



CARVANA

DEAR SHAREHOLDERS,

We are excited to announce that our Chief Executive Officer, Ernie Garcia III, in commemoration of us selling our 1 millionth vehicle in late 2021, has committed over \$100 million, based on the stock price at the time of the announcement, of his personal stock ownership in Carvana Co. to be awarded to current Carvana employees once they have been with the Company for over two years. Mr. Garcia wanted to recognize and reward all Carvana employees who have contributed time, dedication and effort to helping Carvana reach this achievement. In previous shareholder letters we have discussed the Carvana Values and how we hope they impact our employees every day – Mr. Garcia’s commitment emphasizes the Carvana Value “We’re All in this Together” at a major milestone for the Company.

As a result of Mr. Garcia’s stock commitment, we granted a “1 Million Unit Milestone Gift” of 23 restricted stock units (“RSUs”) (worth over \$5,000 at the opening stock price on Wednesday, January 5, 2022) to each current employee, which vest after they complete their second year of employment. For every 1 Million Unit Milestone Gift that vests, Mr. Garcia will contribute an equal number of shares to the Company to ensure that the 1 Million Unit Milestone Gifts do not cause any dilution to the Company’s shareholders.

We expect the net impact from Mr. Garcia’s contributions and the 1 Million Unit Milestone Gifts on the Company’s balance sheet and shares outstanding to be close to zero, except that we may gain a deferred tax asset, which is discussed in more detail below. Consequently, we expect the Company and investors (not just our employees) to benefit from the combination of Mr. Garcia’s contributions and the 1 Million Unit Milestone Gifts.

FINANCIAL TREATMENT OF 1 MILLION UNIT MILESTONE GIFTS AND MR. GARCIA’S CONTRIBUTIONS

Despite Mr. Garcia’s expected stock contributions, because the Company itself granted the 1 Million Unit Milestone Gifts, such grants will appear in the Company’s financial statements as equity-based compensation expenses in an amount equal to the grant date fair value of each 1 Million Unit Milestone Gift, net of forfeitures. The compensation expense associated with these awards will first be incorporated into the Company’s financial statements starting in Q1 2022.

Each employee’s 23 RSUs will be expensed over the gift’s expected vesting schedule. We expect GAAP equity-based compensation expense to be ~\$60 million in FY 2022, including ~\$30 million in Q1 2022. We do not expect Mr. Garcia’s contribution of shares to the Company to appear in the income statement, but we do expect the statement of stockholders’ equity to reflect the contributions of shares as they are returned to the Company and retired. Additionally, each round of contributions by Mr. Garcia will trigger Form 4 filing requirements disclosing the disposition of shares to the Company.

Because Mr. Garcia will contribute a share for every one granted to employees as a 1 Million Unit Milestone Gift that vests, the net effect is that shares outstanding will not change. However, we will be able to apply the non-cash equity-based compensation expense as a deduction to reduce any future taxable income, creating a potential deferred tax asset that will benefit all shareholders.

SUMMARY

Thank you for reviewing this shareholder update. We’re excited about the impact Mr. Garcia’s contributions and the corresponding 1 Million Unit Milestone Gifts will have on the Company’s employees as we achieve additional milestones on our mission to change the way people buy cars.

Sincerely,

CARVANA MANAGEMENT