

## Carvana 101 – Carvana’s Inaugural Auto Loan Securitization

On March 29, 2019, Carvana closed its first auto loan securitization, successfully adding a new, large, and diverse monetization channel to its finance platform. This was an exciting development for Carvana. The transaction introduced our product to the market, was well-received by investors, and marked a significant step toward achieving our long-term finance profitability goals.

### 1. Q1 2019 Securitization

The Q1 2019 securitization was a privately marketed securitization under Rule 144A and Regulation S in which Carvana sold \$350 million of principal balance of loans to a securitization trust which funded the purchase through the sale of rated notes, a strip security, and certificates to approximately 30 investors who were new to the Carvana platform. A breakdown of proceeds and related descriptions is below.

#### Carvana Q1 2019 Securitization Summary (in millions)

	Q1 2019 Securitization
Principal balance sold	\$350.0M
Rated notes	\$338.8M
Certificates, Class XS notes, and other	\$31.1M
Reserve account funding	(\$4.4M)
Total proceeds before fees and expenses	\$365.5M

#### Principal Balance

The Q1 2019 securitization transaction included \$350 million in principal balance of loans across the full credit spectrum.

#### Rated Notes

The rated notes consist of seven classes of securities with ratings ranging from Aaa through B2 from Moody’s Investors Service, Inc. and AAA through BB from Kroll Bond Rating Agency, Inc. In total, the principal of the rated notes was \$338.8 million. Each class of notes was purchased by multiple investors who were new to the Carvana platform.

## **Certificates and Class XS Notes**

Certificates entitle the holders to residual cash flows after required payments are made to the rated notes, the servicer, other service providers and trustees, and the Class XS noteholders. The Class XS notes are similar to strips seen in the mortgage securitization market. The Class XS notes do not have a face value but have a contractual right to specific cash flows over the life of the transaction. The certificates and Class XS notes were purchased by multiple investors who were new to the Carvana platform.

## **Reserve Account Funding**

The company funded a reserve account in an amount equal to 1.25% of the principal balance as additional credit enhancement for the rated notes. Funds in the reserve account will be releasable to the certificate holders near the end of the life of the transaction in the event that certain conditions are met. Reserve account funding is accounted for as a reduction in net proceeds and accordingly is included as a reduction in gain on loan sale in Other Sales and Revenues in our Consolidated Statement of Operations.

## **Fees and Expenses**

Fees and expenses for the transaction included underwriting fees and other transaction expenses, including first-time issuer expenses. Transaction fees and expenses are accounted for as a reduction in net proceeds and accordingly are included as a reduction in gain on loan sale in Other Sales and Revenues in our Consolidated Statement of Operations. As expected, securitization fees and expenses as a percent of principal balance declined significantly following our inaugural transaction.

## **Risk Retention**

Pursuant to Dodd-Frank Regulation RR, we retained a 5% vertical interest in the securities issued in the transaction. This vertical interest includes 5% of each class of rated notes, 5% of the Class XS notes, and 5% of the certificates. Each 5% retained interest is recorded at initial fair value, which is equal to the sale price of the other 95% of each security, and the fair value net of the carrying value of sold assets is included as gain on loan sale in Other Sales and Revenues in our Consolidated Statement of Operations.

The total fair value of the beneficial interests retained in our Q1 2019 securitization was \$19.5 million. This value is included in Beneficial Interests in Securitizations in our Consolidated Balance Sheets.

Interest income on the beneficial interests is included as an offset to interest expense in Interest Expense, Net in our Consolidated Statement of Operations.

Principal payments on the beneficial interests are included as a source of cash on the Consolidated Statement of Cash Flows.

Finally, changes in the fair value of these beneficial interests, to the extent that such changes occur over time, are included in Other Income and Expense, Net in our Consolidated Statement of Operations.

A significant fraction of the retained securities are financeable using standard risk retention financing. Interest expense on risk retention financing is included in Interest Expense, Net in our Consolidated Statement of Operations.

## 2. Q1 2019 Finance Revenue

Prior to Q1 2019, Carvana historically monetized customer loans through a combination of forward flow and fixed pool sales. Our Q1 2019 inaugural securitization represented a continuation of this strategy, with proceeds from the securitization pairing with ongoing forward flow sales. In addition, we earned interest income on our loans prior to sale and paid securitization fees and expenses, which combined into total finance revenue. Total Q1 finance revenue per retail unit sold was \$707 before securitization fees and expenses and \$625 net of these expenses.

### Total Finance Revenue (in millions, except per unit amounts)

	<b>Q1 2019 Total</b>
Principal balance sold, net	\$473.6M
Gain on loan sale before fees and expenses	\$22.2M
Interest earned prior to sale	\$3.8M
Total finance revenue before fees and expenses	\$26.0M
Total finance revenue before fees and expenses per retail unit sold	\$707 / unit*
Securitization fees and expenses	(\$3.0M)
Total finance revenue net of fees and expenses per retail unit sold	\$625 / unit*

\*Based on 36,766 retail units sold in Q1 2019

Finance revenue is included in Other Sales and Revenues in our Consolidated Statement of Operations. Total finance revenue was \$561, \$574, \$705, and \$733 per retail unit sold in the first through fourth quarters of 2018, respectively, with the latter two quarters including revenue earned on loans that were originated throughout the entire year through refinancing transactions in those periods.

## **Future Securitizations**

Q1 2019 marked an exciting step in enhancing our finance monetization program. Over time and with continued performance history, since our inaugural securitization, we have made and expect to continue making additional gains in finance revenue in the same channels through which we have seen other new issuers make progress, including:

- More favorable loss assumptions and efficient capital structure
- Lower spreads on rated notes
- Lower required yield from certificate holders
- Lower total deal fees and expenses as a percent of principal balance

Since our inaugural securitization, we have completed many additional securitizations, and we expect to continue executing more as part of our broader finance strategy, while continuing to sell loans under forward flow agreements and other fixed pool loan sales to optimize monetization and stability. We also intend to sell the certificates in future securitizations to optimize capital efficiency. We look forward to executing on continued strong performance as our platform matures and we move toward our long-term goals.

## **Forward Looking Statements**

This document 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. Forward-looking statements include all statements that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. Among these factors are risks related to the "Risk Factors" identified in Carvana's Annual Report on Form 10-K for 2020. There is no assurance that any forward-looking statements will materialize. You are cautioned not to place undue reliance on forward-looking statements, which reflect expectations only as of this date. Carvana does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise.

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