Retail ELEVATOR PITCH

Presented by Hedgeye Retail Sector **Short** **Carvana**

Ticker	CVNA		2023A	2024E	2025E	2026E	2027E
Price	$52	Hedgeye EBITDA	$ 339	$ 259	$ 259	$ 444	$ 579
Market Cap	9.75 bn	Street EBITDA		$ 372	$ 568	$ 669	$ 1,315
Enterprise Value	15.2 bn	Variance		-30%	-54%	-34%	-56%
Short Interest	35.6%	EV/EBITDA		59x	59x	34x	26x
Debt/EBITDA	19.2x	Target Multiple		40.0x	25.0x	15.0x	13.0x
Sell Side Target	$39	Implied Price		$25	$7	$7	$9
Return to SS Tgt	-25%	Price Variance %		-53%	-87%	-86%	-82%

HEDGEYE EDGE | Our Unit Economic Math Tells Us This is a Bone

Our bear thesis is predicated on how the fundamentals will deteriorate over the next 12-18 months in the face of used price reversion, and the resulting equity value risk on a significantly levered balance sheet. In 2020/21 used prices ripped and online customer acquisition costs plummeted. In perhaps the best online used car selling environment of a lifetime, CVNA was unable to make money despite 140% gross profit growth, but profitability at least improved. In our research CVNA is aggressive in offers to buy consumer vehicles, and generally lists them on the higher end of the price range. If prices are rapidly increasing, profitability can ramp to the upside. But as prices fall, the losses should mount. The company will have to invest to gain share. The winners will be those that have room on both the P&L and balance sheet to continually turnover their inventory, and CVNA has no room on either. Using a base, bull, bear unit economic analysis we come out decidingly bearish on CVNA and think the stock's value is in the single digits.

NEAR-TERM (TREND) | Used Vehicle Retail Looking Exceedingly Bearish

The near-term margin setup puts CVNA between a rock and a hard place as management pitches cost leverage at scale, but to drive scale it will have to tank margins by accelerating buying of supply and ramping advertising spend to acquire new customers. So, to take margins up (theoretically), it must take margins down. Units are accelerating with near term GPUs holding up to really get the topline to accelerate CVNA will have to be more aggressive with pricing and spend up on advertsing and other costs. Trend profitability is good now but should be getting worse

KEY RISKS TO THE CALL | Used Auto Prices March Higher, Scale Takes GPUs Up

If prices march up, GPUs can stay elevated driving near term EBITDA upside. If CVNA's cost-savings-at-scale narrative works as the company returns to ramping unit volumes, this name is worthy of a higher multiple and higher stock price as those profits will flow through and allow the company to avoid bankruptcy.

COMPANY DESCRIPTION

Carvana (CVNA) is a retailers of used vehicles in the United States, operating specifically through a consumer-ease built online model. The company has historically struggled to generate real profit and after a year of very negative performance, has made strides to turn around its business through immense cost cutting. Carvana now plans to attempt a return to growth.

KEY MODELING ASSUMPTIONS

	2023A	2024E	2025E	2026E	2027E
Revenue	$10,750	$10,812	$12,008	$13,940	$15,566
YY % Change	-21%	1%	11%	16%	12%
Gross Margin %	17.4%	17.3%	16.8%	17.3%	17.3%
EBIT Margin %	-0.8%	-1.3%	-1.1%	0.4%	1.3%
EBITDA	$339	$259	$259	$444	$579
Net Debt	$ 5,450	$ 4,988	$ 5,043	$ 5,322	$ 5,018
Net Debt/EBITDA	*16.1x*	*19.2x*	*19.5x*	*12.0x*	*8.7x*
FCF/Share	$ 3.57	$ 4.42	$ 2.16	$ (1.14)	$ 1.34