
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-38073

CARVANA CO.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

81-4549921

(I.R.S. Employer Identification No.)

1930 W. Rio Salado Parkway, Tempe, Arizona

(Address of principal executive offices)

85281

(Zip Code)

(480) 719-8809

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 2, 2018, the registrant had 38,849,394 shares of Class A common stock outstanding and 105,215,869 shares of Class B common stock outstanding.

INDEX TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Unaudited Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017	<u>2</u>
Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017	<u>3</u>
Unaudited Condensed Consolidated Statements of Stockholders' Equity / Members' Deficit for the Nine Months Ended September 30, 2018 and 2017	<u>4</u>
Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017	<u>6</u>
Notes to Unaudited Condensed Consolidated Financial Statements	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>32</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>54</u>
Item 4. Controls and Procedures	<u>54</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>55</u>
Item 1A. Risk Factors	<u>55</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>57</u>
Item 3. Defaults Upon Senior Securities	<u>58</u>
Item 4. Mine Safety Disclosures	<u>58</u>
Item 5. Other Information	<u>58</u>
Item 6. Exhibits	<u>59</u>

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CARVANA CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 439,794	\$ 172,680
Restricted cash	18,471	14,443
Accounts receivable, net	23,498	14,105
Finance receivables held for sale, net	88,151	45,564
Vehicle inventory	339,005	227,446
Other current assets	26,446	15,480
Total current assets	935,365	489,718
Property and equipment, net	251,942	148,681
Intangible assets, net	9,243	—
Goodwill	9,353	—
Other assets	6,200	2,738
Total assets	\$ 1,212,103	\$ 641,137
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 96,861	\$ 50,306
Accounts payable due to related party	3,512	1,802
Floor plan facility	349,392	248,792
Current portion of other long-term debt	7,838	5,131
Total current liabilities	457,603	306,031
Senior unsecured notes	342,481	—
Other long-term debt, excluding current portion	96,179	48,469
Other liabilities	9,072	7,093
Total liabilities	905,335	361,593
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Class A Convertible Preferred Stock, \$0.01 par value, \$1,000 liquidation value per share - 25 and 100 shares authorized, issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	24,627	97,127
Preferred stock, \$0.01 par value - 50,000 shares authorized; none issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Class A common stock, \$0.001 par value - 500,000 shares authorized; 38,269 and 18,096 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	38	18
Class B common stock, \$0.001 par value - 125,000 shares authorized; 105,813 and 114,664 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	106	115
Additional paid in capital	130,284	41,375
Accumulated deficit	(45,949)	(12,899)
Total stockholders' equity attributable to Carvana Co.	109,106	125,736
Non-controlling interests	197,662	153,808
Total stockholders' equity	306,768	279,544
Total liabilities & stockholders' equity	\$ 1,212,103	\$ 641,137

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CARVANA CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Sales and operating revenues:				
Used vehicle sales, net	\$ 486,269	\$ 208,113	\$ 1,258,247	\$ 550,442
Wholesale vehicle sales	21,440	7,459	48,195	21,003
Other sales and revenues, including \$6,696, \$2,414, \$16,351 and \$6,070, respectively, from related parties	27,212	9,807	64,187	22,372
Net sales and operating revenues	534,921	225,379	1,370,629	593,817
Cost of sales	477,615	204,963	1,230,054	547,616
Gross profit	57,306	20,416	140,575	46,201
Selling, general and administrative expenses	115,768	58,676	294,606	156,595
Interest expense, including \$0, \$0, \$0 and \$1,382, respectively, to related parties	5,649	838	13,355	5,404
Other expense, net	308	671	955	1,280
Net loss before income taxes	(64,419)	(39,769)	(168,341)	(117,078)
Income tax provision	—	—	—	—
Net loss	(64,419)	(39,769)	(168,341)	(117,078)
Net loss attributable to non-controlling interests	(48,377)	(35,389)	(135,291)	(59,717)
Net loss attributable to Carvana Co.	\$ (16,042)	\$ (4,380)	\$ (33,050)	\$ (57,361)
Dividends on Class A convertible preferred stock	(1,230)	—	(3,950)	—
Accretion of beneficial conversion feature on Class A convertible preferred stock	—	—	(1,380)	—
Net loss attributable to Class A common stockholders	\$ (17,272)	\$ (4,380)	\$ (38,380)	\$ (57,361)
Net loss per share of Class A common stock, basic and diluted ⁽¹⁾	\$ (0.50)	\$ (0.29)	\$ (1.43)	\$ (0.86)
Weighted-average shares of Class A common stock, basic and diluted ⁽¹⁾⁽²⁾	34,655	15,045	26,927	15,024

(1) Amounts for periods prior to the initial public offering have been retrospectively adjusted to give effect to 15.0 million shares of Class A common stock issued in the initial public offering and the Organizational Transactions described in Note 1.

(2) Weighted-average shares of Class A common stock outstanding have been adjusted for unvested restricted stock awards.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CARVANA CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY / MEMBERS' DEFICIT
(Unaudited)
(In thousands)

expense
subsequent to
Organizational
Transactions

	—	—	—	—	—	—	—	—	3,831	—	—	3,831							
Balance, September 30, 2017	<u>\$</u>	<u>—</u>	<u>—</u>	<u>\$</u>	<u>—</u>	<u>15,513</u>	<u>\$</u>	<u>16</u>	<u>117,236</u>	<u>\$</u>	<u>117</u>	<u>\$</u>	<u>35,447</u>	<u>\$</u>	<u>(7,419)</u>	<u>\$</u>	<u>199,315</u>	<u>\$</u>	<u>227,476</u>

CARVANA CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY / MEMBERS' DEFICIT - (Continued)
(Unaudited)
(In thousands)

	Members' Deficit	Class A Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non- controlling Interests	Total Stockholders' Equity
		Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2017	\$ —	100	\$ 97,127	18,096	\$ 18	114,664	\$ 115	\$ 41,375	\$ (12,899)	\$ 153,808	\$ 279,544
Net loss	—	—	—	—	—	—	—	—	(33,050)	(135,291)	(168,341)
Issuance of Class A common stock sold in follow-on offering, net of underwriters' discounts and commissions and offering expenses	—	—	—	6,600	7	—	—	172,280	—	—	172,287
Adjustment to non-controlling interests related to follow-on offering	—	—	—	—	—	—	—	(132,375)	—	132,375	—
Issuance of LLC Units related to business acquisitions	—	—	—	—	—	—	—	—	—	9,981	9,981
Adjustment to non-controlling interests related to business acquisitions	—	—	—	—	—	—	—	1,297	—	(1,297)	—
Conversions of Class A Convertible Preferred Stock	—	(75)	(73,880)	3,808	4	—	—	73,876	—	—	—
Adjustment to non-controlling interests related to conversion of Class A Convertible Preferred Stock	—	—	—	—	—	—	—	(51,289)	—	51,289	—
Accretion of beneficial conversion feature on Class A Convertible Preferred Stock	—	—	1,380	—	—	—	—	(1,380)	—	—	—
Dividends on Class A Convertible Preferred Stock	—	—	—	—	—	—	—	(3,950)	—	—	(3,950)
Exchanges of LLC Units	—	—	—	9,783	9	(8,851)	(9)	13,203	—	(13,203)	—
Establishment of deferred tax assets related to increases in tax basis in Carvana Group	—	—	—	—	—	—	—	73,961	—	—	73,961
Establishment of valuation allowance related to deferred tax assets associated with increases in tax basis in Carvana Group	—	—	—	—	—	—	—	(73,961)	—	—	(73,961)
Contribution of Class A common stock from related party	—	—	—	(165)	—	—	—	—	—	—	—
Issuance of Class A common stock to settle vested restricted stock units	—	—	—	162	—	—	—	—	—	—	—
Forfeitures of restricted stock and restricted stock surrendered in lieu of withholding taxes	—	—	—	(64)	—	—	—	(1,376)	—	—	(1,376)
Options exercised	—	—	—	49	—	—	—	642	—	—	642
Equity-based compensation expense	—	—	—	—	—	—	—	17,981	—	—	17,981
Balance, September 30, 2018	\$ —	25	\$ 24,627	38,269	\$ 38	105,813	\$ 106	\$ 130,284	\$ (45,949)	\$ 197,662	\$ 306,768

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CARVANA CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$ (168,341)	\$ (117,078)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	16,301	7,746
Loss on disposal of property and equipment	542	882
Provision for bad debt and finance receivable allowance	1,375	805
Gain on loan sales	(35,655)	(14,982)
Equity-based compensation expense	17,981	3,989
Amortization and write-off of debt issuance costs	1,055	1,407
Originations of finance receivables	(872,382)	(361,265)
Proceeds from sale of finance receivables	1,114,304	361,659
Purchase of finance receivables	(253,041)	—
Changes in assets and liabilities:		
Accounts receivable	(9,434)	(6,159)
Vehicle inventory	(110,312)	(5,962)
Other current assets	(11,879)	(1,206)
Other assets	(420)	(1,722)
Accounts payable and accrued liabilities	44,827	8,694
Accounts payable to related party	1,710	258
Other liabilities	(506)	6,920
Net cash used in operating activities	(263,875)	(116,014)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(107,228)	(59,408)
Business acquisitions, net of cash acquired	(6,670)	—
Net cash used in investing activities	(113,898)	(59,408)
Cash Flows from Financing Activities:		
Proceeds from floor plan facility	1,297,419	674,411
Payments on floor plan facility	(1,196,819)	(644,641)
Proceeds from issuance of senior unsecured notes	350,000	—
Proceeds from Verde Credit Facility	—	35,000
Payments on Verde Credit Facility	—	(35,000)
Proceeds from long-term debt	46,179	7,596
Payments on long-term debt	(8,817)	(1,137)
Payments of debt issuance costs, including \$0 and \$1,000 to related parties, respectively	(6,309)	(1,000)
Net proceeds from issuance of Class A common stock	172,287	206,323
Proceeds from exercise of stock options	642	28
Tax withholdings related to restricted stock awards	(1,376)	(399)
Dividends paid on Class A Convertible Preferred Stock	(4,279)	—
Payments of costs related to issuance of Class A Convertible Preferred Stock	(12)	—
Net cash provided by financing activities	648,915	241,181
Net increase in cash, cash equivalents and restricted cash	271,142	65,759
Cash, cash equivalents and restricted cash at beginning of period	187,123	49,450
Cash, cash equivalents and restricted cash at end of period	\$ 458,265	\$ 115,209

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — BUSINESS ORGANIZATION

Description of Business

Carvana Co. and its wholly-owned subsidiary Carvana Co. Sub (collectively, "Carvana Co.") together with its consolidated subsidiaries (the "Company") is a leading e-commerce platform for buying used cars. The Company is transforming the used car buying experience by giving consumers what they want — a wide selection, great value and quality, transparent pricing and a simple, no pressure transaction. Using the website, customers can complete all phases of a used vehicle purchase transaction including financing their purchase, trading in their current vehicle and purchasing complementary products such as vehicle service contracts and GAP waiver coverage. Each element of the Company's business, from inventory procurement to fulfillment and overall ease of the online transaction, has been built for this singular purpose.

Organization and Initial Public Offering

Carvana Co. is a holding company that was formed as a Delaware corporation on November 29, 2016 for the purpose of completing an initial public offering ("IPO") and related transactions in order to operate the business of Carvana Group, LLC and its subsidiaries (collectively, "Carvana Group"). Substantially all of the Company's assets and liabilities represent the assets and liabilities of Carvana Group.

Carvana Group was formed as a limited liability company by DriveTime Automotive Group, Inc. (together with its subsidiaries and affiliates "DriveTime") and commenced operations in 2012. Prior to November 1, 2014, Carvana Group was a wholly-owned subsidiary of DriveTime. On November 1, 2014 (the "Distribution Date"), DriveTime distributed its member units in Carvana Group to the unit holders of DriveTime on a pro rata basis (the "Distribution"). Carvana Group accounted for the Distribution as a spinoff transaction in accordance with ASC 505-60, *Equity — Spinoffs and Reverse Spinoffs* and reflected assets and liabilities before and after the Distribution Date at their historical basis.

On May 3, 2017, Carvana Co. completed its IPO of 15.0 million shares of Class A common stock at a public offering price of \$15.00 per share. Carvana Co. received approximately \$205.8 million in proceeds, net of underwriting discounts and commissions and offering expenses, which it used to purchase approximately 18.8 million newly-issued membership interests of Carvana Group at a price per unit equal to 0.8 times the initial public offering price less underwriting discounts and commissions and offering expenses.

Also in connection with the IPO, the Company completed the following organizational transactions (the "Organizational Transactions"):

- Carvana Group amended and restated its limited liability company operating agreement (the "LLC Agreement") to, among other things, (i) eliminate a class of preferred membership interests, (ii) provide for two classes of common ownership interests in Carvana Group held by the then-existing holders of LLC units (the "Original LLC Unitholders" and together with any holders of LLC units issued subsequent to the IPO, the "LLC Unitholders") consisting of Class B common units (the "Class B Units") and Class A common units (the "Class A Units"), and (iii) appoint Carvana Co. as the sole manager of Carvana Group;
- Carvana Co. amended and restated its certificate of incorporation to authorize (i) 50.0 million shares of Preferred Stock, par value \$0.01 per share, (ii) 500.0 million shares of Class A common stock, par value \$0.001 per share, and (iii) 125.0 million shares of Class B common stock, par value \$0.001 per share. Each share of Class A common stock generally entitles its holder to one vote on all matters to be voted on by stockholders. Each share of Class B common stock held by Ernest Garcia, II, Ernie Garcia, III and entities controlled by one or both of them (collectively, the "Garcia Parties") generally entitles its holder to ten votes on all matters to be voted on by stockholders. All other shares of Class B common stock generally entitle their holders to one vote per share on all matters to be voted on by stockholders;
- Carvana Group converted its outstanding Class C Redeemable Preferred Units into approximately 43.1 million Class A Units;

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

- Carvana Co. issued approximately 117.2 million shares of Class B common stock to holders of Class A Units, on a four-to-five basis with the number of Class A Units they owned, for nominal consideration; and,
- Carvana Co. transferred approximately 0.2 million Class A Units to Ernest Garcia, II in exchange for his 0.1% ownership interest in Carvana, LLC, a majority-owned subsidiary of Carvana Group.

In accordance with the LLC Agreement, Carvana Co. has all management powers over the business and affairs of Carvana Group and conducts, directs and exercises full control over the activities of Carvana Group. Class A Units and Class B Units (the "LLC Units") do not hold voting rights, which results in Carvana Group being considered a variable interest entity ("VIE"). Due to Carvana Co.'s power to control and its significant economic interest in Carvana Group, it is considered the primary beneficiary of the VIE and the Company consolidates the financial results of Carvana Group. As of September 30, 2018, Carvana Co. owned approximately 25.5% of Carvana Group and the LLC Unitholders owned the remaining 74.5%.

The Organizational Transactions described above are considered transactions between entities under common control. As a result, the financial statements for periods prior to the IPO and Organizational Transactions have been adjusted to combine the previously separate entities for presentation purposes.

Follow-On Public Offering

On April 30, 2018, the Company completed a follow-on offering of 6.6 million shares of its Class A common stock at a public offering price of \$27.50 per share and received net proceeds from the offering of approximately \$172.3 million after underwriting discounts and commissions and offering expenses. The Company used the net proceeds to purchase approximately 8.3 million newly-issued LLC Units in Carvana Group, which used the net proceeds primarily for general corporate purposes.

A holder of Class A common stock (the "Selling Stockholder") and certain LLC Unitholders (the "Selling LLC Unitholders") sold a total of approximately 6.1 million shares of Class A common stock as part of the offering. The Selling LLC Unitholders exchanged approximately 6.9 million LLC Units for approximately 5.6 million shares of Class A common stock to be sold in the offering, and to the extent such Selling LLC Unitholder held Class B common stock, the corresponding shares of Class B common stock were immediately retired by the Company. The Company did not receive any proceeds from the sale of the approximately 6.1 million shares of Class A common stock by the Selling Stockholder and the Selling LLC Unitholders.

Convertible Preferred Stock

On December 5, 2017, Carvana Co. amended and restated its certificate of incorporation to authorize 100,000 shares of Class A Convertible Preferred Stock, with an initial stated value of \$1,000 per share and a par value of \$0.01 per share (the "Convertible Preferred Stock") and, effective December 5, 2017, Carvana Group amended its LLC Agreement to, among other things, create a class of convertible preferred units. On December 5, 2017, Carvana Co. sold 100,000 shares of Convertible Preferred Stock for net proceeds of approximately \$98.5 million, which it used to purchase 100,000 newly-issued convertible preferred units of Carvana Group (the "Convertible Preferred Units") at a price per unit equal to the initial stated value of the Convertible Preferred Stock less issuance costs.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. All intercompany balances and transactions have been eliminated. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included within our most recent Annual Report on Form 10-K.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring items) necessary to present fairly the Company's financial position as of September 30, 2018, results of operations for the three and nine months ended September 30, 2018 and 2017, and cash flows and changes in stockholders'

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

equity for the nine months ended September 30, 2018 and 2017. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations.

As discussed in Note 1 — Business Organization, Carvana Group is considered a VIE and Carvana Co. consolidates its financial results due to the determination that it is the primary beneficiary. The Company reviews subsidiaries and affiliates, as well as other entities, to determine if it should be considered variable interest entities, and whether it should change the consolidation determinations based on changes in its characteristics. The Company considers an entity a VIE if its equity investors own an interest therein that lacks the characteristics of a controlling financial interest or if such investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or if the entity is structured with non-substantive voting interests. To determine whether or not the entity is consolidated with the Company's results, the Company also evaluates which interests are variable interests in the VIE and which party is the primary beneficiary of the VIE.

Liquidity

The accompanying interim unaudited condensed consolidated financial statements of the Company have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern. The Company has incurred losses from inception through September 30, 2018, and expects to incur additional losses in the future. As the Company continues to fund growth into new markets, fund construction of vending machines and inspection and reconditioning centers and enhance technology and software development efforts, it needs access to substantial capital. From inception, the Company has funded operations through the sale of Class A Units, the sale of Class C Redeemable Preferred Units, capital contributions from DriveTime, its IPO completed on May 3, 2017 for net proceeds of approximately \$205.8 million, its follow-on offering completed on April 30, 2018 for net proceeds of approximately \$172.3 million, its issuance of Class A Convertible Preferred Stock on December 5, 2017 for net proceeds of approximately \$98.5 million, the issuance of senior unsecured notes for net proceeds of approximately \$342.5 million on September 21, 2018, and short-term funding from the Company's majority owner. The Company has historically funded vehicle inventory purchases through its Floor Plan Facility, described in further detail in Note 8 — Debt Instruments, and had approximately \$0.6 million available under the Floor Plan Facility to fund future vehicle inventory purchases as of September 30, 2018. The Company amended the Floor Plan Facility on November 2, 2018 to increase the amount by \$300.0 million and extend the maturity date to October 31, 2020. The Company has also funded certain of its capital expenditures through long-term financing with third parties as described in further detail in Note 8 — Debt Instruments. The Company has historically entered into various agreements under which it sells the finance receivables it originates to third parties. As of September 30, 2018, the Company sells finance receivables under multiple agreements. On November 2, 2018, the Company increased the available amount under and extended these facilities. The Company plans to extend or enter into new agreements to sell its finance receivables to third parties prior to the expiration of the agreements. Management believes that its current working capital and expected continued inventory and capital expenditure financing are sufficient to fund operations for at least one year from the financial statement issuance date.

Use of Estimates

The preparation of these accompanying unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Certain accounting estimates involve significant judgments, assumptions and estimates by management that have a material impact on the carrying value of certain assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period, which management considers to be critical accounting estimates. The judgments, assumptions and estimates used by management are based on historical experience, management's experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ materially from these judgments and estimates, which could have a material impact on the carrying values of the Company's assets and liabilities and the results of operations.

Segments

Business segments are defined as components of an enterprise about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. Based on the way the Company manages its business, the Company has determined that it currently operates with one reportable segment. The chief operating decision maker focuses on consolidated results in assessing operating performance and allocating resources. Furthermore, the Company offers similar products and services and uses similar

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

processes to sell those products and services to similar classes of customers throughout the United States (“U.S.”). Substantially all revenue is generated and all assets are held in the U.S. for all periods presented.

Comprehensive Loss

During the three and nine months ended September 30, 2018 and 2017, the Company had no other components of comprehensive loss and, therefore, the net loss and comprehensive loss were the same for all periods presented.

Restricted Cash

The restricted cash includes the deposit required under the Company's Floor Plan Facility, which is 5% of the outstanding floor plan facility principal balance, as explained in Note 8 — Debt Instruments and amounts held as restricted cash as required under letter of credit agreements, as explained in Note 14 — Commitments and Contingencies.

Revenue Recognition

The Company adopted ASC 606, *Revenue from Contracts with Customers* ("ASC 606") on January 1, 2018 using the modified retrospective method. ASC 606 prescribes a five-step model that includes: (1) identify the contract; (2) identify the performance obligations; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations; and (5) recognize revenue when (or as) performance obligations are satisfied. Based on the manner in which the Company historically recognized revenue, the adoption of ASC 606 did not have a material impact on the amount or timing of its revenue recognition and the Company recognized no cumulative effect adjustment upon adoption.

Used Vehicle Sales

The Company sells used vehicles directly to its customers through its website. The prices of used vehicles are set forth in the customer contracts at stand-alone selling prices which are agreed upon prior to delivery. The Company satisfies its performance obligation for used vehicle sales upon delivery when the transfer of title, risks and rewards of ownership and control pass to the customer. The Company recognizes revenue at the agreed upon purchase price stated in the contract, including any delivery charges, less an estimate for returns. Estimates for returns are based on an analysis of historical experience, trends and sales data. Changes in these estimates are reflected as an adjustment to revenue in the period identified. The amount of consideration received for used vehicle sales includes noncash consideration representing the value of trade-in vehicles, if applicable, as stated in the contract. Prior to the delivery of the vehicle, the payment is received or financing has been arranged. Payments from customers that finance their purchases with third parties are typically due and collected within 30 days of delivery of the used vehicle. Revenue excludes any sales taxes that are collected from customers.

Wholesale Vehicle Sales

The Company sells vehicles to wholesalers. These vehicles sold to wholesalers are primarily acquired from customers that do not meet the Company's quality standards to list and sell through its website. The Company satisfies its performance obligation for wholesale vehicle sales when the wholesale purchaser obtains control of the underlying vehicle, which is upon delivery when the transfer of title, risks and rewards of ownership and control pass to the customer. The Company recognizes revenue at the amount it expects to receive for the used vehicle, which is the fixed price determined at the auction. The purchase price of the wholesale vehicle is typically due and collected within 30 days of delivery of the wholesale vehicle.

Other Sales and Revenues

Other sales and revenues include gains on the sales of finance receivables, commissions on vehicle service contracts (“VSCs”), GAP waiver coverage, and interest income received on finance receivables prior to selling them to investors. The Company accounts for the sale of finance receivables in accordance with ASC 860, *Transfers and Servicing of Financial Assets* as described in the footnotes to the Company's annual financial statements included in its Annual Report filed on Form 10-K with the SEC on March 6, 2018.

Customers purchasing used vehicles from the Company may enter into contracts for VSCs. The Company sells and receives a commission on VSCs under a master dealer agreement with DriveTime, pursuant to which the Company sells VSCs that DriveTime administers and is the obligor. The Company recognizes commission revenue at the time of sale, net of a reserve

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

for estimated contract cancellations. The reserve for cancellations is estimated based upon historical experience and recent trends and is reflected as a reduction of other sales and revenues. Changes in these estimates are reflected as an adjustment to revenue in the period identified.

Customers that finance their used vehicle purchases with the Company may enter into contracts to purchase GAP waiver coverage, which provides customers with the promise that whoever then holds the underlying finance receivable will not attempt collection of a loan balance that is in excess of the value of the financed vehicle in the event of a total loss. The price of GAP waiver coverage is set forth in each contract. GAP waiver coverage is recognized as the performance obligation is satisfied over the period of coverage, generally on a straight-line basis over the term of the related finance receivable, less a reserve for cancellations. The reserve for cancellations is estimated based upon historical experience and recent trends and is reflected as a reduction of other sales and revenues. Changes in these estimates are reflected as an adjustment to other sales and revenues in the period identified. Upon selling the finance receivable, the Company recognizes any remaining deferred revenue. DriveTime administers the GAP waiver coverage.

Adoption of New Accounting Standards

As discussed above, the Company adopted ASC 606 on January 1, 2018 using the modified retrospective method. ASC 606 requires the reserve for vehicle inventory returns to be presented separately from vehicle inventory, where the Company previously presented it. As of December 31, 2017, the reserve for estimated returns included within vehicle inventory was approximately \$2.6 million. As of September 30, 2018, the reserve for estimated returns included within other current assets was approximately \$4.6 million. Furthermore, based on the manner in which the Company recognizes revenue, the adoption of ASC 606 did not have a material impact on the amount or timing of its revenue recognition and the Company recognized no cumulative effect adjustment upon adoption.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows — Classification of Certain Receipts and Payments* (“ASU 2016-15”), which provides additional clarity on the classification of specific events on the statement of cash flows including debt prepayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, distributions received from equity method investees and beneficial interests in securitization transactions. The Company adopted this ASU on January 1, 2018. The adoption of ASU 2016-15 did not have a material effect on its consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows — Restricted Cash* (“ASU 2016-18”), which requires the statement of cash flows to include restricted cash with its cash and cash equivalents balance and a reconciliation between all cash items on the balance sheet and the balance presented in the statement of cash flows. In addition, changes in restricted cash related to transfers between cash and cash equivalents and restricted cash will not be presented as cash flow activities in the statement of cash flows. The Company adopted ASU 2016-18 on January 1, 2018 on a retrospective basis. As a result, changes in restricted cash are no longer presented as investing cash flow activities and the restricted cash balance is included with cash and cash equivalents in the beginning and end of period balances on the Company's consolidated statements of cash flows for all periods presented. For the nine months ended September 30, 2017, changes in restricted cash included within cash used in investing activities, as originally presented, was approximately \$1.5 million.

Accounting Standards Issued But Not Yet Adopted

Since February 2016, the FASB has issued several accounting standards updates related to the new leasing model in ASC 842, *Leases* (“ASC 842”). ASC 842 introduces a lessee model that requires a right-of-use asset and lease obligation to be presented on the balance sheet for certain leases, whether operating or financing. ASC 842 eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. Expense recognition on the income statement remains similar to current lease accounting guidance. ASC 842 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018 and should be applied using a modified retrospective approach, with the option to elect various practical expedients. The Company plans to adopt ASC 842 for its fiscal year beginning January 1, 2019. The adoption of ASC 842 will require the recognition of a right-of-use asset and a lease obligation for the Company's leases (see Note 14 — Commitments and Contingencies). While the Company is still evaluating the full effect this guidance will have on its consolidated financial statements and related disclosures, the Company anticipates recognizing right-of-use assets and operating lease liabilities, which will have a material impact upon adoption primarily on its consolidated balance sheets and related disclosures, and will increase total assets and liabilities.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

In June 2016, the FASB issued ASU 2016-13, *Financial instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which amends the guidance on the impairment of financial instruments by requiring measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, and earlier adoption is permitted beginning in the first quarter of fiscal 2019. The Company is currently evaluating the impact on its consolidated financial statements, and plans to adopt ASU 2016-13 for its fiscal year beginning January 1, 2020. Finance receivables originated in connection with the Company's vehicle sales are held for sale and are sold to third parties. As a result, the Company does not presently hold any finance receivables until maturity. Therefore, the Company does not expect adoption of ASU 2016-13 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which is intended to simplify the goodwill impairment test by eliminating the second step of the goodwill impairment test, which requires performing a hypothetical purchase price allocation. Under ASU 2017-04, goodwill impairment should be recognized based on the amount by which a reporting unit's carrying amount exceeds its fair value, but should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, may be early adopted after January 1, 2017, and should be applied on a prospective basis. The Company does not expect adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation — Stock Compensation (Topic 718)* ("ASU 2018-07") related to the accounting for share-based payment transactions for acquiring goods and services from nonemployees. Under ASU 2018-07, the intent is to simplify and align most requirements for share-based payments to nonemployees with the requirements for share-based payments granted to employees under ASC 718, including measuring the equity instruments at the grant-date fair value. ASU 2018-07 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, and will be applied on a modified retrospective basis through a cumulative-effect adjustment to accumulated deficit. The Company plans to adopt ASU 2018-07 for its fiscal year beginning January 1, 2019 and is currently assessing the impact, if any, the guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13") related to updated requirements over the disclosures of fair value measurements. Under ASU 2018-13, certain disclosure requirements for fair value measurements will be eliminated, modified or added to facilitate better communication around recurring and nonrecurring fair value measurements. ASU 2018-13 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with some amendments applied prospectively, some applied retrospectively and early adoption permitted. The Company plans to adopt ASU 2018-13 for its fiscal year beginning January 1, 2020 and is currently assessing the impact the guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). The intent of this pronouncement is to align the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software as defined in ASC 350-40. Under ASU 2018-15, the capitalized implementation costs related to a cloud computing arrangement will be amortized over the term of the arrangement and all capitalized implementation amounts will be required to be presented in the same line items of the financial statements as the related hosting fees. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company plans to adopt ASU 2018-15 for its fiscal year beginning January 1, 2020 and is currently assessing the impact, if any, the guidance will have on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* ("ASU 2018-17"). ASU 2018-17 requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. Entities are required to apply the amendments in ASU 2018-17 retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company is currently assessing the impact, if any, the guidance will have on its consolidated financial statements.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

NOTE 3 — PROPERTY AND EQUIPMENT, NET

The following table summarizes property and equipment, net as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Land and site improvements	\$ 44,042	\$ 11,656
Buildings and improvements	108,116	60,804
Transportation fleet	52,742	39,153
Software	32,335	21,009
Furniture, fixtures and equipment	18,005	12,239
Total property and equipment excluding construction in progress	255,240	144,861
Less: accumulated depreciation and amortization on property and equipment	(36,836)	(20,453)
Property and equipment excluding construction in progress, net	218,404	124,408
Construction in progress	33,538	24,273
Property and equipment, net	<u>\$ 251,942</u>	<u>\$ 148,681</u>

Depreciation and amortization expense on property and equipment was approximately \$6.1 million and \$3.1 million for the three months ended September 30, 2018 and 2017, respectively, and approximately \$15.6 million and \$7.7 million for the nine months ended September 30, 2018 and 2017, respectively. These amounts primarily relate to selling, general and administrative activities and are included as a component of selling, general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

NOTE 4 — GOODWILL AND INTANGIBLE ASSETS, NET

On April 12, 2018, the Company acquired Car360, Inc. ("Car360"), a provider of app-based photo capture technology, for approximately \$16.7 million, net of cash acquired of approximately \$0.4 million. The purchase price was comprised of approximately \$6.7 million cash, net of cash acquired, and approximately 0.5 million Class A Units of Carvana Group, with a fair value of approximately \$10.0 million.

The purchase price was allocated to net tangible assets of approximately \$0.2 million and intangible assets of approximately \$9.9 million based on their fair values on the acquisition date and a related deferred tax liability of approximately \$2.5 million. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed and the deferred tax liability was approximately \$9.4 million, which has been recorded as goodwill.

The historical results of operations for Car360 were not significant to the Company's consolidated results of operations for the periods presented. Certain estimated values for the acquisition, including goodwill and intangible assets, are not yet finalized and are subject to revision as additional information becomes available and more detailed analyses are completed.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

The following table summarizes intangible assets and goodwill related to the Car360 acquisition as of September 30, 2018 (in thousands):

	Useful Life	<u>September 30, 2018</u>
Intangible assets:		
Developed technology	7 years	\$ 8,642
Customer relationships	5 years	523
Non-compete agreements	5 years	774
Intangible assets, acquired cost		<u>9,939</u>
Less: accumulated amortization		<u>(696)</u>
Intangible assets, net		<u>\$ 9,243</u>
Goodwill	N/A	<u>\$ 9,353</u>

Amortization expense during the three and nine months ended September 30, 2018 was approximately \$0.4 million and \$0.7 million, respectively. As of September 30, 2018, the remaining weighted-average amortization period for definite-lived intangible assets was approximately 6.3 years. The anticipated annual amortization expense to be recognized in future years as of September 30, 2018 is as follows (in thousands):

	<u>Expected Future Amortization</u>
Remainder of 2018	\$ 374
2019	1,494
2020	1,494
2021	1,494
2022	1,494
Thereafter	2,893
Total	<u>\$ 9,243</u>

NOTE 5 — ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

The following table summarizes accounts payable and other accrued liabilities as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Accounts payable	\$ 28,972	\$ 10,546
Sales taxes and vehicle licenses and fees	22,604	9,034
Reserve for returns and cancellations	9,501	4,545
Accrued compensation and benefits	7,991	5,054
Accrued property and equipment	7,138	8,325
Accrued advertising costs	3,835	4,265
Accrued interest	2,506	774
Other accrued liabilities	14,314	7,763
Total accounts payable and other accrued liabilities	<u>\$ 96,861</u>	<u>\$ 50,306</u>

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

NOTE 6 — RELATED PARTY TRANSACTIONS

Lease Agreements

In November 2014, the Company and DriveTime entered into a lease agreement that governs the Company's access to and utilization of temporary storage, reconditioning, offices and parking space at various DriveTime inspection and reconditioning centers ("IRCs") and retail facilities (the "DriveTime Lease Agreement"). The DriveTime Lease Agreement was most recently amended in March 2018. Lease duration varies by location, with initial terms expiring between 2018 and 2024. Most of the retail facilities have two-year terms and the Company is entitled to exercise up to two consecutive one-year renewal options at up to ten of these locations.

Under the DriveTime Lease Agreement, the Company pays a monthly rental fee related to its pro rata utilization of space at each facility plus a pro rata share of each facility's actual insurance costs and real estate taxes. The Company is additionally responsible for paying for any tenant improvements it requires to conduct its operations and its share of estimated costs incurred by DriveTime related to preparing these sites for use. As it relates to locations where the Company reconditions vehicles, the Company's share of facility and shared reconditioning supplies expenses are calculated based on the actual costs for operating the inspection centers and the Company's pro rata share of total reconditioned vehicles and parking spaces at such inspection centers in a given month. Management has determined that the costs allocated to the Company are based on a reasonable methodology.

Separate from the DriveTime Lease Agreement, in December 2016, the Company entered into a lease agreement related to a vehicle inspection and reconditioning center in Tolleson, Arizona, with Verde Investments, Inc., an affiliate of DriveTime ("Verde"), with an initial term of approximately 15 years. The lease agreement requires monthly rental payments and can be extended for four additional five-year periods. In February 2017, the Company also entered into a lease with DriveTime for sole occupancy of a fully-operational inspection and reconditioning center in Winder, Georgia, where the Company previously maintained partial occupancy. The lease has an initial term of eight years and three renewal options of five years each.

Expenses related to these lease agreements are allocated based on usage to inventory and selling, general and administrative expenses in the accompanying unaudited condensed consolidated balance sheets and statements of operations. Costs allocated to inventory are recognized as cost of sales when the inventory is sold. During the three months ended September 30, 2018, total costs related to these lease agreements were approximately \$2.2 million with approximately \$1.2 million and \$1.0 million allocated to inventory and selling, general and administrative expenses, respectively. During the nine months ended September 30, 2018, total costs related to these lease agreements were approximately \$6.7 million with approximately \$3.3 million and \$3.4 million allocated to inventory and selling, general and administrative expenses, respectively. During the three months ended September 30, 2017, total costs related to these lease agreements were approximately \$1.8 million with approximately \$0.6 million and \$1.2 million allocated to inventory and selling, general and administrative expenses, respectively. During the nine months ended September 30, 2017, total costs related to these lease agreements were approximately \$5.2 million with approximately \$1.8 million and \$3.4 million allocated to inventory and selling, general and administrative expenses, respectively.

Corporate Office Leases

During the first quarter of 2017, the Company subleased additional office space at DriveTime's corporate headquarters in Tempe, Arizona. Pursuant to this arrangement, the Company incurred rent expense of approximately \$0.1 million during the three months ended March 31, 2017, after which this arrangement was terminated.

In September 2016, the Company entered into a lease with a third party for the second floor of its corporate headquarters in Tempe, Arizona. DriveTime guarantees up to \$0.5 million of the Company's rent payments under that lease through September 2019. In connection with that lease, the Company entered into a sublease with DriveTime for the use of the first floor of the same building. The lease and sublease each have a term of 83 months, subject to the right to exercise three five-year extension options. Pursuant to the sublease, which is co-terminus with DriveTime's master lease, the Company will pay DriveTime rent equal to the amounts due under DriveTime's master lease. During the three and nine months ended September 30, 2018, the rent expense incurred related to this first floor sublease was approximately \$0.2 million and \$0.6 million, respectively. During the three and nine months ended September 30, 2017, the rent expense incurred related to this first floor sublease was approximately \$0.2 million and \$0.5 million, respectively.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

Master Dealer Agreement

In December 2016, the Company entered into a master dealer agreement with DriveTime (the "Master Dealer Agreement"), pursuant to which the Company may sell vehicle service contracts ("VSCs") and GAP waiver coverage to customers purchasing a vehicle from the Company. The Company earns a commission on each VSC sold to its customers and DriveTime is obligated by and subsequently administers the VSCs. The Company collects the retail purchase price of the VSCs from its customers and remits the purchase price net of commission to DriveTime. The Company recognized approximately \$6.7 million and \$16.4 million during the three and nine months ended September 30, 2018, respectively, and approximately \$2.4 million and \$6.1 million during the three and nine months ended September 30, 2017, respectively, of commissions earned on VSCs sold to its customers and administered by DriveTime. The commission earned on the sale of these VSCs is included in other sales and revenues in the accompanying unaudited condensed consolidated statements of operations.

DriveTime also administers the Company's GAP waiver coverage under the Master Dealer Agreement. The Company pays a per-contract fee to DriveTime to administer the GAP waiver coverage it sells to its customers. The Company incurred approximately \$0.1 million and \$0.2 million during the three and nine months ended September 30, 2018, respectively, and \$0.0 million during the both the three and nine months ended September 30, 2017 related to the administration of GAP waiver coverage.

Aircraft Time Sharing Agreement

The Company entered into an agreement to share usage of two aircraft operated by DriveTime on October 22, 2015, and the agreement was subsequently amended on May 15, 2017. Pursuant to the agreement, the Company agreed to reimburse DriveTime for actual expenses for each of the flights in which the Company uses the aircrafts. The original agreement was for 12 months, with perpetual 12-month automatic renewals. Either the Company or DriveTime can terminate the agreement with 30 days' prior written notice. The Company reimbursed DriveTime approximately \$0.2 million and \$0.0 million, respectively, under this agreement during the three months ended September 30, 2018 and 2017, respectively, and approximately \$0.4 million under this agreement during each of the nine months ended September 30, 2018 and 2017.

Credit Facility with Verde

On February 27, 2017, the Company entered into a credit facility with Verde for an amount up to \$50.0 million (the "Verde Credit Facility"). Amounts outstanding accrued interest at a rate of 12.0% per annum. Upon execution of the agreement, the Company paid Verde a commitment fee of \$1.0 million. In connection with the IPO, the Company repaid the outstanding principal balance of \$35.0 million and accrued interest of approximately \$0.4 million in full and the Verde Credit Facility agreement terminated.

IP License Agreement

In February 2017, the Company entered into a license agreement that governs the rights of certain intellectual property owned by the Company and the rights of certain intellectual property owned by DriveTime. The license agreement, which was amended and restated in April 2017, generally provides that each party grants to the other certain limited exclusive (other than with respect to the licensor party and its affiliates) and non-exclusive licenses to use certain of its intellectual property and each party agrees to certain covenants not to sue the other party, its affiliates and certain of its service providers in connection with various patent claims. The exclusive license to DriveTime is limited to the business that is primarily of subprime used car sales to retail customers. However, upon a change of control of either party, both parties' license rights as to certain future improvements to licensed intellectual property and all limited exclusivity rights are terminated. The agreement does not provide a license to any of the Company's patents, trademarks, logos, customers' personally identifiable information or any intellectual property related to the Company's vending machines, automated vehicle photography or certain other elements of the Company's brand.

Accounts Payable Due to Related Party

Amounts payable to DriveTime and Verde under the agreements explained above, as well as invoices DriveTime initially paid on behalf of the Company for vehicle reconditioning costs and general and administrative expenses, are included in accounts payable to related party in the accompanying unaudited condensed consolidated balance sheets. As of September 30,

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

2018 and December 31, 2017, approximately \$3.5 million and \$1.8 million, respectively, was due to related parties primarily related to lease agreements, shared service fees, net VSC fees collected from customers and repayments to DriveTime for invoices paid on behalf of the Company.

Contribution Agreement

On September 12, 2018, the Company and its chief executive officer, Ernie Garcia III ("Mr. Garcia"), entered into a contribution agreement (the "Contribution Agreement"). Pursuant to the Contribution Agreement, Mr. Garcia agreed to contribute to the Company, at no charge, approximately 0.2 million shares of the Company's Class A common stock (the "Share Contribution"). The Share Contribution is intended to fund restricted stock unit awards to then-current employees of Carvana, LLC upon their satisfying certain employment tenure requirements. The Company does not expect Mr. Garcia to incur any tax obligations related to the Share Contribution, but it has indemnified Mr. Garcia from any such obligations that may arise.

NOTE 7 — FINANCE RECEIVABLE SALE AGREEMENTS

In December 2016, the Company entered into a master purchase and sale agreement (the "Purchase and Sale Agreement") and a master transfer agreement (the "2016 Master Transfer Agreement") pursuant to which it sells finance receivables meeting certain underwriting criteria to certain third party purchasers, including Ally Bank and Ally Financial (the "Ally Parties"). Through November 2017 under the Purchase and Sale Agreement and the 2016 Master Transfer Agreement, the Company could sell up to an aggregate of \$375.0 million, and \$292.2 million, respectively, in principal balances of finance receivables subject to adjustment as described in the respective agreements. On November 3, 2017, the Company amended its Purchase and Sale Agreement to increase the aggregate amount of principal balances of finance receivables it can sell from \$375.0 million to \$1.5 billion. Also on November 3, 2017, the Company terminated the remaining capacity under the 2016 Master Transfer Agreement and replaced this facility by entering into a new master transfer agreement (the "2017 Master Transfer Agreement") with a third party under which the third party has committed to purchase up to an aggregate of approximately \$357.1 million in principal balances of finance receivables.

During the nine months ended September 30, 2018, the Company sold approximately \$521.7 million in principal balances of finance receivables under the Purchase and Sale Agreement, and approximately \$306.5 million in principal balances of finance receivables under the 2017 Master Transfer Agreement. As of September 30, 2018, there was approximately \$634.6 million and \$18.4 million of unused capacity under the Purchase and Sale Agreement and the 2017 Master Transfer Agreement, respectively. During the nine months ended September 30, 2017, the Company sold approximately \$241.3 million in principal balances of finance receivables under the Purchase and Sale Agreement, and approximately \$106.6 million in principal balances of finance receivables under the 2016 Master Transfer Agreement.

The total gain on loan sales related to finance receivables sold under these agreements was approximately \$13.3 million and \$35.7 million during the three and nine months ended September 30, 2018, respectively, and approximately \$6.6 million and \$15.0 million during the three and nine months ended September 30, 2017, respectively, which is included in other sales and revenues in the accompanying unaudited condensed consolidated statements of operations.

In August 2018, the Company purchased finance receivables that it previously sold to a purchaser's trust under the 2017 Master Transfer Agreement for a price of approximately \$253.0 million and immediately resold such finance receivables to another trust owned by the same purchaser for the same price under a new transfer agreement. The Company is not obligated to, nor does it have a right to, purchase or sell finance receivables it has previously sold under the 2017 Master Transfer Agreement. The transaction completed in August 2018 was entered into in connection with a refinancing by the purchaser and was entered into independently from the terms of the 2017 Master Transfer Agreement. The Company received a fee of approximately \$4.0 million for arranging and participating in the transaction, which is included in other sales and revenues in the accompanying unaudited condensed consolidated statements of operations.

NOTE 8 — DEBT INSTRUMENTS

Floor Plan Facility

The Company has a floor plan facility with a third party to finance its used vehicle inventory, which is secured by substantially all of its assets, other than the Company's interests in real property (the "Floor Plan Facility"). The Company most recently amended the Floor

Plan Facility in August 2017 to, among other things, extend the maturity date to December 31,

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

2018, and increase the available credit to \$275.0 million through December 31, 2017 and to \$350.0 million from January 1, 2018 through December 31, 2018. The Company is required to make monthly interest payments at a rate per annum equal to one-month LIBOR plus 3.65%, effective August 1, 2017. The Floor Plan Facility requires that at least 5% of the total principal amount owed to the lender is held as restricted cash.

Repayment in an amount equal to the amount of the advance or loan must be made within five business days of selling or otherwise disposing of the underlying vehicle inventory, unless customers financed the purchase by originating an automotive finance receivable. For used vehicle sales involving financing originated by the Company and sold under either the Purchase and Sale Agreement or the 2017 Master Transfer Agreement as mentioned in Note 7 — Finance Receivable Sale Agreements, the lender has extended repayment to the earlier of fifteen business days after the sale of the used vehicle or one day following the sale of the related finance receivable. In November 2017, the Company also entered into a letter agreement to extend repayment of amounts due under the Floor Plan Facility for used vehicle sales involving financing that are not sold under either the Purchase and Sale Agreement or the 2017 Master Transfer Agreement. With respect to such vehicles, the lender agreed to extend repayment of the advance or the loan for such vehicles to the earlier of fifteen business days after the sale of the vehicle or two business days following the funding of the related finance receivable. Outstanding balances related to vehicles held in inventory for more than 180 days require monthly principal payments equal to 10% of the original principal amount of that vehicle until the remaining outstanding balance is the lesser of (i) 50% of the original principal amount or (ii) 50% of the wholesale value. Prepayments may be made without incurring a premium or penalty. Additionally, the Company is permitted to make prepayments to the lender to be held as principal payments under the Floor Plan Facility and subsequently re-borrow such amounts.

As of September 30, 2018, the interest rate on the Floor Plan Facility was approximately 5.91%, the Company had an outstanding balance under this facility of approximately \$349.4 million, borrowing capacity available of approximately \$0.6 million and held approximately \$17.5 million in restricted cash related to this facility. As of December 31, 2017, the Company held approximately \$12.4 million in restricted cash related to this facility.

Long-Term Debt

Senior Unsecured Notes

On September 21, 2018, the Company issued an aggregate of \$350.0 million in senior unsecured notes due 2023 (the "Senior Notes") under an indenture entered into by and among the Company, each of the guarantors party thereto and U.S. Bank National Association, as trustee (the "Indenture"). The Senior Notes accrue interest at a rate of 8.875% per annum, which is payable semi-annually in arrears on April 1 and October 1 of each year beginning April 1, 2019. The Senior Notes mature on October 1, 2023, unless earlier repurchased or redeemed, and are guaranteed by the Company's existing domestic restricted subsidiaries (other than the subsidiaries formed solely for the purpose of facilitating the Company's sales of its finance receivables). The Company may redeem some or all of the Senior Notes on or after October 1, 2020 at redemption prices set forth in the Indenture, plus any accrued and unpaid interest to the redemption date. Prior to October 1, 2020, the Company may redeem up to 35.0% of the aggregate principal amount of the Senior Notes at a redemption price equal to 108.875%, together with accrued and unpaid interest to, but not including, the date of redemption, with the net cash proceeds of certain equity offerings. In addition, the Company may, at its option, redeem some or all of the Senior Notes prior to October 1, 2020, by paying a make-whole premium plus any accrued and unpaid interest, to, but not including, the redemption date. If the Company experiences certain change of control events, it must make an offer to purchase all of the Senior Notes at 101.0% of the principal amount thereof, plus any accrued and unpaid interest, to the repurchase date.

The Indenture governing the Senior Notes contains restrictive covenants that limit the ability of the Company to, among other things, incur additional debt or issue preferred stock, create liens, create restrictions on the Company's ability to make intercompany payments, pay dividends and make other distributions in respect of the Company's capital stock, redeem or repurchase the Company's capital stock or prepay subordinated indebtedness, make certain investments or certain other restricted payments, guarantee indebtedness, designate unrestricted subsidiaries, sell certain kinds of assets, enter into certain types of transactions with affiliates, and effect mergers or consolidations. Certain of these covenants will be suspended if the Senior Notes are assigned an investment grade rating from any two of Moody's Investors Service, Inc., Standard & Poor's Rating Services, and Fitch Ratings, Inc., and there is no continuing default. As of September 30, 2018, the Company was in compliance with all covenants.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

The outstanding principal of the Senior Notes, net of debt issuance costs, was approximately \$342.5 million as of September 30, 2018 and is included as long-term debt in the accompanying unaudited condensed consolidated balance sheet. In connection with the issuance of these Senior Notes, Carvana Group amended its LLC agreement to create a class of non-convertible preferred units, which Carvana Co. purchased with its net proceeds from the issuance of these Senior Notes, as further discussed in Note 9 — Stockholders' Equity.

Notes Payable

The Company has entered into promissory note and disbursement agreements to finance certain equipment for its transportation fleet and building improvements. The assets financed with the proceeds from these notes serve as the collateral for each note and certain security agreements related to these assets have cross collateralization and cross default provisions with respect to one another. Each note has a fixed annual interest rate, a two to five-year term and requires monthly payments. As of September 30, 2018, the outstanding principal of these notes had a weighted-average interest rate of 5.9% and totaled approximately \$34.8 million, of which approximately \$7.2 million is due within the next twelve months and is included as current portion of long-term debt in the accompanying unaudited condensed consolidated balance sheets.

Finance Leases

Beginning in 2017, the Company has financed certain purchases and construction of its property and equipment through various sale and leaseback transactions. As of September 30, 2018, none of these transactions have qualified for sale accounting due to forms of continuing involvement, such as repurchase options or renewal periods that extend the lease for substantially all of the asset's remaining useful life, and are therefore accounted for as financing transactions. These arrangements require monthly payments and have initial terms that expire in fifteen to twenty years. Some of the agreements are subject to renewal options of up to twenty years and base rent increases throughout the term. As of September 30, 2018, the outstanding liability associated with these sale and leaseback arrangements, net of debt issuance costs, is approximately \$65.9 million and is included in long-term debt in the accompanying unaudited condensed consolidated balance sheet.

In November 2017, the Company entered into a master sale-leaseback agreement (the "Master Sale-Leaseback Agreement" or "MSLA"), which was amended in November 2018, pursuant to which it may sell and lease back certain of its owned or leased properties and construction improvements. A portion of the Company's finance leases described above is through the MSLA. A portion of the fixed rental payments set forth in the respective lease agreements is payable annually beginning in November 2020. Under the MSLA, at any time the Company may elect to, and beginning in November 2020 or until a property owner of a leased site consents to the sale-leaseback, the purchaser has the right to, demand that the Company repurchase one or more of the properties sold and leased back pursuant to the MSLA for an amount equal to the repurchase price. Repurchase prices are defined in each of the applicable leases and are generally the original purchase prices plus any accrued and unpaid rent. As of September 30, 2018, the repurchase prices for all properties under the MSLA excluding unpaid rent totaled approximately \$24.6 million. Under the MSLA, the total sales price of properties the Company has sold and is leasing back at any point in time is limited to \$75.0 million. As of September 30, 2018, the Company may sell and lease back an additional approximately \$50.4 million of its property and equipment under the MSLA.

Capital Leases

Beginning in August 2018, the Company has a capital lease obligation to finance certain equipment for its transportation fleet. The lease has a 5.2% fixed annual interest rate, a five-year term and requires monthly payments. As of September 30, 2018, the outstanding amount of the lease is approximately \$3.4 million, of which approximately \$0.6 million is due within the next twelve months and is included as current portion of other long-term debt in the accompanying unaudited condensed consolidated balance sheet.

NOTE 9 — STOCKHOLDERS' EQUITY

Organizational Transactions

Immediately prior to the IPO, Carvana Co. amended and restated its certificate of incorporation to, among other things authorize (i) 50.0 million shares of Preferred Stock, par value \$0.01 per share, (ii) 500.0 million shares of Class A common stock, par value \$0.001 per share, and (iii) 125.0 million shares of Class B common stock, par value \$0.001 per share. On

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

December 5, 2017, Carvana Co. amended and restated its certificate of incorporation to authorize 100,000 shares of Convertible Preferred Stock, with an initial stated value of \$1,000 per share and a par value of \$0.01 per share. Each share of Class A common stock generally entitles its holder to one vote on all matters to be voted on by stockholders. Each share of Class B common stock held by the Garcia Parties generally entitles its holder to ten votes on all matters to be voted on by stockholders, for so long as the Garcia Parties maintain direct or indirect beneficial ownership of at least 25% of the outstanding shares of Carvana Co.'s Class A common stock determined on an as-exchanged basis assuming that all of the Class A Units and Class B Units were exchanged for Class A common stock. All other shares of Class B common stock generally entitle their holders to one vote per share on all matters to be voted on by stockholders. Holders of Class B common stock are not entitled to receive dividends and would not be entitled to receive any distributions upon the liquidation, dissolution or winding down of the Company. Holders of Class A and Class B common stock vote together as a single class on all matters presented to stockholders for their vote or approval, except as otherwise required by applicable law.

As described in Note 1 — Business Organization, Carvana Group amended and restated its LLC Agreement to, among other things, provide for two classes of common ownership interests in Carvana Group. Carvana Group's two classes of common ownership interests are Class A Units and Class B Units. Carvana Co. is required to, at all times, maintain (i) a four-to-five ratio between the number of shares of Class A common stock issued and outstanding by Carvana Co. and the number of Class A Units owned by Carvana Co. (subject to certain exceptions for treasury shares and shares underlying certain convertible or exchangeable securities and subject to adjustment as set forth in the exchange agreement (the "Exchange Agreement") further discussed below, and taking into account Carvana Sub's 0.1% ownership interest in Carvana, LLC) and (ii) a four-to-five ratio between the number of shares of Class B common stock owned by the Original LLC Unitholders and the number of Class A Units owned by the Original LLC Unitholders. The Company may issue shares of Class B common stock only to the extent necessary to maintain these ratios. Shares of Class B common stock are transferable only together with a corresponding number of LLC Units if Carvana Co., at the election of an Existing LLC Unitholder, exchanges LLC Units for shares of Class A common stock.

As of September 30, 2018, there were approximately 180.5 million and 6.0 million Class A Units and Class B Units (as adjusted for the participation thresholds), respectively, issued and outstanding. As discussed in Note 11 — Equity-Based Compensation, Class B Units were issued under the Company's LLC Equity Incentive Plan (the "LLC Equity Incentive Plan") and are subject to a participation threshold and are earned over the requisite service period.

Initial Public Offering

As described in Note 1 — Business Organization, on May 3, 2017, Carvana Co. completed its IPO of 15.0 million shares of Class A common stock at a public offering price of \$15.00 per share. Carvana Co. received approximately \$205.8 million in proceeds, net of underwriting discounts and commissions and offering expenses. Carvana Co. used the proceeds to purchase approximately 18.8 million newly-issued LLC Units of Carvana Group at a price per unit equal to 0.8 times the initial public offering price less underwriting discounts and commissions. In connection with the IPO, Carvana Co. transferred approximately 0.2 million Class A Units to Ernest Garcia, II in exchange for his 0.1% ownership interest in Carvana, LLC, a majority-owned subsidiary of Carvana Group.

Follow-On Public Offering

On April 30, 2018, the Company completed a follow-on offering of 6.6 million shares of its Class A common stock at a public offering price of \$27.50 per share and received net proceeds from the offering of approximately \$172.3 million after underwriting discounts and commissions and offering expenses. The Company used the net proceeds to purchase approximately 8.3 million newly-issued LLC Units in Carvana Group, which used the net proceeds primarily for general corporate purposes.

The Selling Stockholder and the Selling LLC Unitholders sold a total of approximately 6.1 million shares of Class A common stock as part of the offering. The Selling LLC Unitholders exchanged approximately 6.9 million LLC Units for approximately 5.6 million shares of Class A common stock to be sold in the offering, and to the extent such Selling LLC Unitholder held Class B common stock, the corresponding shares of Class B common stock were immediately retired by the Company. The Company did not receive any proceeds from the sale of the approximately 6.1 million shares of Class A common stock by the Selling Stockholder and the Selling LLC Unitholders.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

Exchange Agreement

Carvana Co. and the LLC Unitholders entered into an Exchange Agreement under which each LLC Unitholder (and certain permitted transferees thereof) may receive shares of the Company's Class A common stock in exchange for their LLC Units on a four-to-five conversion ratio, or cash at the option of the Company, subject to conversion ratio adjustments for stock splits, stock dividends, reclassifications and similar transactions and subject to vesting for certain Class A Units and subject to vesting and the respective participation threshold for Class B Units. To the extent such owners also hold Class B common stock, they will be required to deliver to Carvana Co. a number of shares of Class B common stock equal to the number of shares of Class A common stock being exchanged for. Any shares of Class B common stock so delivered will be canceled. The number of exchangeable Class B Units is determined based on the value of Carvana Co.'s Class A common stock and the applicable participation threshold.

During the nine months ended September 30, 2018, certain LLC Unitholders exchanged approximately 12.3 million LLC Units and approximately 8.9 million shares of Class B common stock for approximately 9.8 million newly-issued shares of Class A common stock. Simultaneously, and in connection with these exchanges, Carvana Co. received approximately 12.2 million LLC Units, increasing its total ownership interest in Carvana Group, and canceled the exchanged shares of Class B common stock.

Convertible Preferred Stock

On December 5, 2017, Carvana Co. sold 100,000 shares of Convertible Preferred Stock for a purchase price of \$100.0 million and net proceeds of approximately \$98.5 million, which it used to purchase 100,000 Convertible Preferred Units of Carvana Group at a price per unit equal to the initial stated value of the Convertible Preferred Stock less issuance costs. The Convertible Preferred Stock has a par value of \$0.01 per share and a liquidation value of \$1,000 per share.

At the holder's request beginning on January 29, 2018, any or all shares of the Convertible Preferred Stock are convertible into shares of Class A common stock at an initial conversion rate of 50.78 shares of Class A common stock per share of Convertible Preferred Stock. On or after December 5, 2018, the Company will have the option to cause all shares of Convertible Preferred Stock to be converted into shares of Class A common stock or cash, at the Company's election, if the 10-day volume-weighted average price equals or exceeds 150% of the conversion price as set forth in the agreement. In the event Carvana Co. issues any shares of Class A common stock upon conversion of any shares of Convertible Preferred Stock or in connection with any change of control repurchase of shares of Convertible Preferred Stock, a corresponding number of Convertible Preferred Units shall be canceled and cease to be outstanding, and Carvana Group will issue Class A Units to Carvana Co. on a four-to-five ratio between the number of shares of Class A common stock issued by Carvana Co. to the holders of the Convertible Preferred Stock and the number of Class A Units issued. During the nine months ended September 30, 2018, the holder converted 75,000 shares of Convertible Preferred Stock into approximately 3.8 million shares of Class A common stock, Carvana Co. canceled and retired 75,000 Convertible Preferred Units, and Carvana Group issued approximately 4.8 million Class A Units to Carvana Co.

The initial conversion price was \$19.6945, which was calculated based on a 20.0% premium to the volume weighted average price for Class A common stock during the 5 trading days immediately preceding December 4, 2017. Following announcement of the transaction, the share price of Class A common stock increased and exceeded the conversion price on the commitment date and resulted in a beneficial conversion feature ("BCF") of approximately \$2.6 million. The BCF was originally recorded as a reduction of the Convertible Preferred Stock with an offset to additional paid-in capital. The BCF accreted as a deemed dividend through January 29, 2018, the first available conversion date, increasing the carrying value of the Convertible Preferred Stock with an offsetting charge to additional paid-in capital. During the nine months ended September 30, 2018, the Company recorded the remaining approximately \$1.4 million in accretion related to the BCF. The carrying value of the Convertible Preferred Stock was approximately \$24.6 million and \$97.1 million as of September 30, 2018 and December 31, 2017, respectively.

Upon a change of control, as defined in the agreement, any holder of Convertible Preferred Stock has the option to require the Company (or its successor) to purchase, any or all of its Convertible Preferred Stock at a purchase price per share, payable at the Company's option in any combination of cash or shares of Class A common stock, of 101% of the liquidation preference, plus all accumulated dividends.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

Holders of the Convertible Preferred Stock have no voting rights. The Convertible Preferred Stock ranks senior, as to payment of dividends and distributions of assets upon the liquidation, dissolution or winding up of Company, to the Company's common stock and any shares of capital stock of the Company not expressly ranking senior to or pari passu with the Convertible Preferred Stock, and junior to all shares of capital stock of the Company issued in the future, if the terms of which expressly provide that such shares will rank senior to the Convertible Preferred Stock.

The Convertible Preferred Stock accrues dividends at 5.5% of the liquidation preference of \$1,000 per share. The dividends are payable in cash quarterly commencing March 15, 2018 so long as the Company has funds legally available and the Board declares a cash dividend payable. The Company may not declare dividends on shares of its common stock or purchase or redeem shares of its common stock, unless all accumulated and unpaid dividends on the Convertible Preferred Stock have been paid in full or a sum for such amounts has been set aside for payment. As the Company declares and pays dividends on the Convertible Preferred Stock, Carvana Group will make distributions to Carvana Co. with respect to the Convertible Preferred Units in an amount equal to the related Convertible Preferred Stock dividend amount and any corresponding tax payments. During the nine months ended September 30, 2018, the Company paid approximately \$4.3 million of dividends to the holders of the Convertible Preferred Stock and Carvana Group distributed approximately \$4.3 million to Carvana Co. with respect to the Convertible Preferred Units. As of September 30, 2018, dividends accrued related to the Convertible Preferred Stock were approximately \$0.1 million, or \$3.36 per share of Convertible Preferred Stock outstanding.

Class A Non-Convertible Preferred Units

On October 2, 2018, Carvana Group amended its LLC Agreement to create a class of non-convertible preferred units (the "Class A Non-Convertible Preferred Units"), effective September 21, 2018. The Class A Non-Convertible Preferred Units were created in connection with Carvana Co.'s issuance of the Senior Notes, as discussed further in Note 8 — Debt Instruments. Carvana Co. used its net proceeds from the Senior Notes to purchase 350,000 Class A Non-Convertible Preferred Units. In the event Carvana Co. makes payments on the Senior Notes, Carvana Group will make an equal cash distribution to the Class A Non-Convertible Preferred Units. For each \$1,000 principal amount of Senior Notes that Carvana Co. repays or otherwise retires one Class A Non-Convertible Preferred Unit shall be canceled and retired.

Class C Redeemable Preferred Units

Prior to 2017, the Company authorized the issuance of and sold approximately 43.1 million Class C Redeemable Preferred Units to various third parties and related parties for net proceeds of approximately \$226.9 million. The Company recorded the issuance and sale of Class C Redeemable Preferred Units at fair value, net of issuance costs. In accordance with the Company's Operating Agreement, the Class C Redeemable Preferred Units accrued a return (the "Class C Return") at a coupon rate of 12.5% compounding annually on the aggregate amount of capital contributions made with respect to the Class C Redeemable Preferred Units. On May 3, 2017, the Company closed its IPO at a price such that the Company was no longer liable for the accrued Class C Return, and the outstanding Class C Redeemable Preferred Units converted to Class A Units on a one-to-one basis and the related balance became a component of permanent equity.

Contribution of Class A Common Shares From Ernie Garcia, III

On September 10, 2018, the Company announced a commitment by its chief executive officer, Ernie Garcia, III ("Mr. Garcia"), to contribute 165 shares of Class A common stock from his personal shareholdings for every one of the Company's then-existing employees upon their satisfying certain employment tenure requirements (the "100k Milestone Gift"). On September 12, 2018, in connection with this ongoing commitment, the Company and Mr. Garcia entered into a contribution agreement, pursuant to which Mr. Garcia contributed approximately 0.2 million shares of the Company's Class A common stock to the Company, at no charge. The Company subsequently granted the first tranche of the 100k Milestone Gift of approximately 0.2 million restricted stock units with a one-day vesting period resulting in approximately \$10.4 million of equity-based compensation expense during the three and nine months ended September 30, 2018, a portion of which related to the production of the Company's used vehicle inventory and was therefore capitalized to inventory. Although the Company does not expect Mr. Garcia to incur any tax obligations related to the share contribution, it has indemnified Mr. Garcia from any such obligations that may arise.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

NOTE 10 — NON-CONTROLLING INTERESTS

As discussed in Note 1 — Business Organization, Carvana Co. consolidates the financial results of Carvana Group and reports a non-controlling interest related to the portion of Carvana Group owned by the LLC Unitholders. Changes in the ownership interest in Carvana Group while Carvana Co. retains its controlling interest will be accounted for as equity transactions. Exchanges of LLC Units result in a change in ownership and reduce the amount recorded as non-controlling interests and increase additional paid-in capital.

Upon the issuance of shares of Class A common stock by Carvana Co. related to the Company's equity compensation plans such as the exercise of options, issuance of restricted or non-restricted stock, payment of bonuses in stock or settlement of stock appreciation rights in stock, Carvana Group is required to issue to Carvana Co. a number of Class A Units equal to 1.25 times the number of shares of Class A common stock being issued in connection with the exercise of such options or issuance of other types of equity compensation, subject to adjustment for stock splits, stock dividends, reclassifications and similar transactions. Activity related to the Company's equity compensation plans may result in a change in ownership which will impact the amount recorded as non-controlling interest and additional paid-in capital.

The non-controlling interest related to the Class B Units is determined based on the respective participation thresholds and the share price of Class A common stock on an as-converted basis. To the extent that the number of as-converted Class B Units change or Class B Units are forfeited, the resulting difference in ownership will be accounted for as equity transactions adjusting the non-controlling interest and additional paid-in capital.

During the nine months ended September 30, 2018, the total adjustments related to exchanges of LLC Units was a decrease in non-controlling interests and a corresponding increase in additional paid-in capital of approximately \$13.2 million, which has been included in exchanges of LLC Units in the accompanying unaudited condensed consolidated statement of stockholders' equity. During the nine months ended September 30, 2018, Carvana Co. utilized its net proceeds from its follow-on offering to purchase LLC Units, which together with the follow-on offering resulted in an adjustment to increase non-controlling interests and to decrease additional paid-in capital by approximately \$132.4 million, which has been included in adjustment to non-controlling interests related to follow-on offering in the accompanying unaudited condensed consolidated statement of stockholders' equity. During the nine months ended September 30, 2018, Carvana Group issued approximately 0.5 million Class A Units with a fair value of approximately \$10.0 million as part of the purchase price consideration for Car360, which is reflected as an increase in non-controlling interests in the accompanying unaudited condensed consolidated statement of stockholders' equity. The adjustment related to the issuance of Class A Units to acquire Car360 was a decrease in non-controlling interests and a corresponding increase in additional paid-in capital of approximately \$1.3 million, which has been included in adjustment to non-controlling interests related to business acquisitions in the accompanying unaudited condensed consolidated statement of stockholders' equity. During the nine months ended September 30, 2018, the holder of the Convertible Preferred Stock converted 75,000 shares of Convertible Preferred Stock into approximately 3.8 million shares of Class A common stock, Carvana Co. canceled and retired 75,000 Convertible Preferred Units, and Carvana Group issued approximately 4.8 million Class A Units to Carvana Co. The adjustment related to the conversion of Convertible Preferred Stock was an increase in non-controlling interests and a corresponding decrease in additional paid-in capital of approximately \$51.3 million, which has been included in adjustment to non-controlling interests related to conversion of Class A Convertible Preferred Stock in the accompanying unaudited condensed consolidated statement of stockholders' equity.

As of September 30, 2018, Carvana Co. owned approximately 25.5% of Carvana Group with the LLC Unitholders owning the remaining 74.5%. The non-controlling interests on the accompanying unaudited condensed consolidated statements of operations represents the portion of the loss attributable to the economic interest in Carvana Group held by the non-controlling LLC Unitholders calculated based on the weighted average non-controlling interests' ownership during the periods presented.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

The following table summarizes the effects of changes in ownership in Carvana Group on the Company's additional paid-in capital during the nine months ended September 30, 2018 (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Transfers (to) from non-controlling interests:		
Decrease as a result of issuances of Class A common stock	\$ (132,375)	\$ (174,255)
Increase as a result of Carvana Group's issuance of Class A Units in connection with business acquisitions	1,297	—
Increase as a result of exchanges of LLC Units	13,203	—
Decrease as a result of conversion of Class A Convertible Preferred Stock	(51,289)	—
Increase as a result of adjustments to non-controlling interests	—	333
Total transfers to non-controlling interests	<u>\$ (169,164)</u>	<u>\$ (173,922)</u>

NOTE 11 — EQUITY-BASED COMPENSATION

Equity-based compensation expense is recognized based on amortizing the grant-date fair value on a straight-line basis over the requisite service period, which is generally the vesting period of the award, less actual forfeitures. A summary of equity-based compensation expense recognized during the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Class B Units	\$ 791	\$ 597	\$ 1,831	\$ 1,237
Restricted Stock Units and Awards excluding those granted in relation to Mr. Garcia's 100k Milestone Gift contributions	1,459	823	3,104	1,973
Restricted Stock Units granted in relation to Mr. Garcia's 100k Milestone Gift contributions	10,393	—	10,393	—
Options	584	467	1,417	835
Class A Units	661	—	1,236	—
Total equity-based compensation expense	<u>\$ 13,888</u>	<u>\$ 1,887</u>	<u>\$ 17,981</u>	<u>\$ 4,045</u>

As of September 30, 2018, the total unrecognized compensation expense related to outstanding equity awards was approximately \$34.9 million, which the Company expects to recognize over a weighted-average period of approximately 3.0 years. Total unrecognized equity-based compensation expense will be adjusted for actual forfeitures.

2017 Omnibus Incentive Plan

In connection with the IPO, the Company adopted the 2017 Omnibus Incentive Plan (the "2017 Incentive Plan"). Under the 2017 Incentive Plan, 14.0 million shares of Class A common stock are available for issuance, which the Company may grant as stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to employees, directors, officers and consultants. The majority of the Company's equity awards vest over three- to five- year periods based on continued employment with the Company. As discussed in Note 9 — Stockholders' Equity, during the three and nine months ended September 30, 2018, the Company granted approximately 0.2 million RSUs with a vesting period of one day following receipt of Class A common stock from Mr. Garcia, and recognized approximately \$10.4 million of equity-based compensation,

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

a portion of which related to the production of the Company's used vehicle inventory and was therefore capitalized to inventory. As of September 30, 2018, approximately 12.1 million shares remain available for future equity award grants under this plan.

Class A Units

During the three and nine months ended September 30, 2018, the Company granted certain employees 0.0 million and approximately 0.4 million Class A Units with service-based vesting over two- to four- year periods and a grant-date fair value of \$18.58 per Class A Unit. The grantees entered into the Exchange Agreement under which each LLC Unitholder (and certain permitted transferees thereof) may receive shares of the Company's Class A common stock in exchange for their LLC Units on a four-to-five conversion ratio, or cash at the option of the Company, subject to conversion ratio adjustments for stock splits, stock dividends, reclassifications and similar transactions and subject to vesting.

Class B Units

In March 2015, Carvana Group adopted the LLC Equity Incentive Plan. Under the LLC Equity Incentive Plan, Carvana Group could grant Class B Units to eligible employees, non-employee officers, consultants and directors with service vesting conditions. Following completion of the IPO, there are no B Units authorized for the Company to grant under the LLC Equity Incentive Plan. There were no Class B Units issued during the three and nine months ended September 30, 2018. During the three and nine months ended September 30, 2017, the Company issued an aggregate of approximately 0.8 million Class B Units to executive officers and certain other employees.

NOTE 12 — LOSS PER SHARE

Basic and diluted net loss per share is computed by dividing the net loss attributable to Class A common stockholders by the weighted-average shares of Class A common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potentially dilutive shares. For all periods presented, potentially dilutive shares are excluded from diluted net loss per share because they have an anti-dilutive impact. Therefore, basic and diluted net loss per share attributable to Class A common stockholders are the same for all periods presented.

As discussed in Note 1 — Business Organization, the Organizational Transactions are considered transactions between entities under common control and the financial statements for periods prior to the IPO and Organizational Transactions have been adjusted to combine the previously separate entities for presentation purposes. For purposes of calculating both the numerator and denominator of net loss per share for periods prior to the IPO, the Company has retroactively reflected the 15.0 million shares issued in the IPO and the LLC Units outstanding as of the Organizational Transactions as if they had been issued and outstanding as of the beginning of each period presented. These calculations for periods prior to the IPO do not consider the options or shares of Class A common stock issued on the IPO date under the 2017 Incentive Plan.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	\$ (64,419)	\$ (39,769)	\$ (168,341)	\$ (117,078)
Net loss attributable to non-controlling interests	48,377	35,389	135,291	104,232
Dividends on Class A convertible preferred stock	(1,230)	—	(3,950)	—
Accretion of beneficial conversion feature on Class A convertible preferred stock	—	—	(1,380)	—
Net loss attributable to Carvana Co. Class A common stockholders, basic and diluted	\$ (17,272)	\$ (4,380)	\$ (38,380)	\$ (12,846)
Denominator:				
Weighted-average shares of Class A common stock outstanding	34,924	15,520	27,258	15,254
Nonvested weighted-average restricted stock awards	(269)	(475)	(331)	(230)
Weighted-average shares of Class A common stock to compute basic and diluted net loss per Class A common share	34,655	15,045	26,927	15,024
Net loss per share of Class A common stock, basic and diluted	\$ (0.50)	\$ (0.29)	\$ (1.43)	\$ (0.86)

Shares of Class B common stock do not share in the losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted net loss per share of Class B common stock under the two-class method has not been presented. LLC Units (adjusted for the Exchange Ratio and participation thresholds) are considered potentially dilutive shares of Class A common stock because they are exchangeable into shares of Class A common stock.

Weighted-average as-converted shares of Convertible Preferred Stock of approximately 4.5 million and 4.9 million for the three and nine months ended September 30, 2018, respectively, were evaluated under the if-converted method for potentially dilutive effects and were determined to be anti-dilutive. Weighted-average as-converted Class A Units together with the related Class B common stock of approximately 106.3 million and 117.2 million during the three months ended September 30, 2018 and September 30, 2017, respectively, and of approximately 110.2 million and 117.2 million during the nine months ended September 30, 2018 and September 30, 2017, respectively, were evaluated under the if-converted method for potentially dilutive effects and were determined to be anti-dilutive. Outstanding Class B Units of approximately 6.5 million and 7.5 million at September 30, 2018 and September 30, 2017, respectively, were evaluated for potentially dilutive effects and were determined to be anti-dilutive. Potentially dilutive restricted stock awards and units of approximately 0.4 million and for each of the three and nine months ended September 30, 2018 and of approximately 0.5 million and 0.2 million for the three and nine months ended September 30, 2017, respectively, were evaluated under the treasury stock method for potentially dilutive effects and were determined to be anti-dilutive. As of September 30, 2018 and September 30, 2017, 0.8 million and 0.6 million options, respectively, were outstanding and evaluated under the treasury stock method for potentially dilutive effects and were determined to be anti-dilutive.

NOTE 13 — INCOME TAXES

As described in Note 1 — Business Organization, as a result of the IPO and Organizational Transactions, Carvana Co. began consolidating the financial results of Carvana Group. Carvana Group is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, Carvana Group is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by Carvana Group is passed through to and included in the taxable income or loss of its members, including Carvana Co., based on its economic interest held in Carvana Group. Carvana Co. was formed on November 29, 2016 and did not engage in any operations prior to the IPO. Carvana Co. is taxed as a

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

corporation and is subject to U.S. federal, state and local income taxes with respect to the allocable share of any taxable income or loss of Carvana Group, as well as any stand-alone income or loss generated by Carvana Co.

As described in Note 9 — Stockholders' Equity, the Company acquired approximately 12.2 million LLC Units during the nine months ended September 30, 2018 in connection with exchanges with Existing LLC Unitholders. During the nine months ended September 30, 2018, the Company recorded a gross deferred tax asset of approximately \$71.4 million associated with the basis difference in its investment in Carvana Group related to the acquisition of these LLC Units which is reflected as an increase to additional paid-in capital in the accompanying unaudited condensed consolidated statement of stockholders' equity.

As described in Note 1 — Business Organization and Note 9 — Stockholders' Equity, Carvana Co. purchased approximately 8.3 million newly-issued LLC Units of Carvana Group in connection with the follow-on offering. The Company recognized a gross deferred tax asset of approximately \$2.5 million associated with a portion of the basis difference resulting from this purchase of LLC Units which is reflected as an increase to additional paid-in capital in the accompanying unaudited condensed consolidated statements of stockholders' equity.

As described in Note 4 — Goodwill and Intangible Assets, Net, Carvana Group acquired Car360 during the nine months ended September 30, 2018. The acquisition included various intangible assets, and as a result the Company recognized a deferred tax liability of approximately \$2.5 million which is reflected within other liabilities in the accompanying unaudited condensed consolidated balance sheet.

The Company recognizes deferred tax assets to the extent it believes these assets are more-likely-than-not to be realized. During the nine months ended September 30, 2018, management performed an assessment of the recoverability of deferred tax assets. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations. Management determined, based on the accounting standards applicable to such assessment, that there was sufficient negative evidence as a result of the Company's cumulative losses to conclude it was more likely than not that its deferred tax assets would not be realized and has recorded a full valuation allowance against its deferred tax assets. In the event that management was to determine that the Company would be able to realize its deferred tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be made which would reduce the provision for income taxes.

The Company recognizes uncertain income tax positions when it is more-likely-than-not the position will be sustained upon examination. As of September 30, 2018 and December 31, 2017, the Company has not identified any uncertain tax positions and has not recognized any related reserves.

Tax Receivable Agreement

Carvana Co. expects to obtain an increase in its share of the tax basis in the net assets of Carvana Group when LLC Units are exchanged by the Original LLC Unitholders and other qualifying transactions. As described in Note 9 — Stockholders' Equity, each change in outstanding shares of Class A common stock results in a corresponding increase or decrease in Carvana Co.'s ownership of LLC Units. The Company intends to treat any exchanges of LLC Units as direct purchases of LLC interests for U.S. federal income tax purposes. These increases in tax basis may reduce the amounts that Carvana Co. would otherwise pay in the future to various taxing authorities. They may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

In connection with the IPO, the Company entered into a Tax Receivable Agreement (“TRA”). Under the TRA, the Company generally will be required to pay to the Original LLC Unitholders 85% of the amount of cash savings, if any, in U.S. federal, state or local tax that the Company actually realizes directly or indirectly (or are deemed to realize in certain circumstances) as a result of (i) certain tax attributes created as a result of any sales or exchanges (as determined for U.S. federal income tax purposes) to or with the Company of their interests in Carvana Group for shares of Carvana Co.'s Class A common stock or cash, including any basis adjustment relating to the assets of Carvana Group and (ii) tax benefits attributable to payments made under the TRA (including imputed interest). The Company expects to benefit from the remaining 15% of any tax benefits that it may actually realize. To the extent that the Company is unable to timely make payments under the TRA for any reason, such payments generally will be deferred and will accrue interest until paid.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

If the Internal Revenue Service or a state or local taxing authority challenges the tax basis adjustments that give rise to payments under the TRA and the tax basis adjustments are subsequently disallowed, the recipients of payments under the agreement will not reimburse the Company for any payments the Company previously made to them. Any such disallowance would be taken into account in determining future payments under the TRA and would, therefore, reduce the amount of any such future payments. Nevertheless, if the claimed tax benefits from the tax basis adjustments are disallowed, the Company's payments under the TRA could exceed its actual tax savings, and the Company may not be able to recoup payments under the TRA that were calculated on the assumption that the disallowed tax savings were available.

The TRA provides that if (i) certain mergers, asset sales, other forms of business combinations, or other changes of control were to occur, (ii) there is a material breach of any material obligations under the TRA; or (iii) the Company elects an early termination of the TRA, then the TRA will terminate and the Company's obligations, or the Company's successor's obligations, under the TRA will accelerate and become due and payable, based on certain assumptions, including an assumption that the Company would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the TRA and that any LLC Units that have not been exchanged are deemed exchanged for the fair market value of the Company's Class A common stock at the time of termination.

As of September 30, 2018, the Company has concluded based on applicable accounting standards, that it was more likely than not that its deferred tax assets subject to the TRA would not be realized; therefore, the Company has not recorded a liability related to the tax savings it may realize from utilization of such deferred tax assets. As of September 30, 2018, the total unrecorded TRA liability is approximately \$69.0 million. If utilization of the deferred tax assets subject to the TRA becomes more likely than not in the future, the Company will record a liability related to the TRA which will be recognized as expense within its consolidated statements of operations.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of September 30, 2018, the Company is a tenant under various operating leases with third parties related to certain of its market hubs, vending machines and offices. The initial terms expire at various dates between 2018 and 2027. Many of the leases include one or more renewal options ranging from two to twenty years. Rent is recognized on a straight-line basis over the lease term and includes scheduled rent increases as well as amortization of tenant improvement allowances. Rent expense for these operating leases was approximately \$1.5 million and \$4.1 million for the three and nine months ended September 30, 2018 and \$1.1 million and \$2.9 million for the three and nine months ended September 30, 2017, respectively.

Beginning in December 2017, the Company has operating leases with third parties for certain of its transportation fleet. The initial lease terms are for two years from the delivery date of each individual vehicle to the Company, at which time each lease will extend on a month-to-month basis for a potential total lease term of six years unless both parties agree to earlier termination or replacement. Rent expense for these operating leases was approximately \$0.5 million and \$1.1 million for the three and nine months ended September 30, 2018, respectively.

Accrued Limited Warranty

As part of its retail strategy, the Company provides a 100-day or 4,189-mile limited warranty to customers to repair certain broken or defective components of each used vehicle sold. As such, the Company accrues for such repairs based on actual claims incurred to-date and repair reserves based on historical trends. The liability was approximately \$1.1 million and \$0.8 million as of September 30, 2018 and December 31, 2017, respectively, and is included in accounts payable and other accrued liabilities in the accompanying unaudited condensed consolidated balance sheets.

Letters of Credit

In October 2016, the Company obtained an unconditional, irrevocable, stand-by letter of credit for \$1.9 million to satisfy a condition of a new lease agreement. The Company was required to maintain a cash deposit of \$1.9 million with the financial institution that issued the stand-by letter of credit until February 2018, at which point the cash deposit requirement was reduced by approximately \$1.0 million until November 30, 2018, at which time the letter of credit shall expire. The Company has earned interest on this letter of credit, and as of September 30, 2018 and December 31, 2017, the balance with the financial

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

institution was approximately \$1.0 million and \$2.0 million, respectively. This balance is classified as restricted cash in the accompanying unaudited condensed consolidated balance sheets.

Legal Matters

In the ordinary course of business, the Company may become subject to litigation or claims. The Company is not aware of any pending legal proceedings of which the outcome is reasonably possible to have a material effect on its results of operations, financial condition or cash flows.

NOTE 15 — FAIR VALUE OF FINANCIAL INSTRUMENTS

Items Measured at Fair Value on a Recurring Basis

As of September 30, 2018 and December 31, 2017, the Company held certain assets that were required to be measured at fair value on a recurring basis. The following is a summary of fair value measurements at September 30, 2018 and December 31, 2017 (in thousands):

As of September 30, 2018:

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Money market funds ⁽¹⁾	\$ 438,386	\$ 438,386	\$ —	\$ —

As of December 31, 2017:

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Money market funds ⁽¹⁾	\$ 171,859	\$ 171,859	\$ —	\$ —

⁽¹⁾ Consists of highly liquid investments with original maturities of three months or less and classified in cash and cash equivalents in the accompanying unaudited condensed consolidated balance sheets.

Fair Value of Financial Instruments

The carrying amounts of restricted cash, accounts receivable, accounts payable and accrued liabilities and accounts payable to related party approximate fair value because their respective maturities are less than three months. The carrying value of the Floor Plan Facility was determined to approximate fair value due to its short-term duration and variable interest rate that approximates prevailing interest rates as of each reporting period. The carrying value of notes payable and the Senior Notes was determined to approximate fair value as each of the notes has prevailing interest rates, which have not materially changed as of September 30, 2018. The carrying value of finance leases was determined to approximate fair value as each of the transactions was entered into at prevailing interest rates during each respective period and they have not significantly fluctuated since inception. The fair value of finance receivables, which are not carried at fair value on the accompanying unaudited condensed consolidated balance sheets, was determined utilizing the estimated sales price based on the historical experience of the Company. Such fair value measurement of the finance receivables, net is considered Level 2 under the fair value hierarchy. The carrying value and fair value of the finance receivables as of September 30, 2018 and December 31, 2017 were as follows (in thousands):

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Carrying value	\$ 88,151	\$ 45,564
Fair value	91,400	47,514

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

NOTE 16 — SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes supplemental cash flow information for the nine months ended September 30, 2018 and 2017 (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Supplemental cash flow information:		
Cash payments for interest to third parties	\$ 11,976	\$ 4,668
Cash payments for interest to related parties	\$ —	\$ 382
Non-cash investing and financing activities:		
Capital expenditures included in accounts payable and accrued liabilities	\$ 8,538	\$ 11,006
Capital expenditures financed through long-term debt	\$ 10,139	\$ 7,988
Issuance of LLC Units related to business acquisitions	\$ 9,981	\$ —
Debt issuance costs included in accounts payable and accrued liabilities	\$ 1,733	\$ —
Property and equipment acquired under capital leases	\$ 3,369	\$ —
Conversion of Class A Convertible Preferred Stock to common stock	\$ 73,880	\$ —
Accrual of return on Class C redeemable preferred units	\$ —	\$ 9,439
Conversion of Class C redeemable preferred units to Class A units	\$ —	\$ 260,411

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying unaudited condensed consolidated balance sheets that sum to the total of the same amounts shown in the accompanying unaudited condensed consolidated statements of cash flows for all periods presented (in thousands):

	September 30, 2018	December 31, 2017	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 439,794	\$ 172,680	\$ 103,454	\$ 39,184
Restricted cash ⁽¹⁾	18,471	14,443	11,755	10,266
Total cash, cash equivalents and restricted cash	\$ 458,265	\$ 187,123	\$ 115,209	\$ 49,450

(1) Amounts included in restricted cash represent the deposit required under the Company's Floor Plan Facility, which is 5% of the outstanding Floor Plan Facility principal balance, as explained in Note 8 — Debt Instruments and amounts held as restricted cash as required under letter of credit agreements, as explained in Note 14 — Commitments and Contingencies. Both amounts are classified as restricted cash in the accompanying unaudited condensed consolidated balance sheets.

NOTE 17 — SUBSEQUENT EVENTS

Purchase and Sale and Master Transfer Agreement Amendments

On November 2, 2018, the Company amended the Purchase and Sale Agreement to, among other things and subject to the terms of the agreement, commit the purchaser to purchase up to a maximum additional \$1.25 billion of principal balances of finance receivables.

On November 2, 2018, the Company amended the 2017 Master Transfer Agreement to, among other things and subject to the terms of the agreement, extend the purchaser's commitment to purchase finance receivables from the Company. The purchaser's currently available financing would permit up to \$454.5 million in principal balances of finance receivables to be purchased and the 2017 Master Transfer Agreement's purchase commitment contemplates the purchaser securing up to three times the currently available financing in the aggregate.

CARVANA CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

Floor Plan Facility Amendment

On November 2, 2018, the Company amended the Floor Plan Facility to increase the line of credit to \$650.0 million, extend the maturity date to October 31, 2020, and lower the interest rate to one month LIBOR plus 3.40%.

Master Sale-Leaseback Agreement Amendment

On November 1, 2018, the Company amended the Master Sale-Leaseback Agreement to extend the date through which the Company can sell properties and after which the purchaser can sell properties back to the Company from November 2019 to November 2020.

Amendment to the Master Dealer Agreement

On November 5, 2018, the Company amended the Master Dealer Agreement to allow the Company to share in any excess cash reserves over realized claims with respect to VSCs sold by the Company, once a reasonable claims period for such VSCs has passed.

Contribution Agreement

In connection with an ongoing commitment from Mr. Garcia related to the previously announced 100k Milestone Gift program, the Company and Mr. Garcia entered into a contribution agreement on November 6, 2018, under which Mr. Garcia will contribute to the Company 32,932 shares of Class A common stock that he individually owns, at no charge. The contribution will take place on November 9, 2018 and is intended to fund restricted stock unit awards to certain employees of Carvana, LLC upon their satisfying applicable employment tenure requirements. Although the Company does not expect Mr. Garcia to incur any tax obligations related to the contribution, the Company has indemnified Mr. Garcia from any such obligations that may arise.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Unless the context requires otherwise, references in this report to "Carvana," the "Company," "we," "us" and "our" refer to Carvana Co. and its consolidated subsidiaries. The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements, the accompanying notes and the MD&A included in our most recent Annual Report filed on Form 10-K, as well as our consolidated financial statements and the accompanying notes included in Item 1 of this Form 10-Q.

Overview

Carvana is a leading e-commerce platform for buying used cars. We are transforming the used car buying experience by giving consumers what they want — a wide selection, great value and quality, transparent pricing and a simple, no pressure transaction. Each element of our business, from inventory procurement to fulfillment and overall ease of the online transaction, has been built for this singular purpose.

Our business combines a comprehensive online sales experience with a vertically-integrated supply chain that allows us to sell high quality vehicles to our customers transparently and efficiently at a low price. Using our website, customers can complete all phases of a used vehicle purchase transaction. Specifically, our online sales experience allows customers to:

- **Purchase a used vehicle.** As of September 30, 2018, we listed approximately 11,200 vehicles for sale on our website, where customers can select and purchase a vehicle, including arranging financing and signing contracts, directly from their desktop or mobile device. Selling used vehicles to retail customers is the primary driver of our business. Selling used vehicles generates revenue equal to the selling price of the vehicle, less an allowance for returns, and also enables multiple additional revenue streams, including vehicle service contracts ("VSCs"), GAP waiver coverage, and trade-ins.
- **Finance their purchase.** Customers can pay for their Carvana vehicle using cash, our proprietary loan origination platform or financing from third parties such as banks or credit unions. Customers who choose to apply for our in-house financing fill out a short application form, select from a range of financing terms we provide, and, if approved, apply the financing to their purchase in our online checkout process. We generally seek to sell the automotive finance receivables we originate to third party financing partners and earn a premium on each sale.
- **Protect their purchase.** Customers have the option to protect their vehicle with a CarvanaCare-branded VSC as part of our online checkout process. VSCs provide customers with insurance against certain mechanical repairs after the expiration of their vehicle's original manufacturer warranty. We earn a fee for selling VSCs on behalf of an affiliate of DriveTime and, prior to December 2016, third parties, who are the obligors under these VSCs. We generally have no contractual liability to customers for claims under these agreements. We also offer GAP waiver coverage to customers in most states. This product contractually obligates us to cancel the remaining principal outstanding after insurance proceeds in a total loss event.
- **Sell us their car.** We allow our customers to trade-in a vehicle and apply the trade-in value to their purchase, or to sell us a vehicle independent of a purchase. Using our digital appraisal tool, customers can complete a short appraisal form and receive an offer for their vehicle nearly instantaneously. We generate vehicle offers using a proprietary valuation algorithm supported by extensive used vehicle market and customer behavior data. When customers accept our offer, we take their vehicles into inventory and sell them either at auction as a wholesale sale or through our website as a retail sale. Vehicles sold at auction typically do not meet the quality or condition standards required to be included in retail inventory displayed for sale on our website.

To enable a seamless customer experience, we have built a vertically-integrated used vehicle supply chain, supported by proprietary software systems and data.

- **Vehicle sourcing and acquisition.** We acquire the majority of our used vehicle inventory from wholesale auctions. We also, to a lesser extent, acquire vehicles from consumers and directly from used vehicle suppliers, including franchise and independent dealers, leasing companies, and car rental companies. Using proprietary machine learning algorithms and data from a variety of internal and external sources, we evaluate tens of thousands of vehicles daily to determine their fit with consumer demand, internal profitability targets, and our existing inventory mix.

- **Inspection and reconditioning.** After acquiring a vehicle, we transport it to one of our IRCs, where it undergoes a 150-point inspection and is reconditioned to meet “Carvana Certified” standards. This process is supported by a custom used vehicle inventory management system, which tracks vehicles through each stage of the process and is seamlessly integrated with auto parts suppliers to facilitate the procurement of required parts.
- **Photography and merchandising.** We photograph vehicles using our proprietary photo booths located at each of our IRCs. This allows us to display interactive, 360-degree images of each vehicle on our website. We also annotate each vehicle image with a list of features and imperfections to assist our customers in their evaluation of each vehicle for purchase. Our 360-degree photo and annotation processes are enabled by proprietary imaging technology and integrations with various vehicle data providers for vehicle feature and option information. In April 2018, we acquired Car360, Inc. ("Car360"), a provider of app-based photo capture technology, to enhance our industry-leading technology by improving our 3D computer vision and augmented reality capabilities.
- **Logistics and fulfillment.** We transport vehicles purchased by our customers to their local market for home delivery or pick-up. In markets where we have launched operations, delivery to the customer is completed by a Carvana employee in a branded delivery truck. In a subset of these markets, customers have the option of picking up their car at one of our vending machines. These vending machines are multi-story glass towers where our customers deposit a token into a coin slot and an automated platform delivers the purchased vehicle to a garage bay where the customer is waiting. Our vending machines provide an attractive and unique customer pick-up experience, developing brand awareness while lowering our variable vehicle delivery expense. Our logistics and fulfillment operations are supported by our proprietary vehicle transportation management system, which optimizes the scheduling of transport routes and delivery slots.

On April 30, 2018, we completed a follow-on public offering of 6.6 million shares of our Class A common stock and received proceeds from the offering of approximately \$172.3 million, net of underwriting discounts and commissions and offering expenses. We used the net proceeds to purchase Class A Units of Carvana Group, and Carvana Group used the net proceeds for working capital and general corporate purposes.

On September 21, 2018, we issued Senior Notes (as defined in "Liquidity and Capital Resources") and received approximately \$342.5 million in proceeds, net of debt issuance costs, with the intent to use such proceeds for general corporate purposes. These general corporate purposes include funding working capital, capital expenditures, operating expenses and the selective pursuit of business development opportunities, including to expand our current business through acquisitions of, or investments in, other businesses, products or technologies.

Unit Sales

Since launching to customers in Atlanta, Georgia in January 2013, we have experienced rapid growth in sales through our website. During the nine months ended September 30, 2018, the number of vehicles we sold to retail customers grew by 115.9% to 66,358 compared to 30,735 in the nine months ended September 30, 2017.

We view the number of vehicles we sell to retail customers as the most important measure of our growth, and we expect to continue to focus on building a scalable platform to increase our retail units sold. This focus on retail units sold is motivated by several factors:

- Retail units sold enable multiple revenue streams, including the sale of the vehicle itself, the sale of automotive finance receivables originated to finance the vehicle, the sale of VSCs, the sale of GAP waiver coverage and the sale of vehicles acquired from customers as trade-ins.
- Retail units sold are the primary driver of customer referrals and repeat sales. Each time we sell a vehicle to a new customer, that customer becomes a candidate to refer future customers and can become a repeat buyer in the future.
- Retail units sold is an important driver of the average number of days between vehicle acquisition by us and the sale to a customer. Reducing average days to sale impacts gross profit on our vehicles because used cars depreciate over time.
- Retail unit sales allow us to benefit from economies of scale due to our centralized online sales model. We believe our model provides meaningful operating leverage in acquisition, reconditioning, transport, customer service and delivery.

We plan to invest in technology and infrastructure to support growth in retail unit sales. This includes continued investment in our acquisition, reconditioning and logistics network, as well as continued investment in product development and engineering to deliver customers a best-in-class experience.

Markets

Our growth in retail units sold is driven by increased penetration in our existing markets and expansion into new markets. We define a market as a metropolitan area in which we have commenced local advertising and offer free home delivery to customers with a Carvana employee and branded delivery truck. Opening a new market involves hiring a team of customer advocates, connecting the market to our existing logistics network and initiating local advertising. Each new market has typically required approximately \$0.5 million in capital expenditures, primarily related to the acquisition of one to two branded delivery trucks, a multi-car hauler to connect the market to our logistics network and furniture, fixtures and equipment in a local office space. As a market scales, we may elect to build a vending machine in the market to further increase customer awareness and improve fulfillment. Each new vending machine has required on average approximately \$5.5 million of capital expenditures, depending on the number of stories in the vending machine tower and local market conditions. We have funded certain of these vending machines through sale leaseback transactions with third parties.

Our capital- and headcount-light expansion model has enabled us to increase our rate of market openings in each of the past five years. After opening Atlanta, Georgia in 2013, we opened two markets in 2014, six in 2015, 12 in 2016, 23 in 2017 and 34 in the first nine months of 2018, bringing our total number of markets to 78 as of September 30, 2018. Over this period, we have continually improved our market expansion playbook, which we believe improves our ability to execute our growth plan.

When we open a market, we commence local advertising using a blend of brand and direct advertising channels. Our local advertising spend in each market is approximately proportionate to each market's population, subject to adjustments based on specific characteristics of the market, market age, used vehicle market seasonality and special events such as vending machine openings. This historically has led to increased market penetration over time following the market opening. Beginning in the second quarter of 2017, we increased national television advertising spend. With our growth into new markets, national television advertising has become more economically efficient compared to purchasing several local television advertising campaigns.

Revenue and Gross Profit

Our increased penetration in existing markets and expansion into new markets has led to growth in retail unit sales. We generate revenue on retail units sold from four primary sources: the sale of the vehicles, gains on the sales of loans originated to finance the vehicles, wholesale sales of vehicles we acquire from customers and sales of ancillary products such as VSCs and GAP waiver coverage.

Our largest source of revenue, used vehicle sales, totaled \$486.3 million and \$1.3 billion during the three and nine months ended September 30, 2018, respectively, and \$208.1 million and \$550.4 million during the three and nine months ended September 30, 2017, respectively. As we continue to increase penetration in existing markets and expand to new ones, we expect used vehicle sales to increase as we increase retail units sold. We generate gross profit on used vehicle sales from the difference between the retail selling price of the vehicle and our cost of sales associated with acquiring the vehicle and preparing it for sale.

Wholesale sales includes sales of trade-ins and other vehicles acquired from customers as well as sales of certain retail units listed on our website and totaled \$21.4 million and \$48.2 million during the three and nine months ended September 30, 2018, respectively, and \$7.5 million and \$21.0 million during the three and nine months ended September 30, 2017, respectively. We expect wholesale sales to increase with retail units sold and as we expand our suite of product offerings to customers who may wish to trade-in or to sell us a car independent of a retail sale. We generate gross profit on wholesale vehicle sales from the difference between the wholesale selling price of the vehicle and our cost of sales associated with acquiring the vehicle and preparing it for sale.

Other sales and revenues, which primarily includes gains on the sales of loans we originate, sales of GAP waiver coverage and sales commissions on VSCs totaled \$27.2 million and \$64.2 million during the three and nine months ended September 30, 2018, and \$9.8 million and \$22.4 million during the three and nine months ended September 30, 2017, respectively. In August, 2018, we received a fee of approximately \$4.0 million for arranging and participating in the sale of finance receivables to a receivables purchaser in connection with a purchaser refinancing its ownership of the receivables, which is included in other sales and revenues. We expect other sales and revenues to increase with retail units sold. We also expect other sales and

revenues to increase as we improve our ability to monetize loans we originate and sell and offer attractive financing solutions and ancillary products to our customers. Other sales and revenues are 100% gross margin products for which gross profit equals revenue.

During our growth phase, our highest priority will continue to be providing exceptional customer experiences, increasing our brand awareness and building an infrastructure to support growth in retail units sold. Secondly, we plan to pursue several strategies designed to increase our total gross profit per unit. These strategies include the following:

- **Reduce average days to sale.** Our goal is to increase both our number of markets and our sales growth at a faster rate than we increase our inventory size, which we believe would decrease average days to sale due to a relative increase in demand versus supply. Reductions in average days to sale lead to fewer vehicle price reductions, and therefore higher average selling prices, all other factors being equal. Higher average selling prices in turn lead to higher gross profit per unit sold, all other factors being equal.
- **Leverage existing IRC infrastructure.** As we scale, we intend to more fully utilize the capacity in our four existing IRCs, which collectively have capacity to inspect and recondition approximately 200,000 vehicles per year.
- **Increase utilization on logistics network.** As we scale, we intend to more fully utilize our in-house logistics network to transport cars to our IRCs after acquisition from wholesale auctions or customers.
- **Increase conversion on existing products.** We plan to continue to improve our website to highlight the benefits of our complementary product offerings, including financing, VSCs, GAP waiver coverage and trade-ins.
- **Add new products and services.** We plan to utilize our online sales platform to offer additional complementary products and services to our customers.
- **Optimize purchasing and pricing.** We are constantly improving the ways in which we predict customer demand, value vehicles sight unseen and optimize what we pay to acquire those vehicles. We also regularly test different pricing of our products, including vehicle sticker prices, trade-in and independent vehicle offers and ancillary product prices and believe we can improve by further optimizing prices over time.

Seasonality

Used vehicle sales exhibit seasonality with sales peaking late in the first calendar quarter and diminishing through the rest of the year, with the lowest relative level of vehicle sales expected to occur in the fourth calendar quarter. However, as the timing of income tax refunds has become delayed, we believe that the second quarter likely shows stronger seasonality than in the past. Due to our rapid growth, our overall sales patterns to date have not reflected the general seasonality of the used vehicle industry, but we expect this to change once our business and markets mature. Used vehicle prices also exhibit seasonality, with used vehicles depreciating at a faster rate in the last two quarters of each year and a slower rate in the first two quarters of each year, all other factors being equal. We may experience seasonal and other fluctuations in our quarterly operating results, which may not fully reflect the underlying performance of our business.

Investment in Growth

We have aggressively invested in the growth of our business and we expect this investment to continue. We anticipate that our operating expenses will increase substantially as we continue to open new markets, expand our logistics network and increase our advertising spending, including increases in television advertising expenditures. There is no guarantee that we will be able to realize the return on our investments.

Relationship with Related Parties

For discussion about our relationship with related parties, refer to Note 6 — Related Party Transactions of our unaudited condensed consolidated financial statements included in Part I, Item 1, Financial Statements of this Quarterly Report on Form 10-Q.

Key Operating Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our progress and make strategic decisions. Our key operating metrics reflect the key drivers of our growth, including increasing brand awareness, opening new markets, and enhancing the selection of vehicles we make available to our customers. Our key operating metrics also demonstrate our ability to translate these drivers into retail sales and to monetize these retail sales through a variety of product offerings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Retail units sold	25,324	11,719	66,358	30,735
Number of markets	78	39	78	39
Average monthly unique visitors ⁽¹⁾	2,433,815	1,171,208	2,168,789	938,352
Inventory units available on website	11,152	6,689	11,152	6,689
Average days to sale	63	97	66	99
Total gross profit per unit (incl. Gift)	\$ 2,263	\$ 1,742	\$ 2,118	\$ 1,503
Total gross profit per unit ex-Gift	\$ 2,302	\$ 1,742	\$ 2,134	\$ 1,503

(1) We recently purchased access to improved Google Analytics data regarding individuals who visit our website. All periods shown above reflect Average Monthly Unique Visitors for such period calculated in accordance with the improved Google Analytics data.

Retail Units Sold

We define retail units sold as the number of vehicles sold to customers in a given period, net of returns under our seven-day return policy. We view retail units sold as a key measure of our growth for several reasons. First, retail units sold is the primary driver of our revenues and, indirectly, gross profit, since retail unit sales enable multiple complementary revenue streams, including financing, VSCs, GAP waiver coverage and trade-ins. Second, growth in retail units sold increases the base of available customers for referrals and repeat sales. Third, growth in retail units sold is an indicator of our ability to successfully scale our logistics, fulfillment and customer service operations.

Number of Markets

We define a market as a metropolitan area in which we have commenced local advertising and offer free home delivery to customers with a Carvana employee and branded delivery truck. We view the number of markets we serve as a key driver of our growth. As we increase our number of markets, the population of consumers who have access to our fully-integrated customer experience increases, which in turn helps to increase the number of vehicles we sell.

Average Monthly Unique Visitors

We define a monthly unique visitor as an individual who has visited our website within a calendar month, based on data provided by Google Analytics. We calculate average monthly unique visitors as the sum of monthly unique visitors in a given period, divided by the number of months in that period. We view average monthly unique visitors as a key indicator of the strength of our brand, the effectiveness of our advertising and merchandising campaigns and consumer awareness.

Inventory Units Available

We define inventory units available as the number of vehicles listed for sale on our website on the last day of a given reporting period. We view inventory units available as a key measure of our growth. Growth in inventory units available increases the selection of vehicles available to consumers in all of our markets simultaneously, which we believe will allow us to increase the number of vehicles we sell. Moreover, growth in inventory units available is an indicator of our ability to scale our vehicle purchasing, inspection and reconditioning operations. As part of our inventory strategy, over time we may choose not to expand inventory units available while continuing to grow sales, thereby improving other key operating metrics of the business.

Average Days to Sale

We define average days to sale as the average number of days between vehicle acquisition by us and delivery to a customer for all retail units sold in a period. However, this metric does not include any retail units that remain unsold at period end. We view average days to sale as a useful metric due to its impact on used vehicle average selling price.

Total Gross Profit per Unit (incl. Gift)

We define total gross profit per unit as the aggregate gross profit in a given period, including Gift (as defined below), divided by retail units sold in that period including gross profit generated from the sale of the used vehicle, gains on the sales of loans originated to finance the vehicle, commissions on sales of VSCs, revenue from GAP waiver coverage, and wholesale sales of vehicles we acquire from customers.

Total Gross Profit per Unit ex-Gift

On September 10, 2018, we announced a commitment by our chief executive officer, Ernie Garcia, III ("Mr. Garcia"), to contribute 165 shares of Class A common stock from his personal shareholdings for every one of our then-existing employees upon their satisfying certain employment tenure requirements. In connection with such contributions, we intend to make corresponding grants of 165 restricted stock units to each such employee under our 2017 Omnibus Incentive Plan (the "100k Milestone Gift" or "Gift"). Under U.S. GAAP, the 100k Milestone Gift is treated as compensation expense, a portion of which relates to the production of our used vehicle inventory and is therefore capitalized to inventory and subsequently recognized within costs of sales when the related inventory is sold.

We define total gross profit per unit ex-Gift as gross profit before compensation expense related to the 100k Milestone Gift included in cost of sales divided by retail units sold in that period. It has the same drivers noted above for total gross profit per unit, including Gift. We expect the 100k Milestone Gift from Mr. Garcia's one-time announcement to impact total gross profit per unit through the first half of 2020 and therefore believe total gross profit per unit ex-Gift is a key measure of our growth and long-term profitability over time.

For more information regarding this and other non-GAAP financial measures, refer to reconciliations of our non-GAAP measurements to their most directly comparable GAAP-based financial measurements included herein under "Non-GAAP Financial Measures".

Components of Results of Operations

Used Vehicle Sales

Used vehicle sales represent the aggregate sales of used vehicles to customers through our website. Revenue from used vehicles sales is recognized upon delivery or pick-up of the vehicle by the customer and reported net of a reserve for expected returns. Factors affecting used vehicle sales revenue include the number of retail units sold and the average selling price of these vehicles. Changes in retail units sold are a much larger driver of changes in revenue than are changes in average selling price.

The number of used vehicles we sell depends on our volume of website traffic in the markets we serve, the number of these markets, our inventory selection, the effectiveness of our branding and marketing efforts, the quality of our customer sales experience, our volume of referrals and repeat customers, the competitiveness of our pricing, competition from other used car dealerships and general economic conditions. On a quarterly basis, the number of used vehicles we sell is also affected by seasonality, with demand for used vehicles reaching a seasonal high point in the first half of each year, commensurate with the timing of tax refunds, and diminishing through the rest of the year, with the lowest relative level of used vehicle sales expected to occur in the fourth calendar quarter.

Our retail average selling price depends on the mix of vehicles we acquire and hold in inventory, retail market prices in our markets, our average days to sale and our pricing strategy. We may choose to shift our inventory mix to on average higher or lower cost vehicles, or to raise or lower our prices relative to market to take advantage of supply or demand imbalances, which could temporarily lead to average selling prices increasing or decreasing. We anticipate that our average days to sale will decline over time as we continue to launch new markets, which we believe will increase our retail average selling price, all other factors being equal.

Wholesale Vehicle Sales

Wholesale vehicle sales is equal to the aggregate proceeds we receive on vehicles sold to wholesalers. The vehicles we sell to wholesalers are primarily acquired from our customers who trade-in their existing vehicles when making a purchase from us and from customers who do not purchase another vehicle from us. In addition, we occasionally sell certain used vehicles previously listed for sale to customers through our website to wholesalers. Factors affecting wholesale vehicle sales include the number of wholesale units sold and the average wholesale selling price of these vehicles. The average selling price of our wholesale units is primarily driven by the mix of vehicles we sell to wholesalers, as well as general supply and demand conditions in the applicable wholesale vehicle market.

Other Sales and Revenues

We generate other sales and revenues primarily through the sales of automotive finance receivables we originate and sell, commissions we receive on VSCs and sales of GAP waiver coverage on vehicles customers buy and finance with us. Prior to December 9, 2016, the VSCs were sold and administered by third parties. On December 9, 2016, we entered into a master dealer agreement with DriveTime, pursuant to which we sell VSCs that DriveTime administers. The commission revenues we recognize on VSCs depends on the number of retail units we sell, the conversion rate of VSCs on these sales, commission rates we receive, VSC early cancellation frequency and product features. The GAP waiver coverage revenue we recognize depends on the number of retail units we sell, the number of customers that choose to finance their purchases with us and the conversion rate of GAP waiver coverage on those sales.

We generally seek to sell the automotive finance receivables we generate under committed forward flow arrangements with third parties who acquire these receivables at premium prices without recourse to us for their post-sale performance. Factors affecting revenue from these sales include the number of automotive finance receivables we originate, the average principal balance of these receivables, the credit quality of the portfolio and the price at which we are able to sell them to third parties.

The number of receivables we originate is driven by the number of used vehicles sold and the percentage of our sales for which we provide financing, which is influenced by the financing terms we offer our customers relative to alternatives available to the customer. The average principal balance is driven primarily by the mix of vehicles we sell, since higher average selling prices typically mean higher average receivable balances. The price at which we resell these automotive finance receivables is driven by the terms of our forward flow arrangements, applicable interest rates and whether or not the finance receivable includes GAP waiver coverage.

Cost of Sales

Cost of sales includes the cost to acquire vehicles and the reconditioning and transportation costs associated with preparing the vehicles for resale. Vehicle acquisition costs are driven by the mix of vehicles we acquire, the source of those vehicles and supply and demand dynamics in the wholesale vehicle market. Reconditioning costs consist of direct costs, including parts, labor and third party repair expenses directly attributable to specific vehicles, as well as indirect costs, such as IRC overhead. Transportation costs consist of costs incurred to transport the vehicles from the point of acquisition to the IRC. Beginning in the second half of 2018, the labor portion of reconditioning costs and transportation costs includes the expense related to the 100k Milestone Gift, as described above. Cost of sales also includes any necessary adjustments to reflect vehicle inventory at the lower of cost or net realizable value.

Used Vehicle Gross Profit

Used vehicle gross profit equals the vehicle sales price minus our costs of sales associated with vehicles that we list and sell on our website. Used vehicle gross profit per unit equals our aggregate used vehicle gross profit in any measurement period divided by the number of retail units sold in such period.

Wholesale Vehicle Gross Profit

Wholesale vehicle gross profit equals the vehicle sales price minus our cost of sales associated with vehicles we sell to wholesalers. Factors affecting wholesale gross profit include the number of wholesale units sold, the average wholesale selling price of these vehicles, the acquisition price we offer to the customer and, in the case of vehicles formerly listed on our website, the total costs described above associated with that vehicle.

Other Gross Profit

Other sales and revenues consist of 100% gross margin products for which gross profit equals revenue. Therefore, changes in gross profit and the associated drivers are identical to changes in revenues from these products and the associated drivers.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses include expenses associated with advertising and providing customer service to customers, operating our fulfillment centers and vending machines, operating our logistics and fulfillment network and other corporate overhead expenses, including expenses associated with information technology, product development, engineering, legal, accounting, finance and business development. We anticipate that these expenses will increase as we grow. SG&A expenses exclude the costs of transporting vehicles from the point of acquisition to the IRC, and inspecting and reconditioning vehicles, which are included in cost of sales.

Interest Expense

Interest expense includes interest incurred on our Floor Plan Facility and Senior Notes (both defined in "Liquidity and Capital Resources"), and notes payable, finance leases and other long-term debt, which are used to fund inventory, our transportation fleet and certain of our property and equipment. During 2017, interest expense also includes interest incurred and the commitment fee related to the Verde Credit Facility (as defined in "Liquidity and Capital Resources"), which was used as needed to fund working capital prior to its termination in connection with our IPO. Interest expense excludes the interest incurred during various construction projects to build, upgrade or remodel certain facilities, which is capitalized to property and equipment and depreciated over the estimated useful lives of the related assets.

Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
(dollars in thousands, except per unit amounts)						
Net sales and operating revenues:						
Used vehicle sales, net	\$ 486,269	\$ 208,113	133.7 %	\$ 1,258,247	\$ 550,442	128.6 %
Wholesale vehicle sales	21,440	7,459	187.4 %	48,195	21,003	129.5 %
Other sales and revenues ⁽¹⁾	27,212	9,807	177.5 %	64,187	22,372	186.9 %
Total net sales and operating revenues	\$ 534,921	\$ 225,379	137.3 %	\$ 1,370,629	\$ 593,817	130.8 %
Gross profit (incl. Gift):						
Used vehicle gross profit	\$ 28,550	\$ 9,859	189.6 %	\$ 71,837	\$ 22,657	217.1 %
Wholesale vehicle gross profit	1,544	751	105.6 %	4,551	1,173	288.0 %
Other gross profit ⁽¹⁾	27,212	9,806	177.5 %	64,187	22,371	186.9 %
Total gross profit	\$ 57,306	\$ 20,416	180.7 %	\$ 140,575	\$ 46,201	204.3 %
Gross profit ex-Gift:⁽³⁾						
Used vehicle gross profit ex-Gift	\$ 29,531	\$ 9,859	199.5 %	\$ 72,818	\$ 22,657	221.4 %
Wholesale vehicle gross profit ex-Gift	1,564	751	108.3 %	4,571	1173	289.7 %
Other gross profit ⁽¹⁾	27,212	9,806	177.5 %	64,187	22,371	186.9 %
Total gross profit ex-Gift	\$ 58,307	\$ 20,416	185.6 %	\$ 141,576	\$ 46,201	206.4 %
Market information:						
Markets, beginning of period	65	30	116.7 %	44	21	109.5 %
Market launches	13	9	44.4 %	34	18	88.9 %
Markets, end of period	78	39	100.0 %	78	39	100.0 %
Unit sales information:						
Used vehicle unit sales	25,324	11,719	116.1 %	66,358	30,735	115.9 %
Wholesale vehicle unit sales	4,408	1,797	145.3 %	10,408	4,665	123.1 %
Per unit selling prices:						
Used vehicles	\$ 19,202	\$ 17,759	8.1 %	\$ 18,961	\$ 17,909	5.9 %
Wholesale vehicles	\$ 4,864	\$ 4,151	17.2 %	\$ 4,631	\$ 4,502	2.9 %
Per unit gross profit (incl. Gift):⁽²⁾						
Used vehicle gross profit	\$ 1,127	\$ 841	34.0 %	\$ 1,083	\$ 737	46.9 %
Wholesale vehicle gross profit	\$ 350	\$ 418	(16.3)%	\$ 437	\$ 251	74.1 %
Other gross profit	\$ 1,075	\$ 837	28.4 %	\$ 967	\$ 728	32.8 %
Total gross profit	\$ 2,263	\$ 1,742	29.9 %	\$ 2,118	\$ 1,503	40.9 %
Per unit gross profit ex-Gift:⁽²⁾⁽³⁾						
Used vehicle gross profit ex-Gift	\$ 1,166	\$ 841	38.6 %	\$ 1,097	\$ 737	48.8 %
Wholesale vehicle gross profit ex-Gift	\$ 355	\$ 418	(15.1)%	\$ 439	\$ 251	74.9 %
Other gross profit	\$ 1,075	\$ 837	28.4 %	\$ 967	\$ 728	32.8 %
Total gross profit ex-Gift	\$ 2,302	\$ 1,742	32.1 %	\$ 2,134	\$ 1,503	42.0 %

(1) Includes \$6,696 and \$2,414 for the three months ended September 30, 2018 and 2017, respectively, and \$16,351 and \$6,070 for the nine months ended September 30, 2018 and 2017, respectively, of other sales and revenues from related parties.

(2) All gross profit per unit amounts are per used vehicle sold, except wholesale vehicle gross profit, which is per wholesale vehicle sold.

(3) Ex-Gift amounts exclude the expense related to the 100k Milestone Gift. See "Non-GAAP Financial Metrics" for a reconciliation to the most directly comparable GAAP-based measure, when applicable.

Used Vehicle Sales

Three months ended September 30, 2018 Versus 2017. Used vehicle sales increased by \$278.2 million to \$486.3 million during the three months ended September 30, 2018 compared to \$208.1 million during the three months ended September 30, 2017. The increase in revenue was primarily due to an increase in the number of used vehicles sold to 25,324 from 11,719 during the three months ended September 30, 2018 and 2017, respectively. The increase in units sold was driven in part by growth in existing markets due to expanded inventory selection, enhanced marketing efforts, increased brand awareness and customer referrals. The increase in unit sales was also driven by growth to 78 markets as of September 30, 2018 from 39 markets as of September 30, 2017. We anticipate that unit sales will continue to grow as we increase penetration in existing markets and launch new markets. In addition, the average selling price of our retail units sold increased to \$19,202 during the three months ended September 30, 2018 from \$17,759 during the three months ended September 30, 2017. Average selling prices increased primarily as result of changes in inventory mix, and to a lesser extent, a decrease in average days to sale to 63 days in the third quarter of 2018 from 97 days in the comparable prior year period.

Nine months ended September 30, 2018 Versus 2017. Used vehicle sales increased by \$707.8 million to \$1.3 billion during the nine months ended September 30, 2018 compared to \$550.4 million during the nine months ended September 30, 2017. The increase in revenue was primarily due to an increase in the number of used vehicles sold to 66,358 from 30,735 during the nine months ended September 30, 2018 and 2017, respectively. The increase in units sold was driven in part by growth in existing markets due to expanded inventory selection, enhanced marketing efforts, increased brand awareness and customer referrals. The increase in unit sales was also driven by growth to 78 markets as of September 30, 2018 from 39 markets as of September 30, 2017. We anticipate that unit sales will continue to grow as we increase penetration in existing markets and launch new markets. In addition, the average selling price of our retail units sold increased to \$18,961 during the nine months ended September 30, 2018 from \$17,909 during the nine months ended September 30, 2017. Average selling prices increased primarily as a result of changes in inventory mix, and to a lesser extent, a decrease in average days to sale to 66 days in the nine months ended September 30, 2018 from 99 days in the comparable prior year period.

Wholesale Vehicle Sales

Three months ended September 30, 2018 Versus 2017. Wholesale vehicle sales increased by \$14.0 million to \$21.4 million during the three months ended September 30, 2018, compared to \$7.5 million during the three months ended September 30, 2017. We primarily obtain our wholesale inventory by acquiring vehicles from customers. As our retail unit sales have increased, so have the trade-ins we receive. Moreover, during the three months ended September 30, 2018, we also acquired more vehicles from customers who did not purchase a retail unit from us. Therefore, we have had more units available for sale to wholesalers over time and our revenues attributed to wholesale vehicle sales have increased. In addition, the average selling price of our wholesale units sold increased to \$4,864 during the three months ended September 30, 2018 from \$4,151 during the three months ended September 30, 2017, due primarily to the mix of vehicles acquired from customers.

Nine months ended September 30, 2018 Versus 2017. Wholesale vehicle sales increased by \$27.2 million to \$48.2 million during the nine months ended September 30, 2018, compared to \$21.0 million during the nine months ended September 30, 2017. We primarily obtain our wholesale inventory by acquiring vehicles from customers. As our retail unit sales have increased, so have the trade-ins we receive. Therefore, we have had more units available for sale to wholesalers over time and our revenues attributed to wholesale vehicle sales have increased. In addition, the average selling price of our wholesale units sold increased to \$4,631 during the nine months ended September 30, 2018 from \$4,502 during the nine months ended September 30, 2017.

Other Sales and Revenues

Three months ended September 30, 2018 Versus 2017. Other sales and revenues primarily consist of gains on the sales of loans we originate, commissions we receive on sales of VSCs and sales of GAP waiver coverage. Other sales and revenues increased by \$17.4 million to \$27.2 million during the three months ended September 30, 2018, compared to \$9.8 million during the three months ended September 30, 2017. This increase was primarily driven by the increase in retail units sold which led to an increase in loans originated and sold, as well as an increase in VSC sales and GAP waiver coverage sales. The increase also includes a fee of \$4.0 million that we received during the three months ended September 30, 2018 for arranging and participating in the sale of a pool of finance receivables.

Nine months ended September 30, 2018 Versus 2017. Other sales and revenues primarily consist of gains on the sales of loans we originate, commissions we receive on sales of VSCs and sales of GAP waiver coverage. Other sales and revenues increased by \$41.8 million to \$64.2 million during the nine months ended September 30, 2018, compared to \$22.4 million

during the nine months ended September 30, 2017. This increase was primarily driven by the increase in retail units sold which led to an increase in loans originated and sold, as well as an increase in VSC sales and GAP waiver coverage sales. The increase includes a fee of \$4.0 million that we received during the nine months ended September 30, 2018 for arranging and participating in the sale of a pool of finance receivables.

Used Vehicle Gross Profit

Three months ended September 30, 2018 Versus 2017. Used vehicle gross profit, including Gift, increased by \$18.7 million to \$28.6 million during the three months ended September 30, 2018, compared to \$9.9 million during the three months ended September 30, 2017. Used vehicle gross profit ex-Gift, which excludes the impact of the 100k Milestone Gift on cost of sales, increased by \$19.7 million to \$29.5 million during the three months ended September 30, 2018, compared to \$9.9 million during the three months ended September 30, 2017. This increase was driven primarily by an increase in retail units sold, as well as an increase in used vehicle gross profit per unit, including Gift, and used vehicle gross profit per unit ex-Gift to \$1,127 and \$1,166, respectively, for the three months ended September 30, 2018 compared to \$841 for the three months ended September 30, 2017. The per unit increase was primarily driven by a decrease in average days to sale to 63 days in the three months ended September 30, 2018 from 97 days in the three months ended September 30, 2017.

Nine months ended September 30, 2018 Versus 2017. Used vehicle gross profit, including Gift, increased by \$49.2 million to \$71.8 million during the nine months ended September 30, 2018, compared to \$22.7 million during the nine months ended September 30, 2017. Used vehicle gross profit ex-Gift, which excludes the impact of the 100k Milestone Gift on cost of sales, increased by \$50.2 million to \$72.8 million during the nine months ended September 30, 2018, compared to \$22.7 million during the nine months ended September 30, 2017. This increase was driven primarily by an increase in retail units sold, as well as an increase in used vehicle gross profit per unit, including Gift, and used vehicle gross profit per unit ex-Gift to \$1,083 and \$1,097, respectively, for the nine months ended September 30, 2018 compared to \$737 for the nine months ended September 30, 2017. The per unit increase was primarily driven by a decrease in average days to sale to 66 days in the nine months ended September 30, 2018 from 99 days in the nine months ended September 30, 2017.

Wholesale Vehicle Gross Profit

Three months ended September 30, 2018 Versus 2017. Wholesale vehicle gross profit increased by \$0.8 million to \$1.5 million during the three months ended September 30, 2018, compared to \$0.8 million during the three months ended September 30, 2017. This increase was driven primarily by an increase in wholesale units sold to 4,408 from 1,797, partially offset by a decrease in wholesale vehicle gross profit per wholesale unit, including Gift, and wholesale vehicle gross profit per wholesale unit ex-Gift to \$350 and \$355, respectively, compared to \$418 in the three months ended September 30, 2017.

Nine months ended September 30, 2018 Versus 2017. Wholesale vehicle gross profit increased by \$3.4 million to \$4.6 million during the nine months ended September 30, 2018, compared to \$1.2 million during the nine months ended September 30, 2017. This increase was driven primarily by an increase in wholesale units sold to 10,408 from 4,665 and an increase in wholesale vehicle gross profit per wholesale unit, including Gift, and wholesale vehicle gross profit per wholesale unit ex-Gift to \$437 and \$439, respectively, from \$251 in the nine months ended September 30, 2017.

Other Gross Profit

Other sales and revenues consist of 100% gross margin products for which gross profit equals revenue. Therefore, changes in other gross profit and the associated drivers are identical to changes in other sales and revenues and the associated drivers.

Components of SG&A

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Compensation and benefits ⁽¹⁾	\$ 34,411	\$ 19,404	\$ 88,649	\$ 54,496
100k Milestone Gift	6,760	—	6,760	—
Advertising expense	27,467	15,475	79,259	39,299
Market occupancy costs ⁽²⁾	3,110	1,734	8,238	4,141
Logistics ⁽³⁾	9,913	3,905	24,056	9,829
Other costs ⁽⁴⁾	34,107	18,158	87,644	48,830
Total	\$ 115,768	\$ 58,676	\$ 294,606	\$ 156,595

(1) Compensation and benefits includes all payroll and related costs, including benefits, payroll taxes and equity-based compensation, except those related to preparing vehicles for sale, which are included in cost of sales and those related to the 100k Milestone Gift.

(2) Market occupancy costs includes rent, utilities, security, repairs and maintenance and depreciation of buildings and improvements, including vending machines and fulfillment centers, excluding the portion related to reconditioning vehicles, which is included in cost of sales, and excluding the portion related to corporate occupancy.

(3) Logistics includes fuel, maintenance and depreciation related to operating our own transportation fleet and third party transportation fees, except the portion related to inbound transportation, which is included in cost of sales.

(4) Other costs include all other selling, general and administrative expenses such as IT expenses, corporate occupancy, professional services and insurance, limited warranty and title and registration.

Selling, general and administrative expenses increased by \$57.1 million and \$138.0 million to \$115.8 million and \$294.6 million during the three and nine months ended September 30, 2018, respectively, compared to \$58.7 million and \$156.6 million during the three and nine months ended September 30, 2017, respectively. The increase was primarily due to an increase in compensation and benefits by \$15.0 million and \$34.2 million during the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 30, 2017, which was primarily driven by expansion of our logistics and last-mile delivery network, as well as growth in our operations and technology teams. In addition, during the third quarter of 2018, the first tranche of the 100k Milestone Gift related to Mr. Garcia's contribution occurred resulting in \$6.8 million of compensation expense within selling, general and administrative expense, which is presented separately above, compared to none in the three and nine months ended September 30, 2017.

The increase in selling, general and administrative expenses was also partially due to an increase in advertising expense of \$12.0 million and \$40.0 million during the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 30, 2017 primarily due to an increase in national television advertising and number of markets. Market occupancy, logistics and other expenses also increased during the three and nine months ended September 30, 2018 compared to the prior period primarily due our continued expansion. These expenses will increase in absolute terms as we expand to additional markets.

Interest Expense

Interest expense increased by \$4.8 million and \$8.0 million to \$5.6 million and \$13.4 million during the three and nine months ended September 30, 2018, respectively, compared to \$0.8 million and \$5.4 million during the three and nine months ended September 30, 2017, respectively. In order to expand the inventory we make available to customers, we increased our borrowings under our Floor Plan Facility period over period, resulting in increased interest expense related to the facility. The remaining increase is due to interest expense incurred during the three and nine months ended September 30, 2018 related to the finance leases and notes payable entered into throughout 2017 and 2018, along with approximately \$0.9 million of interest expense incurred on our Senior Notes. The increase in interest expense related to the Floor Plan Facility, finance leases, notes payable and Senior Notes is partially offset by the \$1.4 million interest incurred related to the Verde Credit Facility during the nine months ended September 30, 2017. Total borrowings of \$35.0 million under the Verde Credit Facility were repaid in full with the proceeds of our IPO and the facility was terminated in May 2017.

Non-GAAP Financial Measures

To supplement the unaudited condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, we also present the following non-GAAP measures: gross profit ex-Gift, gross profit per unit ex-Gift, EBITDA ex-Gift, EBITDA margin ex-Gift, adjusted net loss and adjusted net loss per share. We believe the presentation of both GAAP and non-GAAP financial measures provides investors with increased transparency into financial measures used by our management team, and it also improves investors' understanding of our underlying operating performance and their ability to analyze our ongoing operating trends. All historic non-GAAP financial measures have been reconciled with the most directly comparable GAAP financial measures.

Gross Profit ex-Gift and Gross Profit per Unit ex-Gift

Gross Profit ex-Gift and Gross Profit per Unit ex-Gift are non-GAAP supplemental measures of operating performance that do not represent and should not be considered an alternative to gross profit, as determined by GAAP. Gross Profit ex-Gift is defined as gross profit before compensation expense related to the 100k Milestone Gift included in cost of sales. Gross Profit per Unit ex-Gift is Gross Profit ex-Gift divided by units sold. We use Gross Profit ex-Gift to measure the operating performance of our business and Gross Profit per Unit ex-Gift to measure our operating performance relative to our units sold. We believe that Gross Profit ex-Gift and Gross Profit per Unit ex-Gift are useful measures to us and to our investors because they exclude the expense associated with the 100k Milestone Gift recognized in cost of sales. We expect the 100k Milestone Gift to be a one-time award program for which we will recognize varying amounts of expense through the first half of 2020, and therefore we believe the related expense does not reflect our core operations, is not included in our past operations, and may not be indicative of our future operations. Additionally, the shares issued to settle the 100k Milestone Gift are offset by share contributions from Mr. Garcia to the Company, therefore we expect the impact on shares outstanding to be zero. We believe that excluding it enables us to more effectively evaluate our performance period-over-period and relative to our competitors. A reconciliation the Gross Profit ex-Gift amounts to each corresponding gross profit amount, which are the most directly comparable GAAP measures and include expenses attributable to the Gift, and calculations of each Gross Profit per Unit ex-Gift amount are as follows (dollars in thousands, except per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Used vehicle gross profit	\$ 28,550	\$ 9,859	\$ 71,837	\$ 22,657
100k Milestone Gift in used vehicle cost of sales	981	—	981	—
Used Vehicle Gross Profit ex-Gift	\$ 29,531	\$ 9,859	\$ 72,818	\$ 22,657
Used vehicle unit sales	25,324	11,719	66,358	30,735
Used Vehicle Gross Profit per Unit ex-Gift	\$ 1,166	\$ 841	\$ 1,097	\$ 737
Wholesale vehicle gross profit	\$ 1,544	\$ 751	\$ 4,551	\$ 1,173
100k Milestone Gift in wholesale vehicle cost of sales	20	—	20	—
Wholesale Vehicle Gross Profit ex-Gift	\$ 1,564	\$ 751	\$ 4,571	\$ 1,173
Wholesale vehicle unit sales	4,408	1,797	10,408	4,665
Wholesale Vehicle Gross Profit per Unit ex-Gift	\$ 355	\$ 418	\$ 439	\$ 251
Total gross profit	\$ 57,306	\$ 20,416	\$ 140,575	\$ 46,201
100k Milestone Gift in total cost of sales	1,001	—	1,001	—
Total Gross Profit ex-Gift	\$ 58,307	\$ 20,416	\$ 141,576	\$ 46,201
Used vehicle unit sales	25,324	11,719	66,358	30,735
Total Gross Profit per Unit ex-Gift	\$ 2,302	\$ 1,742	\$ 2,134	\$ 1,503

EBITDA ex-Gift and EBITDA Margin ex-Gift

EBITDA ex-Gift and EBITDA Margin ex-Gift are non-GAAP 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 ex-Gift is defined as net loss before interest expense, income tax expense, depreciation and amortization expense, and the expense related to the 100k Milestone Gift. EBITDA Margin ex-Gift is EBITDA ex-Gift as a percentage of total revenues. We use EBITDA ex-Gift to measure the operating performance of our business and EBITDA Margin ex-Gift to measure our operating performance relative to our total revenues. We believe that EBITDA ex-Gift and EBITDA Margin ex-Gift are useful measures to us and to our investors because they exclude certain financial and capital structure items and the expense associated with the 100k Milestone Gift, 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. In particular, we expect the 100k Milestone Gift to be a one-time award program for which we will recognize varying amounts of expense through the first half of 2020, and therefore we believe the related expense does not reflect our core operations, is not included in our past operations, and may not be indicative of our future operations. Additionally, the shares issued to settle the 100k Milestone Gift are offset by share contributions from Mr. Garcia to the Company, therefore we expect the impact on shares outstanding to be zero. We believe that excluding these items enables us to more effectively evaluate our performance period-over-period and relative to our competitors. EBITDA ex-Gift and EBITDA Margin ex-Gift may not be comparable to similarly titled measures provided by other companies due to potential differences in methods of calculations. A reconciliation of EBITDA ex-Gift to net loss (which includes Gift expense), the most directly comparable GAAP measure, and calculation of EBITDA Margin ex-Gift is as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	\$ (64,419)	\$ (39,769)	\$ (168,341)	\$ (117,078)
Depreciation and amortization expense	6,439	3,100	16,301	7,746
Interest expense	5,649	838	13,355	5,404
100k Milestone Gift	7,761	—	7,761	—
EBITDA ex-Gift	<u>\$ (44,570)</u>	<u>\$ (35,831)</u>	<u>\$ (130,924)</u>	<u>\$ (103,928)</u>
Total revenues	<u>534,921</u>	<u>225,379</u>	<u>1,370,629</u>	<u>593,817</u>
EBITDA Margin ex-Gift	<u>(8.3)%</u>	<u>(15.9)%</u>	<u>(9.6)%</u>	<u>(17.5)%</u>

Adjusted Net Loss and Adjusted Net Loss per Share

Adjusted net loss represents net loss attributable to Carvana Co. assuming the full exchange of all outstanding LLC Units for shares of Class A common stock and excluding the expense associated with the 100k Milestone Gift. Adjusted net loss per share is calculated by dividing adjusted net loss by the weighted-average shares of Class A common stock outstanding assuming (i) the full exchange of all outstanding LLC Units, (ii) shares issued in the IPO were outstanding for the entire period presented and (iii) outstanding LLC Units immediately following the Organizational Transactions related to our IPO, including conversion of the Class C Redeemable Preferred Units, were outstanding for all periods prior to the IPO.

Adjusted net loss and adjusted net loss per share are supplemental measures of operating performance that do not represent and should not be considered alternatives to net loss and net loss per share, as determined under GAAP. We believe that by assuming the full exchange of all outstanding LLC Units and excluding the expense associated with the 100k Milestone Gift for the reasons described above, adjusted net loss and adjusted net loss per share supplement GAAP measures and enable us and our investors to more effectively evaluate our performance period-over-period and relative to our competitors that have different organizational and tax structures because the assumption eliminates the effect of any changes in net income attributable to Carvana Co. driven by increases in our ownership of Carvana Group, LLC as well as the expense associated with the 100k Milestone Gift, which are unrelated to our operating performance.

A reconciliation of adjusted net loss to net loss attributable to Carvana Co., the most directly comparable GAAP measure, and the computation of adjusted net loss per share are as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net loss attributable to Carvana Co.	\$ (16,042)	\$ (4,380)	\$ (33,050)	\$ (57,361)
Net loss attributable to non-controlling interests	(48,377)	(35,389)	(135,291)	(59,717)
Dividends on Class A convertible preferred stock	(1,230)	—	(3,950)	—
Accretion of beneficial conversion feature on Class A convertible preferred stock	—	—	(1,380)	—
100k Milestone Gift	7,761	—	7,761	—
Adjusted net loss attributable to Carvana Co. Class A common stock	<u>\$ (57,888)</u>	<u>\$ (39,769)</u>	<u>\$ (165,910)</u>	<u>\$ (117,078)</u>
Denominator:				
Weighted-average shares of Class A common stock outstanding ⁽¹⁾⁽³⁾	34,655	15,045	26,927	15,024
Adjustments:				
Weighted-average assumed exchange of LLC Units for shares of Class A common stock ⁽²⁾	111,157	121,989	114,971	121,805
Adjusted shares of Class A common stock outstanding	<u>145,812</u>	<u>137,034</u>	<u>141,898</u>	<u>136,829</u>
Adjusted net loss per share	<u>\$ (0.40)</u>	<u>\$ (0.29)</u>	<u>\$ (1.17)</u>	<u>\$ (0.86)</u>

(1) Amounts for periods prior to the initial public offering have been retrospectively adjusted to give effect to 15.0 million shares of Class A common stock issued in the initial public offering.

(2) Amounts for periods prior to the initial public offering have been retrospectively adjusted to include all LLC units outstanding at the initial public offering, including conversion of the Class C Redeemable Preferred Units into Class A Units on a one-for-one basis. Also assumes exchange of all outstanding LLC Units for shares of Class A common stock during each period presented.

(3) Excludes approximately 0.6 million nonvested restricted stock awards and units and 0.8 million vested and nonvested stock options outstanding at September 30, 2018, because they were determined to be anti-dilutive. Excludes approximately 0.5 million nonvested restricted stock awards and units and 0.6 million vested and nonvested stock options outstanding at September 30, 2017, because they were determined to be anti-dilutive.

Liquidity and Capital Resources

General

Our principal sources of liquidity are cash generated from our operations and from financing activities. Cash generated from operating activities primarily includes cash derived from the sale of used retail vehicles, the sale of wholesale vehicles and proceeds from the sale of automotive finance receivables originated in connection with the sale of used vehicles. Cash generated from our financing activities primarily includes proceeds from the sale of Class A common stock in our IPO in 2017 and follow-on offering in 2018, proceeds from the issuance of senior unsecured notes in 2018, proceeds from the sale of Class A Convertible Preferred Stock in 2017, net proceeds from our Floor Plan Facility (defined below), proceeds from issuance of other long-term debt and sales of Class C Preferred Units throughout 2015 and 2016.

We have incurred losses each year from inception through September 30, 2018, and expect to incur additional losses in the future. Our ability to service our debt and fund working capital, capital expenditures and business development efforts will depend on our ability to generate cash from operating and financing activities, which is subject to our future operating performance, as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond our control. On November 2, 2018, we amended the Floor Plan Facility to increase the capacity to \$650.0 million and extend the maturity date to October 31, 2020 to finance more vehicle inventory purchases. As of September 30, 2018, we sell finance receivables under multiple agreements. On November 2, 2018, we increased the available amount under and extended the maturity of these facilities

through November 1, 2019. We plan to extend or enter into new agreements to sell finance receivables to third parties prior to the expiration of the agreements. We believe that our existing sources of liquidity

including future debt and equity financing will be sufficient to fund our operations, including lease obligations, debt service requirements, capital expenditures and working capital obligations for at least the next 12 months. However, our future capital requirements will depend on many factors, including our rate of revenue growth, our expansion into new markets, construction of vending machines and inspection and reconditioning centers and the timing and extent of our spending to support our technology and software development efforts. To the extent that existing cash and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Floor Plan Facility

We have a floor plan facility with a third party to finance our used vehicle inventory, which is secured by substantially all of our assets, other than our interests in real property (the "Floor Plan Facility"). We most recently amended the Floor Plan Facility in November 2018 to, among other things, extend the maturity date to October 31, 2020, and increase the available capacity to \$650.0 million. We are required to make monthly interest payments on borrowings under the Floor Plan Facility at a rate per annum equal to one-month LIBOR plus a fixed base. The Floor Plan Facility requires that at least 5% of the total principal amount owed to the lender is held as restricted cash.

Repayment in an amount equal to the amount of the advance or loan must be made within five business days of selling or otherwise disposing of the underlying vehicle inventory, unless customers financed the purchase by originating an automotive finance receivable. For used vehicle sales involving financing originated by us and sold under a certain master purchase and sale agreement or master transfer agreement, the lender has extended repayment to the earlier of fifteen business days after the sale of the used vehicle or one business day following the sale of the related finance receivable. In November 2017, we entered into a letter agreement to extend repayment of amounts due under the Floor Plan Facility for used vehicle sales involving financing that are not sold under a certain master purchase and sale agreement or master transfer agreement. With respect to such vehicles, the lender agreed to extend repayment of the advance or the loan for such vehicles to the earlier of fifteen business days after the sale of the used vehicle or two business days following the sale or funding of the related finance receivable. Outstanding balances related to vehicles held in inventory for more than 180 days require monthly principal payments equal to 10% of the original principal amount of that vehicle until the remaining outstanding balance is the lesser of (i) 50% of the original principal amount or (ii) 50% of the wholesale value. Prepayments may be made without incurring a premium or penalty. Additionally, we are permitted to make prepayments to the lender to be held as principal payments under the Floor Plan Facility and subsequently reborrow such amounts. These prepayments and amounts reborrowed are presented on a gross basis within the consolidated statements of cash flows.

As of September 30, 2018, the interest rate on the Floor Plan Facility was approximately 5.9%. We had an outstanding balance under this facility of approximately \$349.4 million, borrowing capacity available of approximately \$0.6 million and held approximately \$17.5 million in restricted cash related to this facility.

Senior Unsecured Notes

On September 21, 2018, we issued an aggregate of \$350.0 million in senior unsecured notes due 2023 (the "Senior Notes") under an indenture entered into by and among us, each of the guarantors party thereto and U.S. Bank National Association, as trustee (the "Indenture"). The Senior Notes accrue interest at a rate of 8.875% per annum, which is payable semi-annually in arrears on April 1 and October 1 of each year beginning April 1, 2019. The Senior Notes mature on October 1, 2023, unless earlier repurchased or redeemed, and are guaranteed by our existing domestic restricted subsidiaries (other than our subsidiaries formed solely for the purpose of facilitating our sales of finance receivables). We may redeem some or all of the Senior Notes on or after October 1, 2020 at redemption prices set forth in the Indenture plus any accrued and unpaid interest. Prior to October 1, 2020, we may redeem up to 35.0% of the aggregate principal amount of the Senior Notes at a redemption price equal to 108.875%, together with accrued and unpaid interest to, but not including, the date of redemption, with the net cash proceeds of certain equity offerings. In addition, we may, at our option, redeem some or all of the Senior Notes prior to October 1, 2020, by paying a make-whole premium plus any accrued and unpaid interest to, but not including, the redemption date. If we experiences certain change of control events, we must make an offer to purchase all of the Senior Notes at 101.0% of the principal amount thereof, plus any accrued and unpaid interest, to the repurchase date.

The Indenture governing the Senior Notes contains restrictive covenants that limit our ability to, among other things, incur additional debt or issue preferred stock, create liens, create restrictions on our ability to make intercompany payments, pay dividends and make other distributions in respect of our capital stock, redeem or repurchase our capital stock or prepay subordinated indebtedness, make certain investments or certain other restricted payments, guarantee indebtedness, designate unrestricted subsidiaries, sell certain kinds of assets, enter into certain types of transactions with affiliates, and effect mergers or

consolidations. Certain of these covenants will be suspended if the Senior Notes are assigned an investment grade rating from any two of Moody's Investors Service, Inc., Standard & Poor's Rating Services, and Fitch Ratings, Inc., and there is no continuing default. As of September 30, 2018 we were in compliance with all covenants. See Item 1A - Risk Factors.

The outstanding principal of the Senior Notes, net of debt issuance costs, was approximately \$342.5 million as of September 30, 2018.

Verde Credit Facility

On February 27, 2017, we entered into a credit facility with Verde for an amount up to \$50.0 million (the "Verde Credit Facility"). Amounts outstanding accrued interest at a rate of 12.0% per annum and were scheduled to mature in August 2018. Upon execution of the agreement, we paid Verde a \$1.0 million commitment fee. In connection with the IPO completed on May 3, 2017, we repaid the outstanding principal balance of \$35.0 million and accrued interest of approximately \$0.4 million in full and the Verde Credit Facility terminated.

Other Long-Term Debt

Notes Payable

We enter into promissory note and disbursement agreements to finance certain equipment for our transportation fleet and building improvements. The assets financed with the proceeds from these notes serve as the collateral for each note and certain security agreements related to these assets have cross collateralization and cross default provisions with respect to one another. Each note has a fixed annual interest rate, a two to five-year term and requires monthly payments. As of September 30, 2018, the outstanding principal of these notes had a weighted-average interest rate of 5.9% and totaled approximately \$34.8 million, of which approximately \$7.2 million is due within the next twelve months.

Finance Leases

Beginning in 2017, we have financed certain purchases and construction of our property and equipment through various sale and leaseback transactions. As of September 30, 2018, none of these transactions have qualified for sale accounting due to forms of continuing involvement, such as repurchase options or renewal periods that extend the lease for substantially all of the asset's remaining useful life, and are therefore accounted for as financing transactions. These arrangements require monthly payments and have initial terms that expire in fifteen to twenty years. Some of the agreements are subject to renewal options of up to twenty years and base rent increases throughout the term. As of September 30, 2018, the outstanding liability associated with these sale and leaseback arrangements, net of debt issuance costs, is approximately \$65.9 million.

In November 2017, we entered into a master sale-leaseback agreement (the "Master Sale-Leaseback Agreement" or "MSLA"), which was amended in November 2018, pursuant to which we may sell and lease back certain of our owned or leased properties and construction improvements. A portion of our finance leases described above is through the MSLA. A portion of the fixed rental payments set forth in the respective lease agreements is payable annually beginning in November 2020. Under the MSLA, at any time we may elect to, and beginning in November 2020 or until a property owner of a leased site consents to the sale-leaseback, the purchaser has the right to, demand that we repurchase one or more of the properties sold and leased back pursuant to the MSLA for an amount equal to the repurchase price. Repurchase prices are defined in each of the applicable leases and are generally the original purchase prices plus any accrued and unpaid rent. As of September 30, 2018, the repurchase prices for all properties under the MSLA excluding unpaid rent totaled approximately \$24.6 million. Under the MSLA, the total sales price of properties we have sold and are leasing back at any point in time is limited to \$75.0 million. As of September 30, 2018, we may sell and lease back an additional approximately \$50.4 million of our property and equipment under the MSLA.

Capital Leases

Beginning in August 2018, we have a capital lease obligation to finance certain equipment for our transportation fleet. The lease has a 5.2% fixed annual interest rate, a five-year term and requires monthly payments. As of September 30, 2018, the outstanding amount of the lease is approximately \$3.4 million, of which \$0.6 million is due within the next twelve months.

Finance Receivables

Our customers can obtain vehicle financing directly on our website. Historically, we have entered into various arrangements to sell the finance receivables we originate. Sales of receivables are a source of cash from operations and remove these loans from our balance sheet without recourse for their post-sale performance. In December 2016, we entered into a master purchase and sale agreement (the "Purchase and Sale Agreement") and a master transfer agreement (the "2016 Master Transfer Agreement") pursuant to which we sell finance receivables meeting certain underwriting criteria to certain third party purchasers, including Ally Bank and Ally Financial (the "Ally Parties"). Through November 2017 under the Purchase and Sale Agreement and the 2016 Master Transfer Agreement, we could sell up to an aggregate of \$375.0 million, and \$292.2 million, respectively, in principal balances of finance receivables subject to adjustment as described in the respective agreements. On November 3, 2017, we amended our Purchase and Sale Agreement to increase the aggregate amount of principal balances of finance receivables we can sell from \$375.0 million to \$1.5 billion. On November 2, 2018, we amended the Purchase and Sale Agreement to, among other things and subject to the terms of the agreement, commit the purchaser to purchase up to a maximum additional \$1.25 billion of principal balances of finance receivables. On November 3, 2017, we terminated the remaining capacity under the 2016 Master Transfer Agreement and replaced this facility by entering into a new master transfer agreement (the "2017 Master Transfer Agreement") with a third party under which the third party has committed to purchase up to an aggregate of approximately \$357.1 million in principal balances of finance receivables. On November 2, 2018, we amended our 2017 Master Transfer Agreement to, among other things and subject to the terms of the agreement, commit the purchaser to purchase up to a maximum additional \$0.5 billion in principal balances of finance receivables.

During the nine months ended September 30, 2018, we sold approximately \$521.7 million in principal balances of finance receivables under the Purchase and Sale Agreement, and approximately \$306.5 million in principal balances of finance receivables under the 2017 Master Transfer Agreement. As of September 30, 2018, there was approximately \$634.6 million and \$18.4 million of unused capacity under the Purchase and Sale Agreement and the 2017 Master Transfer Agreement, respectively.

In August 2018, we purchased finance receivables that we previously sold to a purchaser's trust under the 2017 Master Transfer Agreement for a price of approximately \$253.0 million and immediately resold such finance receivables to another trust owned by the same purchaser for the same price under a new transfer agreement. We are not obligated to, nor do we have a right to, purchase or sell finance receivables we have previously sold under the 2017 Master Transfer Agreement. The transaction completed in August 2018 was entered into in connection with a refinancing by the purchaser and was entered into independently from the terms of the 2017 Master Transfer Agreement. We received a fee of approximately \$4.0 million for arranging and participating in the transaction.

Liquidity Upon Debt and Equity Offerings

On May 3, 2017, we completed an initial public offering and received \$205.8 million in proceeds, net of underwriting discounts and commissions and offering costs. We used the net proceeds to purchase Class A Units of Carvana Group. Carvana Group used a portion of the proceeds to repay \$35.0 million of outstanding borrowings plus accrued interest under the Verde Credit Facility. Carvana Group used the remaining net proceeds for working capital and general corporate purposes. On April 30, 2018, we completed a follow-on public offering of 6.6 million shares of our Class A common stock and received proceeds from the offering of approximately \$172.3 million, net of underwriting discounts and commissions and offering expenses. We used the net proceeds to purchase Class A Units of Carvana Group, and Carvana Group used the net proceeds for working capital and general corporate purposes. On September 21, 2018, we issued our Senior Notes (as defined in "Liquidity and Capital Resources") and received approximately \$342.5 million in proceeds, net of debt issuance costs. We used the net proceeds to purchase Class A Non-Convertible Preferred Units of Carvana Group, and Carvana Group intends to use the net proceeds for working capital and general corporate purposes.

Cash Flows

The following table presents a summary of our consolidated cash flows from operating, investing and financing activities for the nine months ended September 30, 2018 and 2017 (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Net cash used in operating activities	\$ (263,875)	\$ (116,014)
Net cash used in investing activities	(113,898)	(59,408)
Net cash provided by financing activities	648,915	241,181
Net increase in cash, cash equivalents and restricted cash	271,142	65,759
Cash, cash equivalents and restricted cash at beginning of period	187,123	49,450
Cash, cash equivalents and restricted cash at end of period	<u>\$ 458,265</u>	<u>\$ 115,209</u>

Operating Activities

For the nine months ended September 30, 2018, net cash used in operating activities was \$263.9 million, an increase of \$147.9 million compared to net cash used in operating activities of \$116.0 million for the nine months ended September 30, 2017. Significant changes impacting net cash used in operating activities comparing the nine months ended September 30, 2018 and 2017 are as follows:

- Our net loss was \$168.3 million during the nine months ended September 30, 2018, an increase of \$51.3 million from a net loss of \$117.1 million during the nine months ended September 30, 2017 primarily due to an increase in selling, general and administrative expenses associated with expansion to additional markets and expanding our corporate infrastructure.
- Net increase in vehicle inventory was \$110.3 million during the nine months ended September 30, 2018 compared to a net increase in vehicle inventory of \$6.0 million during the nine months ended September 30, 2017, resulting in a \$104.4 million increase in use of cash related to our efforts to increase and optimize our inventory levels.
- Net cash used related to originations and proceeds of finance receivables was \$11.1 million during the nine months ended September 30, 2018, compared to net proceeds of \$0.4 million during the nine months ended September 30, 2017 resulting in an increased use of cash of \$11.5 million year over year. This is primarily due to the timing of originations and subsequent sales of finance receivables.

These increases in uses of cash are partially offset by net cash inflows associated with the change in accounts payable and accrued liabilities of \$44.8 million during the nine months ended September 30, 2018 as compared to \$8.7 million during the nine months ended September 30, 2017, resulting in an increase to cash of \$36.1 million year over year.

Investing Activities

Cash used in investing activities was \$113.9 million and \$59.4 million during the nine months ended September 30, 2018 and 2017, respectively, an increase of \$54.5 million. The increase primarily relates to the increase in purchases of property and equipment of \$47.8 million, reflecting the expansion of our business operations into new markets and construction of new vending machines.

Financing Activities

Cash provided by financing activities was \$648.9 million and \$241.2 million during the nine months ended September 30, 2018 and 2017, respectively, an increase of \$407.7 million. The net increase primarily relates to the net proceeds from the issuance of our Senior Notes of \$342.5 million. The increase is also attributable to the proceeds from and payments on the Floor Plan Facility increasing by \$623.0 million and \$552.2 million, respectively, resulting in a net increase to sources of cash of \$70.8 million. The increase in activity under our Floor Plan Facility is attributable to the increase in the amount of retail units sold to customers during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 and the increase in our inventory balance year over year. The increase in activity is also partially due to our ability to make prepayments to the lender, which are held as principal payments, and subsequently re-borrow such amounts. Additionally, the

increase in cash provided by financing activities relates to an increase of \$38.6 million in proceeds from long-term debt, primarily associated with our sale lease-back transactions. These increases are offset by a decrease of \$34.0 million in net proceeds from issuance of Class A common stock to \$172.3 million from the follow-on offering in April 2018 compared to net proceeds of \$206.3 million from the IPO in April 2017.

Contractual Obligations and Commitments

On September 21, 2018, we issued our Senior Notes (as defined and further described in "Liquidity and Capital Resources") and received approximately \$342.5 million in proceeds, net of debt issuance costs. Our Senior Notes mature on October 1, 2023, unless earlier repurchased or redeemed, and are guaranteed by our restricted subsidiaries.

Other than our Senior Notes, we have not entered into any material contractual obligations outside of the ordinary course of business since the most recently ended fiscal year as disclosed in the header "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent Annual Report on Form 10-K.

Fair Value Measurements

We report money market securities at fair value. See Note 15 — Fair Value of Financial Instruments, included in Part I, Item 1, Unaudited Condensed and Consolidated Financial Statements, of this Quarterly Report on Form 10-Q, which is incorporated into this item by reference.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2018.

JOBS Act

We qualify as an "emerging growth company" pursuant to the provisions of the JOBS Act. For as long as we are an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation.

The JOBS Act also permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We are choosing to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted. This decision to opt out of the extended transition period is irrevocable.

As of December 31, 2018, we will cease to be an "emerging growth company" because our revenues for the year ending December 31, 2018 will have exceeded \$1.07 billion. Therefore, we will no longer be able to take advantage of those certain exemptions described above.

Critical Accounting Policies

Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Form 10-Q for accounting pronouncements adopted since December 31, 2017. There have been no other material changes to our critical accounting policies and use of estimates from those described under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our most recent Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, as well as information included in oral statements or other written statements made or to be made by us, contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, and other future conditions. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “envision,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “target,” “potential,” “will,” “would,” “could,” “should,” “continue,” “ongoing,” “contemplate” and other similar expressions, although not all forward-looking statements contain these identifying words. Examples of forward-looking statements include, among others, statements we make regarding:

- future financial position;
- business strategy;
- budgets, projected costs and plans;
- future industry growth;
- financing sources;
- the impact of litigation, government inquiries and investigations; and
- all other statements regarding our intent, plans, beliefs or expectations or those of our directors or officers.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Important factors that could cause actual results and events to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our history of losses and ability to maintain profitability in the future;
- our ability to effectively manage our rapid growth;
- our ability to maintain customer service quality and reputational integrity and enhance our brand;
- our limited operating history;
- the seasonal and other fluctuations in our quarterly operating results;
- our relationship with DriveTime;
- our management’s accounting judgments and estimates, as well as changes to accounting policies;
- our ability to compete in the highly competitive industry in which we participate;
- the changes in prices of new and used vehicles;
- our ability to acquire desirable inventory;
- our ability to sell our inventory expeditiously;
- our ability to sell and generate gains on the sale of automotive finance receivables;
- our dependence on the sale of automotive finance receivables for a substantial portion of our gross profits;

- our reliance on credit data for the automotive finance receivables we sell;
- our ability to successfully market and brand our business;
- our reliance on Internet searches to drive traffic to our website;
- our ability to comply with the laws and regulations to which we are subject;
- the changes in the laws and regulations to which we are subject;
- our ability to comply with the Telephone Consumer Protection Act of 1991;
- the evolution of regulation of the Internet and e-commerce;
- our ability to grow complementary product and service offerings;
- our ability to address the shift to mobile device technology by our customers;
- risks related to the larger automotive ecosystem;
- the geographic concentration where we provide services and recondition and store vehicle inventory;
- our ability to raise additional capital;
- our ability to maintain adequate relationships with the third parties that finance our vehicle inventory purchases;
- the representations we make in our finance receivables we sell;
- our reliance on our proprietary credit scoring model in the forecasting of loss rates;
- our reliance on internal and external logistics to transport our vehicle inventory;
- the risks associated with the construction and operation of our inspection and reconditioning centers, fulfillment centers and vending machines, including our dependence on one supplier for construction and maintenance for our vending machines;
- our ability to finance vending machines and inspection and reconditioning centers;
- our ability to protect the personal information and other data that we collect, process and store;
- disruptions in availability and functionality of our website;
- our ability to protect our intellectual property, technology and confidential information;
- our ability to defend against claims that our employees, consultants or advisors have wrongfully used or disclosed trade secrets or intellectual property;
- our ability to defend against intellectual property disputes;
- our ability to comply with the terms of open source licenses;
- conditions affecting automotive manufacturers, including manufacturer recalls;
- our reliance on third party technology to complete critical business functions;

- our dependence on key personnel to operate our business;
- the diversion of management's attention and other disruptions associated with potential future acquisitions;

- risks relating to the ability of our Class A Convertible Preferred Stock holder to influence our business;
- the legal proceedings to which we may be subject in the ordinary course of business;
- potential errors in our retail installment contracts with our customers that could render them unenforceable;
- risks relating to our corporate structure and tax receivable agreements; and
- other factors disclosed in the section titled “Risk Factors” in our most recent Annual Report on Form 10-K and other filings we make with the Securities and Exchange Commission.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Report. We undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future developments or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our quantitative and qualitative disclosures about market risk from those described under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our most recent Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the nine months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not believe that the ultimate resolution of these actions will have a material adverse effect on our financial position, results of operations, liquidity and capital resources.

Future litigation may be necessary to defend ourselves and our partners by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under the heading “Risk Factors” in our most recent Annual Report on Form 10-K, except as disclosed under the heading "Risk Factors" in our Quarterly Report on Form 10-Q filed on August 8, 2018 and as follows:

Our ability to sell automotive finance receivables and generate gains on sales of these finance receivables may decline in the future; any material reduction could harm our business, results of operations and financial condition.

We provide financing to customers and typically sell the receivables related to the financing contract to third-party investors or, in limited instances historically, DriveTime. For example, we entered into agreements in November 2018 pursuant to which third-party purchasers renewed their commitments, agreeing to purchase up to an additional aggregate \$2.6 billion of automotive finance receivables we originate. We may exceed our capacity to sell automotive finance receivables under these agreements prior to the end of the fourth quarter of 2019. As we use the available capacity under each agreement, we plan to enter into new arrangements to sell additional vehicle finance receivables. If we reach our capacity under these or future arrangements, and we cannot replace them with new arrangements, we may be unable to generate adequate liquidity and our business, financial condition and results of operations may be adversely affected.

Additionally, there can be no assurance that our relationships with the investors who purchase these receivables will continue in the future, that such investors will renew our agreements with them when they expire, or that they will not terminate them by exercising certain constructive or other early termination rights, due to a breach by us of our agreements with them, or otherwise. If they cease to purchase these receivables, it would have a material adverse effect on our ability to continue originating finance receivables and adversely impact our operating results. Furthermore, we would be subject to the risk that some of these receivables are not paid when due and we are forced to incur unexpected asset write-offs and bad-debt expense.

We may not be able to realize all or a portion of the tax benefits that are currently expected to result from future exchanges of LLC Units for our Class A common stock and from payments made under the Tax Receivable Agreement.

Our ability to realize the tax benefits that we currently expect to be available as a result of the increases in tax basis created by any future exchanges of LLC Units (together with shares of our Class B common stock in the case of certain Class A Units) for our Class A common stock, the payments made pursuant to the Tax Receivable Agreement, and the interest deductions imputed under the Tax Receivable Agreement all depend on a number of assumptions, including that we earn sufficient taxable income each year during the period over which such deductions are available and that there are no changes in applicable law or regulations. For example, the reduction in corporate tax rates pursuant to recent changes in U.S. federal income tax law has the effect of reducing the expected value of the tax benefits we realize as a result of the increase in our proportionate share of the existing tax basis of the assets of Carvana Group arising from future exchanges of LLC Units held by an LLC Unitholder for shares of our Class A common stock or cash. The reduction in the value of such tax benefits is expected to have two primary consequences — it reduces the cash payments we expect to be required to make pursuant to the Tax Receivable Agreement and it reduces the expected value to us of the 15% of the amount of such tax benefits that we will retain pursuant to the Tax Receivable Agreement. Additionally, if our actual taxable income were insufficient or there were additional adverse changes in applicable laws or regulations, we may be further unable to realize all or a portion of the expected tax benefits and our cash flows and stockholders' equity could be negatively affected.

Our substantial indebtedness could adversely affect our financial flexibility and our competitive position and prevent us from fulfilling our obligations under our indebtedness, including the Senior Notes.

We have a substantial amount of indebtedness, which requires significant interest and principal payments. As of September 30, 2018, we had, on a consolidated basis, \$804.2 million aggregate principal amount of outstanding indebtedness, including \$350.0 million related to the Senior Notes, \$349.4 million of borrowing under our Floor Plan Facility between us and Ally Financial and \$38.1 million aggregate principal amount outstanding indebtedness represented by our promissory note agreements and capital leases between us and third-party providers of equipment financing. Also, as of September 30, 2018, we had, on a consolidated basis, \$66.7 million of other long-term indebtedness related to our sale leaseback transactions. Our substantial indebtedness could have significant effects on our business and consequences to holder of the notes. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our current and future indebtedness, including the notes and our Floor Plan Facility;
- increase our vulnerability to adverse changes in prevailing economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, the execution of our business strategy and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increase our cost of borrowing;
- restrict us from exploiting business opportunities;
- place us at a disadvantage compared to our competitors that have fewer indebtedness obligations; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, indebtedness service requirements, execution of our business strategy and other general corporate purposes.

We expect to use cash flows from operations to meet our current and future financial obligations, including funding our operations, indebtedness service requirements (including payments on the Senior Notes) and capital expenditures. The ability to make these payments depends on our financial and operating performance, which is subject to prevailing economic, industry and competitive conditions and to certain financial, business, economic and other factors beyond our control.

Our debt agreements, including the Indenture governing our Senior Notes, contain restrictions that could limit our flexibility in operating our business.

The operating and financial covenants and restrictions in the Indenture governing our Senior Notes and other indebtedness that we incur in the future may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our interest. The agreements governing our indebtedness will restrict, subject to certain important exceptions and qualifications, our and our subsidiaries' ability to, among other things:

- incur additional indebtedness or guarantee indebtedness;
- pay dividends or make distributions or make certain other restricted payments;
- make certain investments;
- create liens on our or our guarantors' assets;
- sell assets;
- enter into transactions with affiliates;

- enter into agreements restricting our subsidiaries' ability to pay dividends;
- designate our subsidiaries as unrestricted subsidiaries; and

- enter into mergers or consolidations or sell all or substantially all of our assets.

As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may impair our ability to grow in accordance with our strategy, and may adversely affect our financial condition and results of operations.

In addition, a breach of the covenants or restrictions under the Indenture governing our Senior Notes or under the agreements governing our Floor Plan Facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related indebtedness and may result in the acceleration of any other indebtedness to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the agreements that govern our Floor Plan Facility would permit the lenders under our Floor Plan Facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under our Floor Plan Facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or holders of our Senior Notes accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness or any other indebtedness that may become due and payable, and we may become insolvent as a result.

Our ability to service all of our indebtedness, including the Senior Notes, depends on many factors beyond our control, and if we cannot generate enough cash to service our indebtedness, we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our obligations with respect to our debt, including the Senior Notes, will depend on our financial and operating performance, which, in turn, is subject to prevailing economic, industry, financial, competitive, legislative, legal and regulatory factors and other factors beyond our control. Additionally, some of our indebtedness accrues interest at a variable rate that is based on LIBOR or other market rates. If those interest rates rise, so will the amount we need to pay to satisfy our debt obligations. In November 2018, we amended our Floor Plan Facility to, among other things, provide for a replacement interest rate if LIBOR is phased out, and such replacement rate may be an increase from the current rate. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to fund our day-to-day operations or to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

Cash flows from operations are the principal source of funding for us. Our business may not generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows are insufficient to service our indebtedness, including the notes, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. Our ability to restructure or refinance our indebtedness will depend on the condition of the capital and credit markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations and limit our financial flexibility. In addition, the terms of existing or future debt agreements, including the Indenture governing the Senior Notes, may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness or increase the cost to us of any such indebtedness, and may cause a default under the terms of our outstanding indebtedness. These alternative measures may not be successful or may be insufficient and, as a result, our liquidity and financial condition could be adversely affected and we may not be able to meet our scheduled indebtedness service obligations.

If we cannot make scheduled payments on our indebtedness, we will be in default and holders of the Senior Notes could declare all outstanding principal and interest to be due and payable, the lenders under the Floor Plan Facility could foreclose against the assets securing their borrowings, and we could be forced into bankruptcy or liquidation.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

There were no unregistered sales of equity during the nine months ended September 30, 2018, except as otherwise previously reported.

During the nine months ended September 30, 2018, pursuant to the terms of the Exchange Agreement entered into in connection with our IPO, certain LLC Unitholders exchanged approximately 12.3 million LLC Units and approximately 8.9 million shares of Class B common stock for approximately 9.8 million newly-issued shares of Class A common stock. These shares were issued in reliance on an exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On November 2, 2018, we amended the Purchase and Sale Agreement to, among other things and subject to the terms of the agreement, commit the purchaser to purchase up to a maximum additional \$1.25 billion of principal balances of finance receivables. The amendment to the Purchase and Sale Agreement is filed herewith as Exhibit 10.1.

On November 2, 2018, we amended our 2017 Master Transfer Agreement to, among other things and subject to the terms of the agreement, extend the purchaser's commitment to purchase finance receivables from us. The purchaser's currently available financing would permit up to \$454.5 million in principal balances of finance receivables to be purchased and the 2017 Master Transfer Agreement's purchase commitment contemplates the purchaser securing up to three times the currently available financing in the aggregate. The amendment to the 2017 Master Transfer Agreement is filed herewith as Exhibit 10.2.

On November 2, 2018, we amended our Floor Plan Facility to increase the line of credit to \$650.0 million, extend the maturity date to October 31, 2020, and lower the interest rate to one month LIBOR plus 3.40%. The amendment to the Floor Plan Facility is filed herewith as Exhibit 10.3.

On November 1, 2018, we amended our Master Sale-Leaseback Agreement to extend the date through which we can sell properties and after which the purchaser can sell properties back to us from November 2019 to November 2020. The amendment to the Master Sale-Leaseback Agreement is filed herewith as Exhibit 10.4.

On November 5, 2018, we amended the Master Dealer Agreement to allow us to share in any excess cash reserves over realized claims with respect to VSCs sold by us, once a reasonable claims period for such VSCs has passed. The amendment to the Master Dealer Agreement is filed herewith as Exhibit 10.5.

In connection with an ongoing commitment from Mr. Garcia related to the previously announced 100k Milestone Gift program, the Company and Mr. Garcia entered into a contribution agreement on November 6, 2018, under which Mr. Garcia will contribute to us 32,932 shares of our Class A common stock that he individually owns, at no charge. The contribution will take place on November 9, 2018 and is intended to fund restricted stock unit awards to certain employees of Carvana, LLC upon their satisfying applicable employment tenure requirements. Although we do not expect Mr. Garcia to incur any tax obligations related to the contribution, we have indemnified Mr. Garcia from any such obligations that may arise. The Contribution Agreement is filed herewith as Exhibit 10.6.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
---------------------------	---------------------------

<u>10.1</u>	<u>Third Amendment to the Amended and Restated Master Purchase and Sale Agreement, filed herewith.</u>
<u>10.2</u>	<u>First Amendment to the Master Transfer Agreement, filed herewith.</u>
<u>10.3</u> *	<u>Seventh Amendment to the Amended and Restated Inventory Financing and Security Agreement, filed herewith.</u>
<u>10.4</u> *	<u>First Amendment to the Master Sale-Leaseback Agreement, filed herewith.</u>
<u>10.5</u>	<u>Amendment to Master Dealer Agreement, filed herewith.</u>
<u>10.6</u>	<u>Contribution Agreement, filed herewith.</u>
<u>31.1</u>	<u>Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a), filed herewith.</u>
<u>31.2</u>	<u>Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a), filed herewith.</u>
<u>32.1</u>	<u>Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, filed herewith.</u>
<u>32.2</u>	<u>Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, filed herewith.</u>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Confidential treatment requested as to certain portions, which portions have been provided separately to the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 7, 2018

Carvana Co.
(Registrant)

By: /s/ Mark Jenkins
Mark Jenkins
Chief Financial Officer
(On behalf of the Registrant and as Principal
Financial Officer)