Carvana Co.(CVNA)

$222.99 (As of 08/07/20)

Price Target (6-12 Months): **$202.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 03/17/19)	
	Prior Recommendation: Underperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D	Momentum: A

Summary

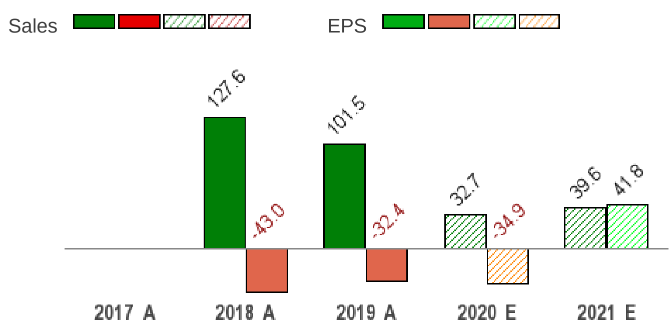
Carvana's vertically integrated, online platform for buying and selling cars provides a seamless customer experience and vast vehicle selection. Its patented vehicle vending machines also offer a unique experience. In particular, there is an accelerated shift to online used-car sales with consumers' increasing comfort in purchasing big ticket items online amid coronavirus woes. Carvana is witnessing impressive top-line growth on the back of the red-hot used car market and rising adoption of online shopping. However, the company has not yet turned a profit amid increasing capital expenditure, and rising SG&A expenses. Carvana's rising debt levels also play a spoilsport. Stiff completion in the used-car market may pose a threat to Carvana's long-term prospects. As such, the stock warrants a cautious stance at the moment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$225.45 - $22.16
20 Day Average Volume (sh)	1,838,451
Market Cap	$32.7 B
YTD Price Change	108.6%
Beta	2.44
Dividend / Div Yld	$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 34% (166 out of 252)
Last EPS Surprise	27.9%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	3.9%
Expected Report Date	NA
Earnings ESP	11.6%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	7.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,513 E	1,725 E	1,958 E	2,183 E	7,300 E
2020	1,098 A	1,118 A	1,388 E	1,524 E	5,229 E
2019	755 A	986 A	1,095 A	1,104 A	3,940 A

EPS Estimates

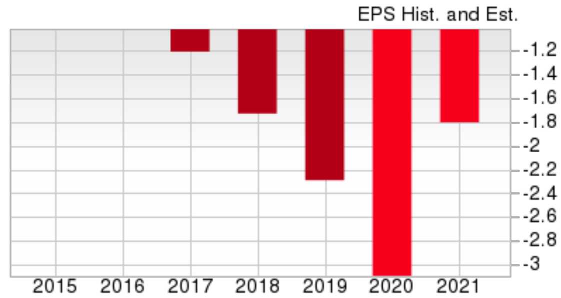
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.51 E	-$0.27 E	-$0.25 E	-$0.44 E	-$1.80 E
2020	-$1.19 A	-$0.62 A	-$0.51 E	-$0.52 E	-$3.09 E
2019	-$0.53 A	-$0.40 A	-$0.56 A	-$0.79 A	-$2.29 A

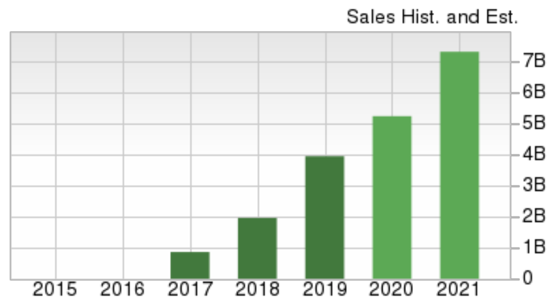
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

Overview

Headquartered in Phoenix, AZ, Carvana Co. is a leading e-commerce platform for buying and selling used cars.The company, which had filed for its IPO in 2017, has had an amazing run ever since, with revenues more than quadrupling between 2017 and 2019. Carvana's end-to-end online business model that covers every aspect of used-car retailing — including sales, financing, logistics, inspection and repair centers, as well as software development — has transformed traditional used-car sales in several ways.





With a mission of changing the way people buy cars, Carvana is harnessing the power of digitisation and applying it to the auto industry. It is changing customers' shopping experience by letting them find the perfect car from the comfort of homes without having to haggle with sales people. Thanks to advanced technology, customers can browse through its broad inventory — 33,500 as of Mar 31, 2020 — of high-quality used cars and get a clear and complete view of the interior and exterior of each car. Once the customers make their selection, the vehicle is either delivered to their home as soon as the next day or available for pick up at a car vending machine. Importantly, the Carvana car vending machine is the first fully-automated, coin-operated car vending machine in the United States, offering a truly memorable pick-up experience for cars purchased through Carvana.com.

Starting from a single market in Atlanta in 2013, Carvana has now expanded to 161 markets as of the first quarter of 2020. The company's operating revenues are categorized into three components: used-vehicle sales, wholesale vehicle sales, and other sales and revenues. Used-vehicle sales (accounting for 86.8% of total revenues in 2019) include revenues generated through the sale of used vehicle to customers via website. Wholesale vehicle sales (6.8%) comprise proceeds from vehicles sold to wholesalers. Other sales and revenues (6.4%) include sales of automotive finance receivables that it originates and sells to third parties.

During the year ended Dec 31, 2019, the number of vehicles sold to retail customers grew 88.7% year over year to 177,549 units.

Reasons To Buy:

> Carvana's compelling end-to-end online business model and trademark vending car machine are transforming the shopping experience of buyers and driving top-line growth.

- The company's integrated e-commerce platform encompasses every aspect of used-car retailing, including online sales, financing, logistics, inspection and repair centers and software development. Its end-to-end compelling business model has disrupted traditional used-car sales by allowing consumers to complete shopping from the comfort of homes. The customer-centric operations provide the buyers best user experience, selection, and value. In 2018, Carvana had acquired Car360, thereby enhancing its 360-degree photo capabilities with 3D computer vision and augmented reality.

- Carvana's top-line growth has been super impressive. The company's revenues have witnessed a CAGR of 66.2% during the 2017-2019 time frame. Gross profit per unit is also on the rise on the back of increase in retail units sold. The number of retail units witnessed a CAGR of 58.9% between 2017 and 2019. The company is directing efforts toward achieving management's ambitious goal of reaching 2 million unit sales per year (or ~5% market share based on approximately 40 million cars sold per year).

- In particular, there is an accelerated shift to online used-car sales, as consumers are increasingly becoming comfortable in purchasing big ticket items online amid coronavirus woes.Carvana's 90-day no loan payment promotion, contactless delivery service and more frequent marketing are also likely helping it boost sales amid the COVID-19 crisis. Used-car online retailers are positioned to thrive not only during the COVID-19 crisis but also in its aftermath amid the changing shopping patterns of consumers. The used-car market has gained traction over the past few years and is poised to witness strong demand going forward. Further, increased use of dedicated online sites to sell used cars is having a positive impact on the used-car market. These favorable trends bode well for Carvana's long-term growth trajectory.

- The company's next-day delivery in many markets and a seven-day money-back guarantee to help ease concerns about buying online enhance customers' faith and shopping experience. Moreover, its broad inventory of vehicles offers wide selection options. The company has managed to differentiate itself from other dealerships through the nine-storey trademark car vending machines. Carvana's capital- and labor-light business model as against the brick-and-mortar car retailer allows the company to rapidly expand market reach. With a less expensive and zippy approach to selling cars, Carvana is well positioned to further expand the business in the coming years.

Reasons To Sell:

High capex and SG&A expenses are hurting the margins of Carvana. Elevated leverage is also a major cause of concern.

- While the company's revenue growth has been impressive, it has not yet turned a profit. In fact, its net loss is widening every year since it went public in 2017. Notably, net loss incurred in 2017, 2018 and 2019 was $164.3 million, $254.7 million and $364.6 million, respectively. The loss can be attributed to the firm's persistently rising capital investments to expand the business. While the company is still in the early stage of development, it is unlikely that it will achieve the necessary scale to turn profitable or even breakeven in the near future.

- The company's stretched balance sheet is a major headwind. As of Jun 30, 2020, Carvana's long-term debt rose to $965.7 million from $883.1 million recorded on Dec 31, 2019. Its debt to capital stands at 0.99x compared with the industry's 0.17x. Elevated leverage restricts the firm's flexibility to tap onto growth opportunities. The firm's debt is also way too high when compared to its cash and cash equivalents of $246.3 million. Its weak liquidity is reflected in its cash ratio of 0.13, lower than the industry's 1.03.

- Carvana is bearing the brunt of escalating selling, general and administrative expenses since its inception and the trend is likely to continue. SG&A costs had amounted to $223.4 million, $425.2 million and $786.7 million in 2017, 2018 and 2019, respectively. With SG&A expenses surpassing gross profit in every quarter, the firm has always been in the red. Amid the net losses, high capex and other expenses, the firm hasn't recorded positive free cash flow. Quite obviously, it has not paid any dividend yet and does not intend to resort to investor-friendly moves in the foreseeable future.

- Stiff competition is another cause of concern. The highly-fragmented nature of the used-car industry makes it competitive, with even the biggest used-car retailer holding less than 3% of the market share in the industry. This offers opportunity for new players to enter the market easily. Despite swift expansion, Carvana accounts for less than 1% of the used-car sales market. The company faces competition from major franchised dealerships like AutoNation and CarMax, online sellers like Vroom, as well as other independent dealerships. Increased use of ride-hailing services such as Uber and Lyft could also lead to a rise in competition. Moreover, big internet players with a longer track record and greater financial resources may also enter the industry, which might pose threat to its long-term prospects.

Last Earnings Report

Carvana Q2 Loss Narrower Than Expected, Sales Up Y/Y

Quarter Ending	06/2020
Report Date	**Aug 05, 2020**
Sales Surprise	**-1.05%**
EPS Surprise	**27.91%**
Quarterly EPS	**-0.62**
Annual EPS (TTM)	**-3.16**

Carvana reported reported second-quarter 2020 loss per share of 62 cents, narrower than the Zacks Consensus Estimate of a loss of 86 cents. Higher-than-expected sales and gross profit from used vehicle sales led to this outperformance.

The online used car dealer incurred a loss of 40 cents a share in second-quarter 2019. This downside was mainly due to lower year-over-year revenue growth and gross profit from wholesale vehicle sales.

During the reported quarter, total revenues came in at $1,118 million, which missed the Zacks Consensus Estimate of $1,130 million. However, the top-line figure increased from the year-ago number of $986 million.

During the second quarter, the number of vehicles sold to retail customers grew 25% to 55,098 compared with the prior-year period's 44,000. Total gross profit of $150.2 million marked an increase of 8.8% year over year. However, SG&A expenses came in at $240 million, down 32% year over year. Resultantly, the firm incurred a pretax loss of $106.6 million, wider than the year-ago quarter's $64.1 million.

Operational Results

Used vehicle sales totaled $992 million in second-quarter 2020, up 16% year over year. The figure also beat the Zacks Consensus Estimate of $914 million. Gross Profit for used vehicle amounted to $65.6 million, up 3.5% year over year. The reported figure also surpassed the Zacks Consensus Estimate of $52 million.

Wholesale vehicle sales amounted to $49.4 million, down from the $63 million recorded in the second quarter of 2019. The figure also missed the Zacks Consensus Estimate of $77 million. Gross Profit for wholesale vehicle amounted to $7.54 million, up 7.8% year over year. The figure outpaced the consensus mark of $1.08 million as well.

Other sales and revenues also increased to $77.1 million from the $67.4 million witnessed in the comparable quarter last year. The figure also beat the Zacks Consensus Estimate of $53 million. Gross Profit amounted to $77.1 million, up 14.4% year over year. In addition, the reported figure topped the Zacks Consensus Estimate of $48.02 million.

Financial Position

Notably, the company had cash and cash equivalents of $246.3 million as of Jun 30, 2020, as compared to $76 million as on Dec 31, 2019. Long-term debt amounted to $965.7 million as of Jun 30, 2020, up from $883.1 million recorded as of Dec 31, 2019.

Carvana has suspended the 2020 guidance as it expects the pandemic's crippling impact to strain its operations in the days to come.

Valuation

Carvana's shares are up 108.6% in the year to date period and 144.9% in the trailing 12-month period. Stocks in the Zacks E-Commerce industry and the Zacks Auto-Tires-Trucks sector are up 53.1% and 19.4% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are up 71.8% and 39.2%, respectively.

The S&P 500 index is down 4.1% in the year to date period and up 16.6% in the past year.

The stock is currently trading at 4.96X forward 12-month sales, which compares to 4.61 for the Zacks sub-industry, 0.87X for the Zacks sector and 3.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.94X and as low as 0.72X, with a 5-year median of 2.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $202 price target reflects 5.22X forward 12-month earnings per share.

The table below shows summary valuation data for CVNA:

Valuation Multiples - CVNA

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.96	4.61	0.87	3.67
	5-Year High	5.94	5.99	0.87	3.67
	5-Year Low	0.72	3.16	0.49	2.53
	5-Year Median	2.04	4.69	0.61	3.04
EV/Sales TTM	Current	7.62	6.96	1.02	3.33
	5-Year High	8.82	8.53	1.03	3.43
	5-Year Low	1.35	3.92	0.67	2.1
	5-Year Median	3.74	6.21	0.85	2.82
P/B TTM	Current	2,473	9.27	2.04	4.58
	5-Year High	2,473	11.2	2.13	4.58
	5-Year Low	NA	4.89	1.13	2.83
	5-Year Median	27.38	7.96	1.72	3.73

As of 08/07/2020

Industry Analysis **Zacks Industry Rank:** Bottom 34% (166 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
AutoNation, Inc. **(AN)**	Outperform	1
CarGurus, Inc. **(CARG)**	Outperform	2
Cars.com Inc. **(CARS)**	Outperform	1
Penske Automotive Group, Inc. **(PAG)**	Outperform	1
Sonic Automotive, Inc. **(SAH)**	Outperform	1
Auto Trader Group **(ATDRY)**	Neutral	3
CarMax, Inc. **(KMX)**	Neutral	3
TrueCar, Inc. **(TRUE)**	Neutral	4

Industry Comparison Industry: Internet - Commerce

				Industry Peers		
	CVNA	**X Industry**	**S&P 500**	**CARS**	**KMX**	**TRUE**
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	4
VGM Score	D	-	-	B	A	B
Market Cap	32.71 B	3.38 B	23.30 B	619.58 M	16.35 B	587.84 M
# of Analysts	10	4	14	2	5	3
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	B	D
Cash/Price	0.01	0.10	0.07	0.10	0.07	0.45
EV/EBITDA	-141.89	7.85	13.32	13.66	20.60	-19.14
PEG Ratio	NA	3.96	2.94	NA	2.52	NA
Price/Book (P/B)	2,204.54	6.79	3.19	1.88	4.57	1.82
Price/Cash Flow (P/CF)	NA	18.50	12.51	0.94	14.84	NA
P/E (F1)	NA	76.07	22.02	7.56	31.24	NA
Price/Sales (P/S)	7.41	2.56	2.53	1.12	0.90	1.80
Earnings Yield	-1.61%	0.84%	4.37%	13.23%	3.20%	-3.10%
Debt/Equity	82.86	0.33	0.77	1.85	4.15	0.11
Cash Flow ($/share)	-2.01	0.47	6.94	9.86	6.76	-0.09
Growth Score	D	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	NA%	10.52%	10.46%	NA	13.75%	NA
Proj. EPS Growth (F1/F0)	-930.67%	2.22%	-6.80%	-51.59%	-39.77%	-105.54%
Curr. Cash Flow Growth	1,337.60%	1.48%	5.39%	216.09%	7.77%	181.87%
Hist. Cash Flow Growth (3-5 yrs)	NA%	11.42%	8.55%	71.83%	9.70%	8.41%
Current Ratio	1.24	1.57	1.33	1.49	2.85	5.88
Debt/Capital	98.81%	29.71%	44.50%	64.94%	80.58%	10.02%
Net Margin	-4.10%	-4.10%	10.13%	-224.10%	3.45%	-11.76%
Return on Equity	-181.15%	4.13%	14.39%	11.67%	18.00%	-5.69%
Sales/Assets	2.21	1.33	0.51	0.35	0.89	0.77
Proj. Sales Growth (F1/F0)	32.72%	0.00%	-1.51%	-11.53%	-9.85%	-23.03%
Momentum Score	A	-	-	B	F	F
Daily Price Chg	-13.90%	0.16%	0.90%	0.77%	-0.37%	27.74%
1 Week Price Chg	4.44%	1.00%	0.14%	30.76%	-0.50%	31.01%
4 Week Price Chg	38.49%	10.37%	8.95%	72.34%	16.29%	93.64%
12 Week Price Chg	114.41%	38.22%	18.90%	87.02%	33.40%	140.35%
52 Week Price Chg	164.94%	45.36%	1.18%	0.22%	19.34%	13.69%
20 Day Average Volume	1,838,451	318,119	2,057,775	1,516,285	1,114,267	1,186,847
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	221.02%	-0.29%	-15.31%
(F1) EPS Est 4 week change	3.90%	0.00%	1.36%	221.02%	-1.99%	-41.25%
(F1) EPS Est 12 week change	-11.49%	-0.42%	1.57%	221.02%	10.20%	-72.96%
(Q1) EPS Est Mthly Chg	5.06%	0.00%	0.54%	241.30%	-5.04%	-44.44%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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