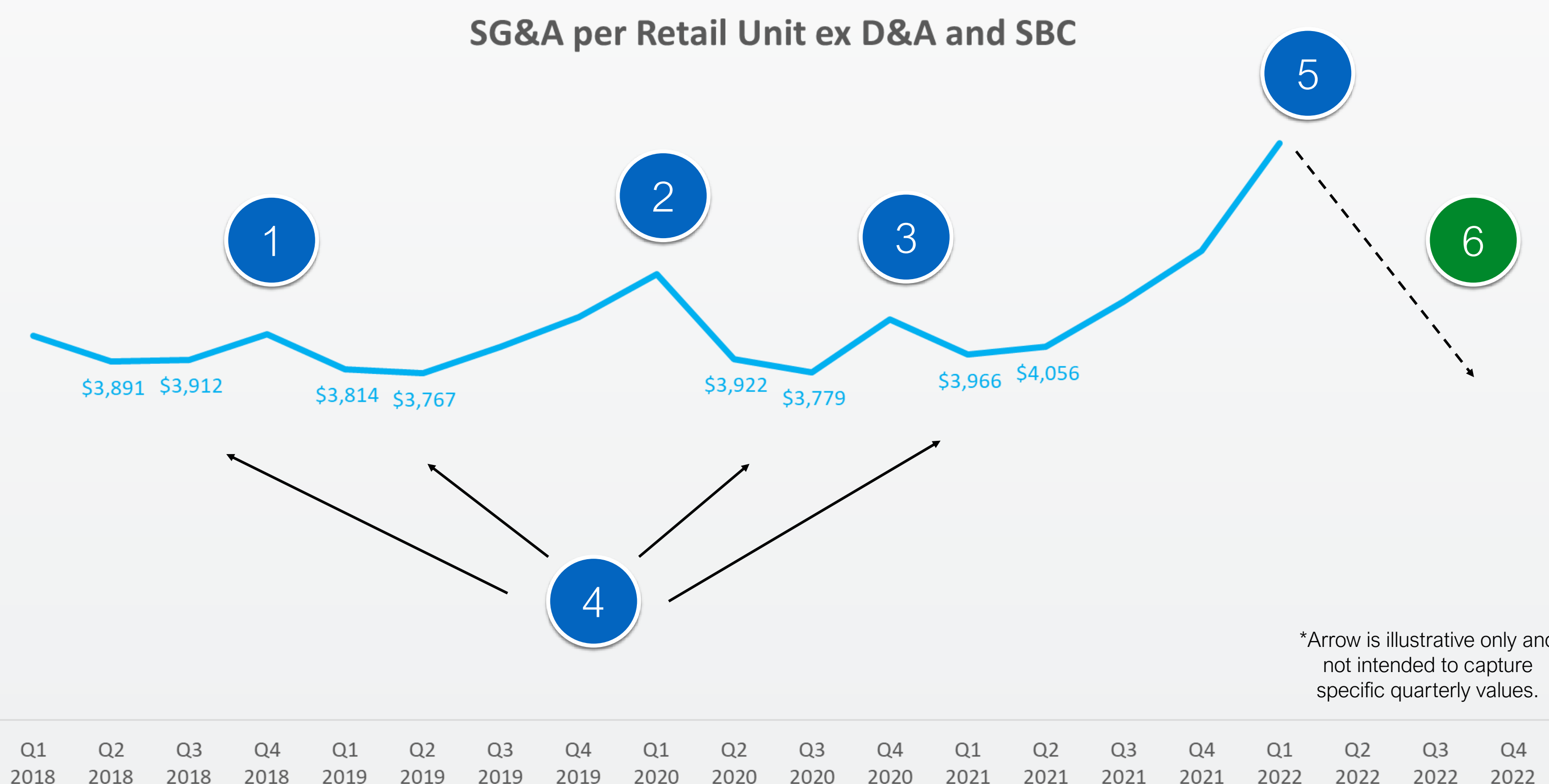


# Where do we go from here?

Unless otherwise noted, all references to GPU, SG&A, EBITDA, and Adjusted EBITDA are for Carvana only and exclude ADESA operations.

We expect to significantly lever SG&A per retail unit sold over the coming quarters, with a stretch goal of \$4,000 SG&A per retail unit sold ex D&A and SBC in Q4 2022.

SG&A per Retail Unit ex D&A and SBC



- 6 We have numerous levers to better align expenses with sales volume. For example:
- In May 2022, we reduced our workforce primarily in operational groups to better match staffing levels with sales volume.
  - In addition, we expect normal attrition, scheduling optimization, and in-sourcing in operational groups to lead to further alignment between staffing and volume.
  - We expect advertising spend to decline in absolute terms in Q2 on higher sales volumes moving beyond our Super Bowl and tax season advertising in Q1.
  - We also plan to reduce dollar spend in other areas where we see opportunities for efficiencies or savings.

# Near-Term SG&A per Retail Unit Targets

Unless otherwise noted, all references to GPU, SG&A, EBITDA, and Adjusted EBITDA are for Carvana only and exclude ADESA operations.

In the near-term, we expect the following trajectory on SG&A per retail unit sold:

- We expect sequential reductions in SG&A per retail unit sold in Q2, Q3, and Q4, with a Q4 stretch goal of \$4,000 SG&A per retail unit sold excluding D&A and SBC.
- From there, we expect to reach new records on SG&A per retail unit sold on our path toward our midterm goal and then toward our long-term goal.
- In addition, as discussed in our Q1 2022 shareholder letter, we are already seeing positive trends on Total GPU in Q2 and expect to see a meaningful improvement in Total GPU in Q2 vs. Q1.

We expect our focus on profitable growth, SG&A leverage, and a return to >\$4,000 total GPU to lead to significant positive EBITDA for the full year 2023.\*

\*This outlook is intended to reiterate and expand upon the outlook in our Q1 2022 shareholder letter, which pointed to a return to >\$4k GPU and positive EBITDA a few quarters after Q2 2021 through Q4 2021 taken in aggregate.



# Midterm SG&A per Retail Unit Target

Unless otherwise noted, all references to GPU, SG&A, EBITDA, and Adjusted EBITDA are for Carvana only and exclude ADESA operations.

Similar to our midterm goal of \$3,000 GPU in 2017, we are setting a midterm goal of \$3,000 SG&A per retail unit sold, or \$2,750 SG&A per retail unit sold ex D&A and SBC. From there, we expect to proceed to our long-term goal.

	FY 2021	Q2 2021	Best Quarter by Component*	\$3,000 Midterm Goal
Compensation and Benefits	\$1,569	\$1,373	\$1,231	~\$950
Advertising	\$1,126	\$1,104	\$1,011	~\$800
Market Occupancy	\$165	\$139	\$107	~\$100
Logistics	\$348	\$315	\$281	~\$200
Other (Sum)	\$1,573	\$1,428	\$1,261	~\$950
<b>Total SG&amp;A</b>	<b>\$4,780</b>	<b>\$4,359</b>	<b>\$3,891</b>	<b>\$3,000</b>
Depreciation and amortization	\$249	\$223	\$202	~\$200
Stock-based compensation	\$91	\$83	\$83	~\$50
<b>SG&amp;A ex D&amp;A and SBC</b>	<b>\$4,440</b>	<b>\$4,053</b>	<b>\$3,606</b>	<b>\$2,750</b>

\*Best quarter shows our best realized quarter since Q1 2019 for each of our SG&A components excluding the CEO's gift and benefits from one-time items, with three subcomponents for other SG&A (see later slides for details). Numbers may not foot due to rounding.



# Path to our Midterm and Long-Term Goals



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# The Path to the Midterm Goal

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Achieving our midterm goal on the path to our long-term goals on SG&A per retail unit sold involves two primary objectives:

1. Continue to grow retail units sold
2. Reduce SG&A expenses

So far in Q2, we have already seen retail units sold increase meaningfully from Q1 levels, and we are taking several steps to reduce expenses. We continue to expect to gain significant market share in 2022 through continued growth in retail units and revenue.

# The Path to the Midterm Goal

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We expect our reduction in SG&A expense per retail unit sold to span all components. In the following slides, we detail the key drivers of expense reductions in each component.

1. Compensation and benefits
2. Advertising / retail units sold
3. Logistics and market occupancy
4. Other SG&A



# The Path to the Midterm Goal

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We expect our reduction in SG&A expense per retail unit sold to span all components.

1. Compensation and benefits
2. Advertising / retail units sold
3. Logistics and market occupancy
4. Other SG&A

# Compensation and Benefits

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We anticipate four drivers of operating leverage in compensation and benefits. Our initial goal is to utilize these levers and to return to previously executed levels on compensation and benefits per retail unit sold. From there we expect to move toward our midterm goal on the path toward our long-term financial model.

1. Matching staffing levels to volume
2. Internal benchmarking
3. Scale and density benefits
4. Technology and process developments



# May 2022 Workforce Reduction

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On May 10, 2022, we made the difficult decision to reduce the size of our team in several operational groups in an effort to better match our workforce with retail unit volumes. The reduction impacted ~2,500 team members, or ~12% of total.

All departing team members will have the opportunity to receive:

- At least 4 weeks of pay, plus one additional week of pay for each year at Carvana
- Three months of health care benefits
- The unvested value of previous Carvana Shares equity awards, as well as their 1 Million Unit Milestone gift from the CEO
- Support from the recruiting team in finding their next job and will remain eligible for rehire when Carvana positions open in the future
- In addition, the Carvana executive team will be forgoing their salary for the remainder of the year to contribute to the severance pay for departing team members.

# May 2022 Workforce Reduction Financial Impacts

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On a one-time basis in Q2 2022, we expect the following separation expenses:

- ~\$20MM total costs and expenses, consisting of:
  - ~\$16MM SG&A expenses
  - ~\$4MM retail costs of goods sold

On an ongoing basis, we expect the following impacts:

- ~\$125MM reduction in annual run-rate payroll, consisting of:
  - ~\$100MM reduction in annual run-rate SG&A expenses
  - ~\$25MM reduction in annual run-rate retail costs of goods sold

In addition to our recent workforce reduction, we expect several drivers of lower payroll in the near term, including normal attrition, scheduling optimization, and in-sourcing.



# Internal Benchmarking Example

Due to our rapid growth and youth as a company, we currently see considerable dispersion in controllable performance metrics across locations and groups within departments. We estimate that managing all locations and groups to the level of our stronger proven internal benchmarks is worth \$200-300 of compensation & benefits expense per retail unit sold. Examples include:

- ~50% lower rescheduling rate metrics vs. company average in our top quartile of logistics hub locations vs. company average
- ~40% higher efficiency in our top quartile of customer advocates vs. company average
- ~30% lower cost per unit in our top quartile of market hub locations vs. company average, after controlling for market specific factors such as cost of living
- ~25% lower cost per truck mile vs. company average in our top quartile of logistics hub locations vs. company average

# The Path to the Midterm Goal

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We expect our reduction in SG&A expense per retail unit sold to span all components.

1. Compensation and benefits

2. Advertising / retail units sold

3. Logistics and market occupancy

4. Other SG&A



# Advertising / Retail Units Sold

We see numerous drivers of higher retail units sold and lower advertising expense per retail unit sold. These include increasing the conversion rate of shoppers on our website through broader selection, faster delivery times, and greater vehicle affordability, and continuing our progress on optimizing marketing, accumulating awareness, and driving repeat customers.

## 1. Increased inventory visibility

- We are currently metering more than 30% of our inventory from search results due to extended delivery times and logistics network constraints, compared to a previous best level of 0%. We are working to relieve these constraints as quickly as possible. Greater inventory selection has a positive impact on customer conversion, other things being equal, based on our historical data and testing. This positive impact also increases with faster delivery times.

## 2. Faster delivery times

- Current average delivery times for our customers are ~2.5 days longer than pre-COVID due to ongoing constraints in our logistics network. Faster delivery times have a positive impact on customer conversion, other things being equal, based on our historical A/B testing.

## 3. Lower rescheduling rates

- While we have made gains since Q1 2022, current rescheduling rates remain higher than pre-COVID. Lower rescheduling rates have a positive impact on customer conversion, other things being equal, based on our historical data.

# Advertising / Retail Units Sold (cont.)

## 4. Affordable vehicles

- Approximately 3% of the vehicles on our website in Q1 2022 had a sticker price below \$15k, compared to ~33% in our previous best quarters. We have several initiatives underway to add more affordable cars to the website through targeted purchasing from customers and reconditioning and merchandising processes enhancements focused on older and higher mileage cars.

## 5. Financing co-applicants

- In Q1 2022, none of our Carvana-financed retail units sold included co-applicants. Other than Carvana, most top automotive lenders allow joint applications. We are currently working on joint application product to make Carvana available to customers who prefer this solution.

## 6. Repeat customers

- We are still relatively early in our life as a company and in our brief history have grown at extremely high rates. As a result, we expect repeat customers to become a larger share of retail purchasers over time, leading to a reduction in advertising expense per unit sold.

## 7. Accumulated brand awareness

- We are still relatively early in the era of online car buying and believe there is a significant opportunity to expand the awareness and credibility of the new online way to buy a car at Carvana.

## 8. Continued marketing optimization

- We are continually working to optimize our marketing spend and creative, which we expect to lead to further gains over time. We also plan to target advertising dollar spend to better match sales volumes in any given period.



# The Path to the Midterm Goal

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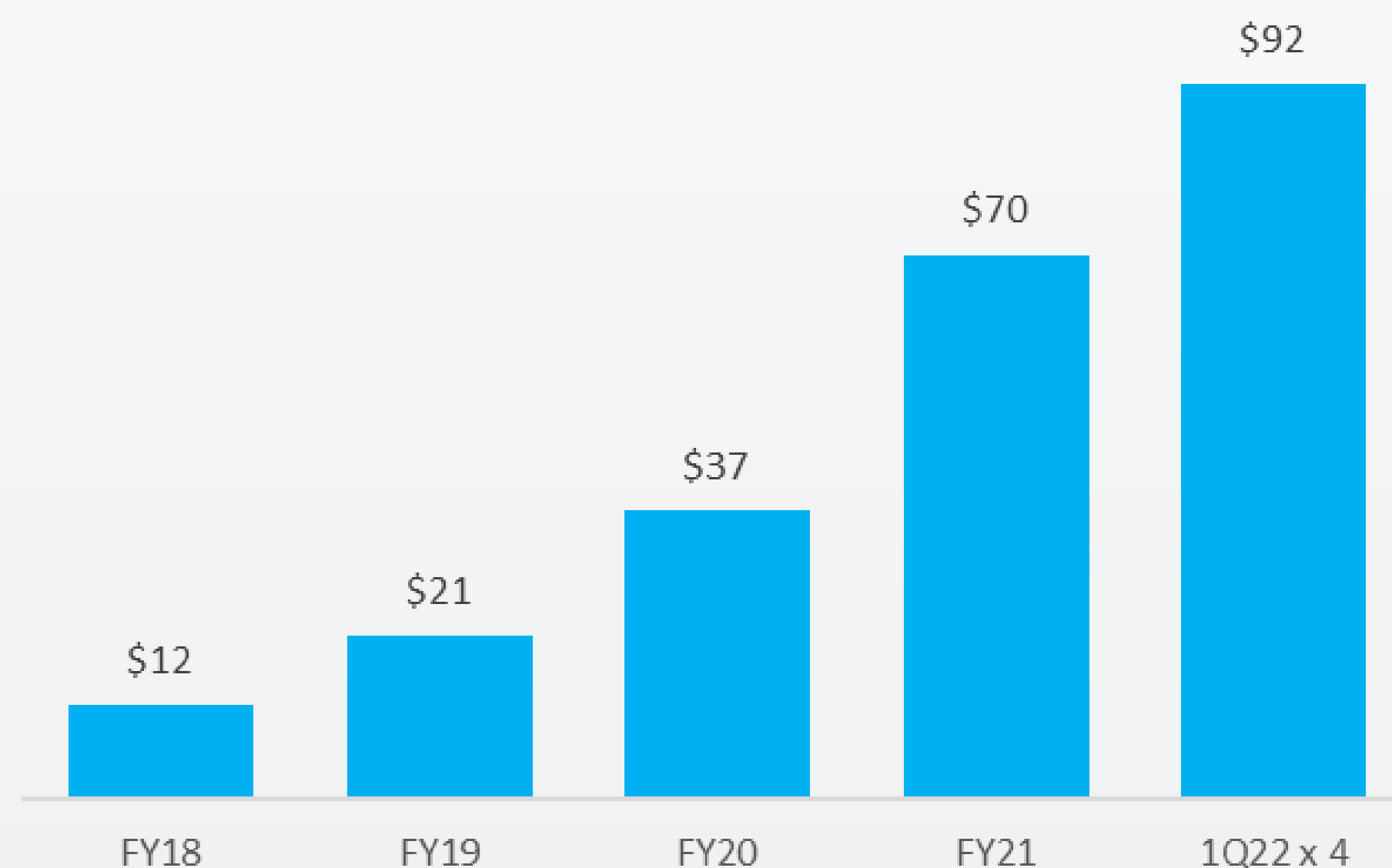
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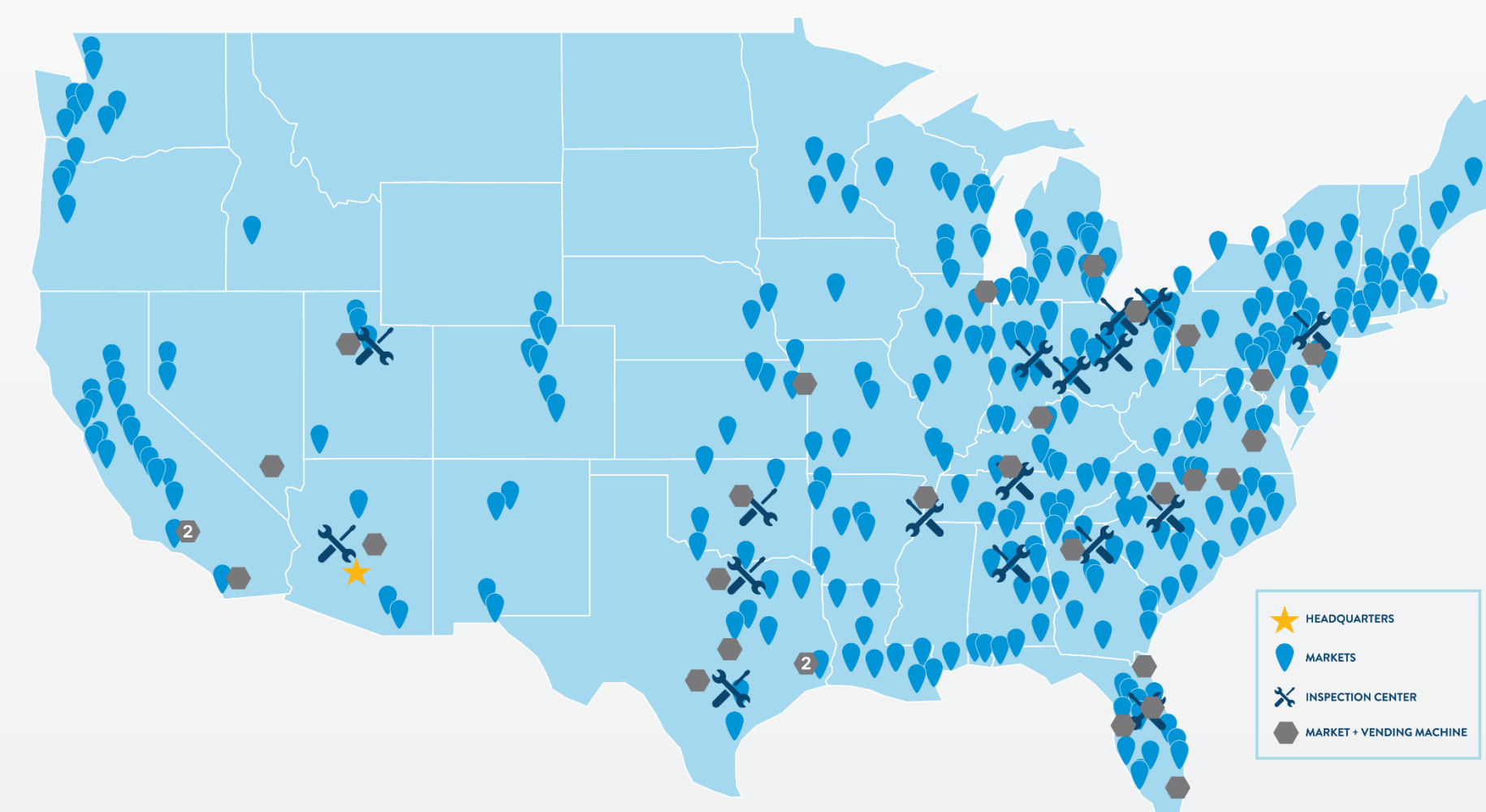
# Market Occupancy

Market occupancy expenses primarily include facilities expenses at more than 150 local market and logistics hubs throughout our nationwide footprint. We estimate that our current footprint is built for more than double Q1 2022 retail units sold, providing significant opportunity for leverage as we grow into our existing footprint.

Market occupancy expense (\$m)



CARVANA MARKETS, VENDING MACHINES, AND IRCs





# Logistics Network

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Over the last several months, we have experienced constraints in our nationwide logistics network that has led to less available selection, extended delivery times, and higher rescheduling rates. These constraints were greatly intensified by Omicron and severe weather events in Q1, but they have persisted to varying degrees after these events have passed. Further details are provided below.

Over the past 6-9 months, we have seen five changes in our logistics network:

1. Location growth (new IRCs, third-party reconditioning locations with no parking)
2. Buying cars from customers growth (additional wholesale volume, retail load balancing)
3. Inventory growth (parking constraints, load imbalances, more difficult vehicle staging)
4. Employee growth (lower average tenure)
5. Significant external disruptions (Omicron, severe weather events)

This in turn impacts various internal operational metrics, including:

1. More vehicle moves, more miles traveled
2. Higher number of constrained routes
3. Higher degree of backlog on constrained routes
4. Lower utilization (due to load imbalances)
5. Lower performance on operational metrics (e.g., trip execution, staging execution)
6. Mismatch between certain routes and regions with excess capacity and others that are highly constrained

# Logistics Network

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This in turn has impacted customer service levels:

1. Metered inventory visibility / less selection
2. Extended delivery times
3. Higher rescheduling and cancellation rates

And logistics costs:

1. Higher retail inbound transport costs
2. Higher wholesale inbound transport costs
3. Higher outbound transport costs

We have numerous initiatives underway to improve on these effects, improve logistics service levels, and reduce logistics costs, including internal benchmarking, regionalized reporting and management, enhanced logistics awareness in our purchasing and pricing algorithms, and other process and technology improvements.

In addition, we believe ADESA will facilitate our progress by simplifying our network and reducing the number of vehicle moves and miles traveled. More information on our ADESA priorities is included later in this presentation.



# The Path to the Midterm Goal

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We expect our reduction in SG&A expense per retail unit sold to span all components.

1. Compensation and benefits
2. Advertising / retail units sold
3. Logistics and market occupancy
4. Other SG&A

# Other SG&A

Unless otherwise noted, all references to GPU, SG&A, EBITDA, and Adjusted EBITDA are for Carvana only and exclude ADESA operations.

Similar to other expense components, we have achieved significantly lower other SG&A expense per retail unit sold in the past than we have realized in recent quarters. Our near-term goal is to return other SG&A expense to past levels on the way to our midterm goal and then our long-term goals

	FY 2021	Q2 2021	Best Quarter by Component	\$3,000 Midterm Goal
Other (Sum)	\$1,573	\$1,428	\$1,261	~\$950
Limited warranty and related	\$320	\$315	\$166	~\$150
Transaction ex limited warranty	\$410	\$390	\$371	~\$300
Corporate, technology, and other	\$843	\$724	\$724	~\$500

\*Best quarter shows our best realized quarter since Q1 2019 for each line item excluding benefits from one-time items. Numbers may not foot due to rounding.

- **Transaction** expenses primarily include limited warranty, title, registration, and related, other customer benefits and gifts, and payments and financing expenses.
- **Technology** expenses primarily include IT expenses, computer software and hardware, and amortization of internally-developed or acquired software.
- **Corporate and other** expenses primarily include professional services, insurance, non-market occupancy, and non-payroll employee expenses, including travel and recruiting expenses.



# Other SG&A (cont.)

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Achieving our midterm goal on transaction expenses per retail unit sold involves a moderate improvement over our previous best levels. We see three primary drivers for reducing these expenses to prior levels and beyond.

1. **Internal benchmarking.** We have generally seen a wide dispersion in these expenses across locations and team members due to varying levels of process maturity and efficiency. For example, our top quintile performers have limited warranty expenses that are ~30% lower than the company average. We expect internal benchmarking to push the company average toward and eventually beyond our most efficient performers over time.
2. **In-Sourcing.** We outsource a significant portion of our title and registration processing in certain states, leading to longer timelines and higher per unit expenses. We expect to in-source more of these services over time.
3. **Process and policy efficiencies.** In addition, we have significant opportunities for automation, communication, and workflow improvements to lower per unit costs.

Similar to our market occupancy footprint, we estimate that our existing non-market facilities and technology infrastructure is built for more than double Q1 2022 retail units sold. Achieving our midterm goal on corporate and technology expenses per retail unit sold involves scaling into the infrastructure we have already built, driving efficiencies, and reducing absolute dollar spend in many areas where we see opportunities for savings.



Leveraging  
ADESA



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# Leveraging ADESA

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On May 9, 2022 Carvana closed the acquisition of the ADESA U.S. physical auction business. We currently have the following Top 5 priorities for our pairing with ADESA:

1. Business as usual at ADESA
2. Direct-to-destination wholesale cars
3. Retail market and logistics hubs
4. Utilize existing reconditioning capacity
5. Faster retail delivery times

Over time, we also expect to build out additional reconditioning capacity at ADESA locations to move from 200k to 2MM annual units of capacity at full utilization.



# Priority #1: Business as usual at ADESA

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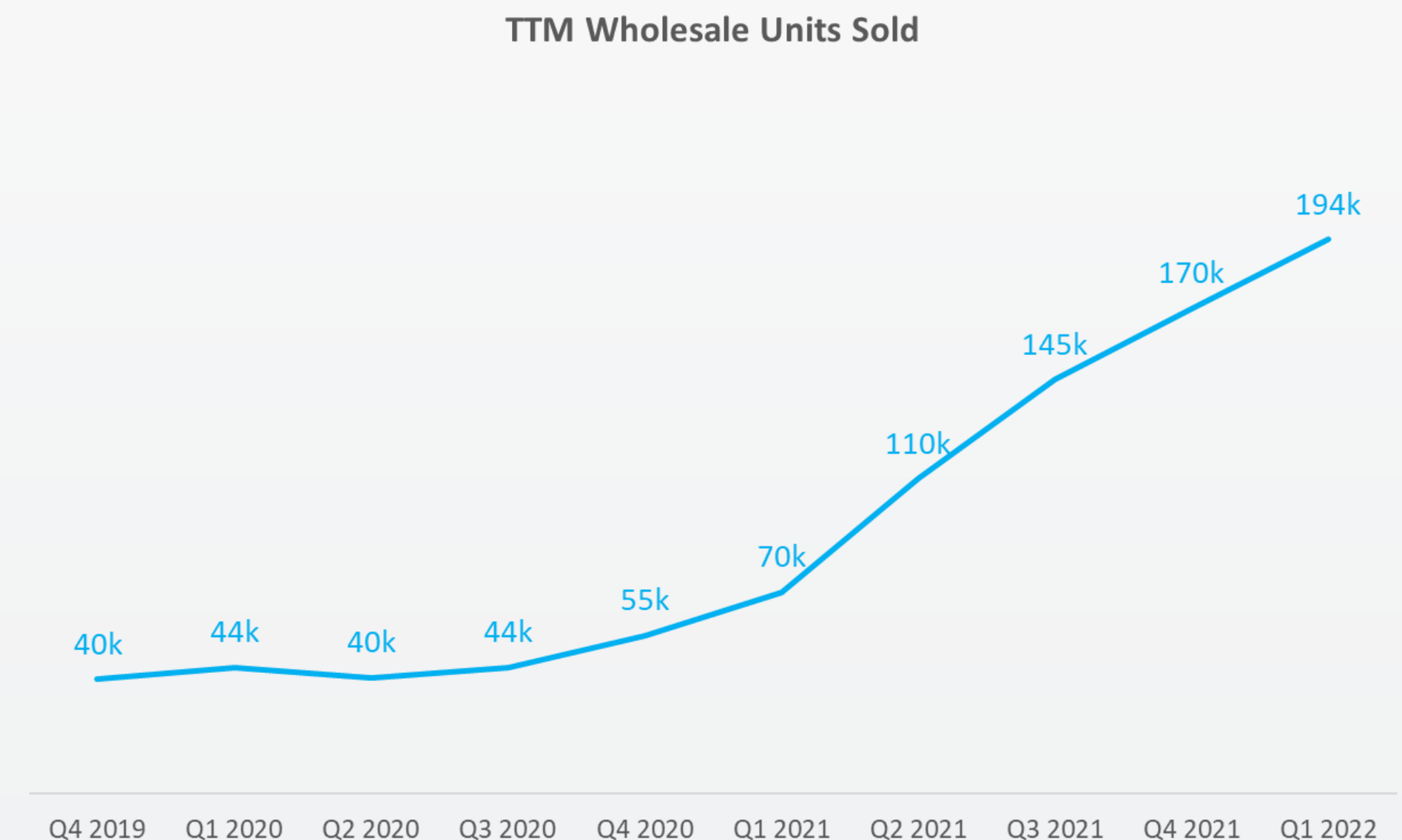
- The first priority for integrating ADESA and Carvana will be to ensure we continue to provide great value and customer service to ADESA's existing buyers and sellers.
  - Expected initial impacts: Q2 2022.
- To this end, the ADESA physical auction business will continue to be run by the same leadership team who managed the business at KAR Global, helping to ensure a seamless transition.

# Priority #2: Direct-to-destination wholesale units

A second near-term priority is utilizing ADESA's network of 56 physical auction sites for storage, inspection, photography, and remarketing of Carvana wholesale units acquired from customers.\*

- Expected initial impacts: Near Term

- ↓ Lower wholesale inbound transport times
- ↓ Lower wholesale inbound transport costs
- ↑ Higher wholesale GPU, other things being equal
- ↓ Fewer vehicle moves on logistics network
- ↓ Fewer parking constraints in certain IRCs and hubs



\*In 2022, wholesale units acquired from customers have typically been transported to the nearest Carvana IRC, generating additional vehicles moves and increased complexity in our multi-car logistics network. Following the acquisition, we expect to transport most wholesale units acquired from customers directly to ADESA locations through our last-mile delivery network, lowering costs and logistics network complexity.

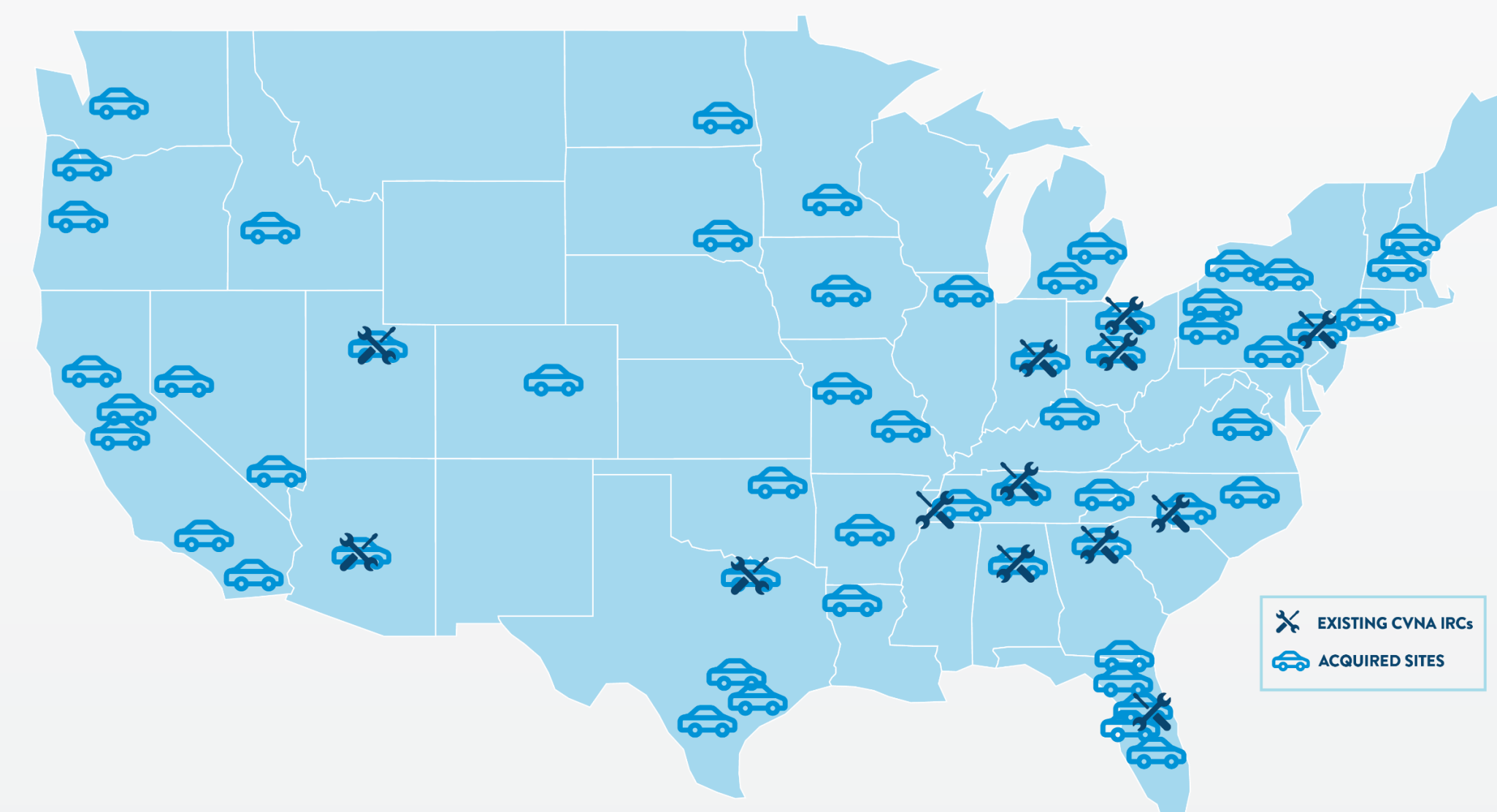


# Priority #3: Retail market and logistics hubs

Similarly, we expect to utilize ADESA's network to expand our market and logistics hub footprint, reducing expected vehicle moves and miles traveled.\*

- Expected initial impacts: Near to Mid Term

- ↓ Lower retail inbound transport times
- ↓ Lower retail inbound transport costs
- ↑ Higher retail GPU, other things being equal
- ↓ Fewer vehicle moves on logistics network
- ↓ Fewer parking constraints in certain IRCs and hubs



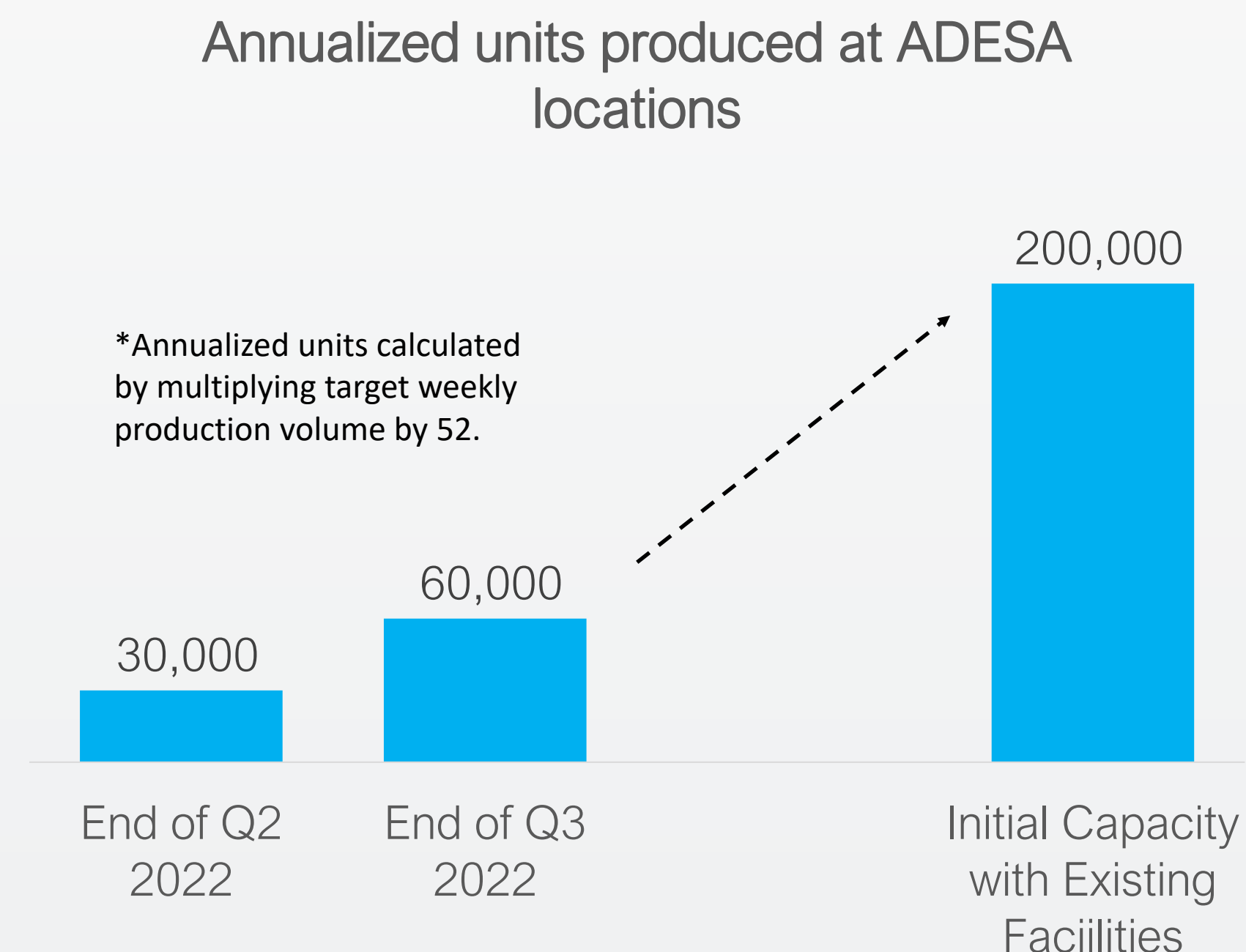
\*In 2022, due to rapid inventory growth and the addition of many third-party reconditioning locations, we frequently moved vehicles between IRCs in different markets due to parking constraints at first-party or third-party locations. This has increased the number of vehicles moved and total vehicle miles traveled, adding to costs and logistics network complexity.

# Priority #4: Utilize existing reconditioning capacity

We estimate that ADESA's existing sites have the capacity to inspect and recondition ~200k retail units per year with limited incremental capital investment. We plan to scale into this capacity and beyond over time.

- Expected initial impact: Near to Mid Term

- ↓ Lower retail inbound transport times
- ↓ Lower retail inbound transport costs
- ↑ Higher retail GPU, other things being equal
- ↓ Fewer vehicle moves on logistics network
- ↓ Fewer parking constraints in certain IRCs and hubs



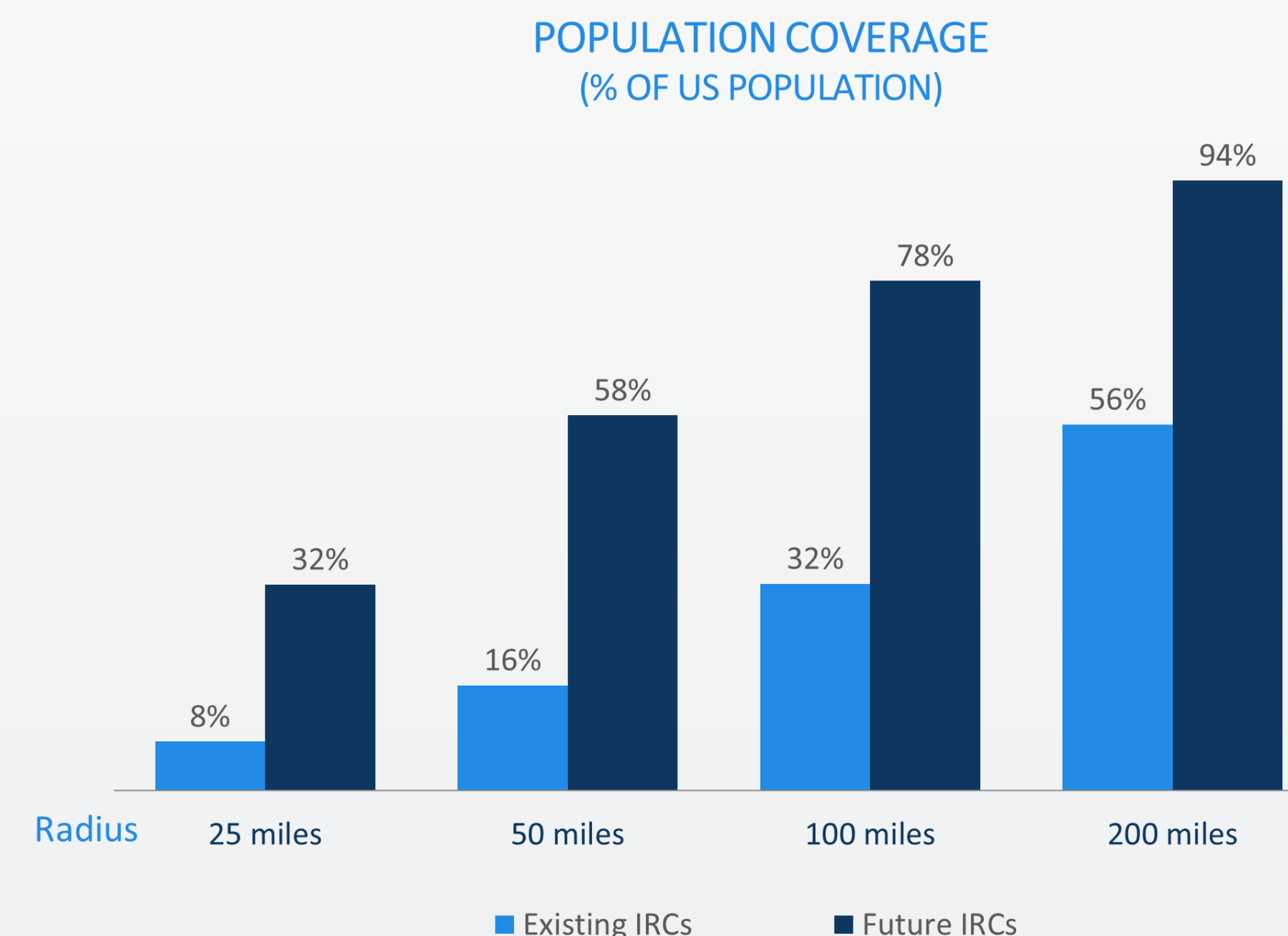


# Priority #5: Faster retail delivery times

Over time, we plan to utilize ADESA's locations to offer faster delivery times to ~80% of the U.S. population. Faster delivery times drive conversion, leading to higher retail units sold, lower advertising expense per unit sold, and better customer experiences.

- Expected initial impact: Mid Term

- ↑ Higher conversion / higher retail units sold
- ↑ Better customer experience
- ↓ Lower advertising expense per unit
- ↓ Lower outbound logistics expense per unit
- ↓ Fewer vehicle moves on logistics network



# ADESA – Why Now?

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One question we have received from investors is why did we purchase of ADESA now, when used vehicle market volume is down, we have significant excess reconditioning capacity in our existing IRCs, and sentiment in financial markets is incredibly low? Our answer is as follows:

- First, we have a tremendous level of conviction in both the long-term value of ADESA, its unique strategic assets, and its team, as well as our ability to generate positive free cash flow to service the financing associated with the purchase price and prefunded capital expenditures.
- Second, our purchase of ADESA is not just about long-term reconditioning capacity. ADESA also generates meaningful benefits in the near-term by facilitating incremental unit economics and simplifying aspects of our last-mile delivery and logistics network.
- Third, we believe the near-term net carrying costs of the ADESA transaction are much smaller than the headline interest rate suggests, leading to an expected net positive impact to financial flexibility. One way to illustrate this point is to break the transaction into two parts.

# Part 1: Purchase ADESA

The first part of the transaction was issuing \$2.275B of senior unsecured notes at 10.25% to buy the ADESA wholesale auction network for \$2.2B.

- We view the current annual carrying costs of this part of the transaction as follows:
  - (\$233m) annual interest expense
  - +~\$100m annual average ADESA physical auction Adjusted EBITDA
  - (\$133m) net carrying cost before benefits
- To generate breakeven annual economics, we need to realize only a fraction of the per unit gains we believe are possible from the Top 5 near-term priorities described above.

Annual Retail Units Sold	Breakeven Savings per Retail Unit Sold
500,000	\$266/unit
600,000	\$222/unit
700,000	\$190/unit

Also of note, based on our historical data, transactions within 200 miles of an IRC have ~\$750 of combined GPU and SG&A per unit savings vs. the average transaction



## Part 2: Prefund CapEx

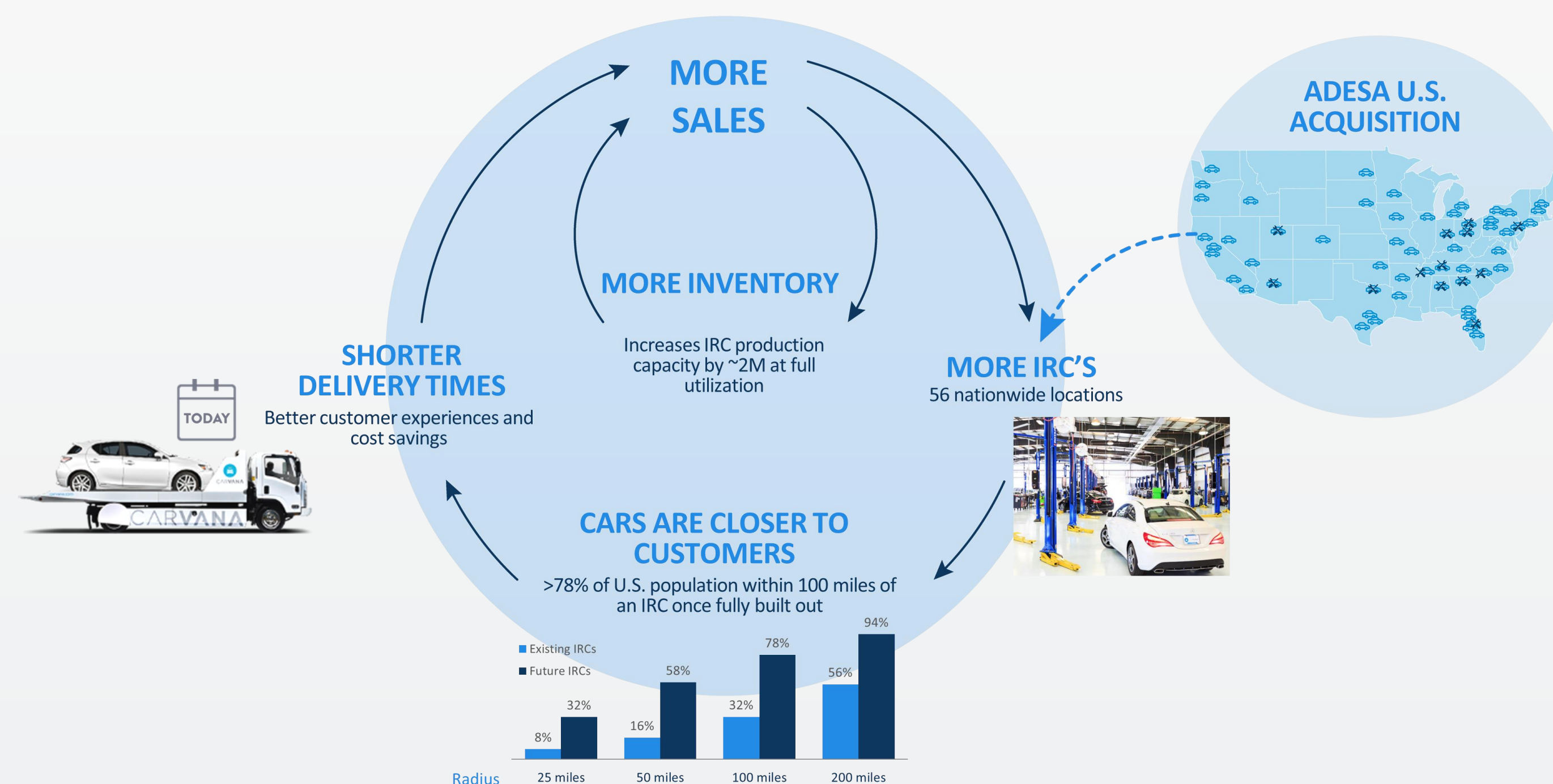
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The second part of the transaction was issuing an incremental \$1B of senior unsecured notes at 10.25% to prefund future ADESA site improvements.

- We view the current annual carrying costs of this part of the transaction as follows:
  - (\$103m) annual interest expense
  - +~\$40m annual interest expense savings from carrying a lower average balance on revolving facilities
  - (\$73m) net carrying cost
- We maintain discretion over our capital expenditure plan, meaning we can use our judgement to optimize the timing and magnitude of future ADESA improvements. This makes the second part of the transaction an additional source of capital that adds to our overall flexibility.

# Reiterating our Long-Term View

Taking a longer-term view, we believe acquiring ADESA will ultimately prove to be a pivotal moment on our path to becoming the nation's largest and most profitable automotive retailer.



# Appendix

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# Non-GAAP Measures

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To supplement the financial measures prepared and presented in accordance with U.S. Generally accepted accounting principles (“gaap”), we also include non-gaap measures in this presentation, including EBITDA and EBITDA Margin. EBITDA and EBITDA Margin are supplemental measures of operating performance that do not represent and should not be considered an alternative to net loss or cash flow from operations, as determined by GAAP. EBITDA is defined as net loss before interest expense, income tax expense, and depreciation and amortization expense. EBITDA Margin is EBITDA as a percentage of total revenues. We use EBITDA to measure the operating performance of our business and EBITDA Margin to measure our operating performance relative to our total revenues. We believe that EBITDA and EBITDA Margin are useful measures to us and to our investors because they exclude certain financial and capital structure items that we do not believe directly reflect our core operations and may not be indicative of our recurring operations, in part because they may vary widely across time and within our industry independent of the performance of our core operations. We believe that excluding these items enables us to more effectively evaluate our performance period-over-period and relative to our competitors. None of these should be considered as a substitute for other measures of financial performance reported in accordance with gaap. In addition, the company’s definitions of these non-gaap financial measures may not be comparable to similarly titled measures of other companies. A reconciliation of each of these non-gaap measures to the most directly comparable gaap financial measure can be found at the end of this presentation.

# Non-GAAP Financial Reconciliation

	Years Ended December 31,						
(dollars in millions)	2015	2016	2017	2018	2019	2020	2021
Net loss	\$ (37)	\$ (93)	\$ (164)	\$ (255)	\$ (365)	\$ (462)	\$ (287)
Depreciation and amortization expense	3	5	12	24	41	74	105
Interest expense	1	3	7	25	81	131	176
Income tax provision	—	—	—	—	—	—	1
EBITDA	<u>\$ (33)</u>	<u>\$ (85)</u>	<u>\$ (145)</u>	<u>\$ (206)</u>	<u>\$ (243)</u>	<u>\$ (257)</u>	<u>\$ (5)</u>
Total revenues	\$ 130	\$ 365	\$ 859	\$ 1,955	\$ 3,940	\$ 5,587	\$ 12,814
Net loss margin	<u>(28.2)%</u>	<u>(25.5)%</u>	<u>(19.1)%</u>	<u>(13.0)%</u>	<u>(9.3)%</u>	<u>(8.3)%</u>	<u>(2.2)%</u>
EBITDA Margin	<u>(25.0)%</u>	<u>(23.2)%</u>	<u>(16.9)%</u>	<u>(10.5)%</u>	<u>(6.2)%</u>	<u>(4.6)%</u>	<u>(0.0)%</u>
EBITDA	\$ (33)	\$ (85)	\$ (145)	\$ (206)	\$ (243)	\$ (257)	\$ (5)
Other expense (income), net	—	—	1	1	4	(1)	6
CEO Milestone Gift in cost of sales	—	—	—	4	5	1	—
CEO Milestone Gift in SG&A	—	—	—	8	8	—	—
Adjusted EBITDA	<u>(33)</u>	<u>(85)</u>	<u>(144)</u>	<u>(193)</u>	<u>(226)</u>	<u>(257)</u>	<u>1</u>
Total revenues	\$ 130	\$ 365	\$ 859	\$ 1,955	\$ 3,940	\$ 5,587	\$ 12,814
Adjusted EBITDA Margin	<u>(25.0)%</u>	<u>(23.2)%</u>	<u>(16.8)%</u>	<u>(9.9)%</u>	<u>(5.7)%</u>	<u>(4.6)%</u>	<u>0.0 %</u>