2Q21 earnings call

***These prepared remarks are being published due to audio issues experienced during the Company's 8/11/21 earnings call.**

(operator lead in)

Intro: Allen Miller

Thank you. Welcome to Vroom's Second Quarter 2021 Earnings Conference Call. Joining us on the call today are Paul Hennessy, Chief Executive Officer; and Dave Jones, Chief Financial Officer.

Please note that this call will be simultaneously webcast on the Investor Relations section of the company's corporate website at ir.vroom.com. The second quarter earnings release is also posted on the IR website.

Before we begin, please note that the discussion today includes forward-looking statements within the meaning of the federal securities laws, including, but not limited to, statements about Vroom's operations and future financial performance. These and other forward-looking statements are subject to a number of risks, uncertainties and other important factors that may cause actual results to differ materially from those in such statements. We direct you to the company's most recent SEC filings, including the Risk Factors section of Vroom's most recent Form 10-K for the year ended December 31, 2020, as updated by our quarterly report on Form 10-Q for the 3 months ended June 30, 2021, for additional discussion of factors that could cause actual results to differ materially from those in the forward-looking statements.

Please note further that today's discussion, including the forward-looking statements, speak only as of the date of this call, and Vroom assumes no obligation to update such statements based upon future developments or otherwise. The company may also discuss certain non-GAAP financial measures during today's call. You can find a presentation of the most directly comparable GAAP measures and reconciliation of those measures in today's press release. And with that, I'll turn it over to Paul. Paul?

CEO comments

Thanks Allen, and thanks everyone for joining Vroom’s second quarter 2021 earnings call.

I’d like to start by thanking all of our employees, investors and board members for all of their hard work and support in building a great, customer centric public company.

Vroom had an outstanding second quarter. We executed well and delivered on our strategic goals and against our guidance. Our Ecommerce units once again exceeded our expectations and were up 172% year over year. Our Ecommerce GPPU was up 153% year over year and up 32% quarter over quarter to $2718.

Also in the second quarter, Vroom completed a $625m Convertible Note Offering, further strengthening our balance sheet, and bringing our cash balance to almost $1.5B at the end of the second quarter.

Our strong balance sheet enables us to accelerate investments in our four key pillars of Demand, Supply and Reconditioning, Logistics, and Sales and Sales Support Operations, while also continuing to invest in advancing the end-to-end Vroom platform.

Demand for the Vroom model remains strong. We continue to invest heavily in our brand and are seeing encouraging results in demand generation, conversion, purchases and sales in the immediate term, as evidenced by our performance in our second quarter and third quarter guidance, as well as improvements in brand awareness for longer term, evidencing sustainable demand generation. We are well on our way toward building Vroom into a national brand and a household name.

I can't say enough about our strong execution on the supply side of our business. We've gone from 11,280 units listed at the end of Q1 to 13,676 listed at the end of Q2. We grew those units in a very constrained market, improved our inventory turns, and grew our unit economics. All of that was enhanced by Vroom's integration of Car Story; our now combined data driven team is buying the right cars, at the right price, and moving them quickly. Importantly, Vroom continues to excel in its ability to buy cars directly from consumers. Retail vehicles sold that were sourced from consumers was at 65% in the second quarter, up from 54% in the first quarter. We have demonstrated we know how to buy from consumers, in addition to marketing and selling to consumers, and the benefits of purchasing from consumers is enhancing our unit economics. Buying cars from consumers, nationwide and at scale will be both a continued focus of investment and a continuing area of expertise.

Our reconditioning capacity continues to scale. As we leverage our hybrid, asset light approach we are both expanding our geographic footprint and our total capacity. We opened another 5 third-party reconditioning facilities in the second quarter and now have 29 total VRC's across the country. We are tracking well ahead of our annual plan for up to 30 locations by the end of 2021. Our reconditioning capacity in the 2nd quarter was 2800 units per week, up from 2300 units per week in Q1.

As we continue our network and capacity planning, and leverage and optimize our third party reconditioning capabilities, we intend to also be both opportunistic in timing and geographically strategic about adding additional Vroom owned reconditioning centers into our integrated hybrid network. We feel confident in having enough planned capacity not only for 2021, but 2022 as well.

Our Logistics team continues to execute well. Our last mile team added an additional 7 last mile locations and delivered 26% of Ecommerce units via our last mile service this quarter. We are tracking well towards our annual goal to exit the year covering 50% of total deliveries on a run rate basis with our proprietary last-mile service. We remain enthusiastic in our rollout as our overall customer experience is enhanced when one of our team members personally delivers the vehicle to our customer.

We are in the initial phases of rolling out our line haul capabilities and are confident that, when we combine line haul with our last mile services, and continue to expand our geographic footprint in both logistics and reconditioning locations, we will remove miles from the network. When we remove miles from the network, costs go down, unit economics go up, and the customer experience is elevated.

Logistics fleet expansion will continue to be an area of increased and accelerated investment as we drive long term operational efficiencies and leverage.

With regard to our Sales and Sales Support operations, as I discussed last quarter, we have continued to invest in people, process, and tech, and I am pleased with the work that's been done. Our teams are processing record breaking transactions both in purchasing vehicles from, and selling vehicles to, consumers. While the volume has increased materially, so too, has the throughput. We will continue to invest heavily in adding human resources to scale our business, and improving our processes while at the same time investing heavily in our automation and ecommerce platform to remove friction from the transaction and, at scale, remove costs. We are committed to investing in our end to end ecommerce transaction processing to provide a world class, touchless transaction for both buying and selling vehicles, and are well on our way towards that goal.

Financing and value added products are fundamental components of our consumer value proposition. Our teams have done an outstanding job in lining up world class lenders and service providers to offer vehicle financing across the credit spectrum and address the diverse value added product needs of our customers. Consistent with our hybrid, asset light approach, we intend to be strategic and opportunistic as we evaluate strategies for providing proprietary finance products.

I'm proud of the strong execution that our team delivered in the second quarter and equally proud of the strong financial results. It's clear that consumer demand for our model and the Vroom platform is high for both buying and selling vehicles. I am pleased at the way in which our hybrid model is scaling across all four of our key pillars of demand and marketing, supply, reconditioning, logistics, and sales and sales support operations. And I'm encouraged as our ecommerce and data science platforms are increasing automation and reducing friction to deliver an improving end to end experience for our customers.

We've navigated some tough markets since we went public a year ago: first the shutdowns and difficulties caused by Covid-19, then the several phases of resurgence of Covid-19 throughout the pandemic, then an incredibly hot used car demand and pricing market. Looking ahead, we believe the pricing market has crested and is starting to normalize. The implications of that movement from high pricing to a more normalized state is that it puts pressure on Retail and Wholesale Gross Profit Per Unit in the immediate term which is reflected in our Q3 Guidance. We are well positioned to navigate a more normalized market and remain confident we will deliver triple digit year over year growth in our ecommerce units and 200% year over year growth in aggregate gross profit this year.

We will continue to invest aggressively for the foreseeable future in brand building, in our people, in our ecommerce platform, in our supply chain and in our products and services as we seek to continue to scale our business, serve our customers well, deliver ascending aggregate gross profit and deliver long term operating leverage.

And with that, I will hand over to Dave for further remarks on our financials and our guidance.

CFO script

Thanks, Paul.

Ecommerce units grew 18% sequentially in Q2 to 18,268 and over 170% year-over-year. We drove strong unit growth by matching robust consumer demand with increasing levels of available inventory at a faster clip. As Paul mentioned, at the end of the quarter we had nearly 13,700 listed vehicles on our website, up 21% from first quarter levels. Around 40% of that inventory was available for sale, up from ~35% in 1Q as we worked to meet demand. We are confident that we have planned capacity to meet our medium-term unit sales goals and we are working hard with our third-party reconditioning partners to increase the velocity of our throughput to get our listed inventory to a level that can provide upside to our unit sales targets.

Our reconditioning capacity continues to scale. As Paul mentioned, we opened 5 new third-party VRCs in the second quarter, bringing us to a total of 29 locations. That puts us ahead of schedule on our 2021 goal of up to 30 VRCs that we've discussed previously.

We delivered faster inventory turns this quarter, with ecommerce days to sale of 68 vs 83 in the first quarter and within our target range. Our inventory efficiency accelerated every month of the quarter as we leaned further into consumer sourced vehicles, which typically turn faster.

We also benefited from our ongoing national brand and performance marketing initiatives, with higher viewership on our website and increasing brand awareness. Looking into the third quarter, we expect sales of 20,000-20,500 ecommerce units, implying 130% year over year growth at the midpoint. This implies 11% sequential growth at midpoint as we capitalize on our operational strengths while balancing our profitability targets in what we expect to be a normalizing retail market. We expect ecommerce ASP to remain higher year over year as market prices continue to trend above 2020 levels.

Turning back to results, e-commerce revenue grew 37% sequentially to nearly $580 million, or up nearly 230% year-over-year. Of course, comparisons to the prior year are not as meaningful as the prior year quarter was significantly affected by our response to the onset of the COVID pandemic.

E-commerce gross profit per unit reached $2,718, 32% higher than in Q1.
Digging deeper into the drivers, both vehicle and product GPPU expanded sequentially.

Vehicle gross profit per unit increased 38% or $436 per unit to nearly $1,600, primarily driven by improved sales margin driven by a favorable pricing environment, increased consumer-sourced vehicles and further improvements to our pricing methodologies. As a reminder, we define sales margin as the selling price of the vehicle less the purchase price.

The $436 improvement in Vehicle GPPU quarter over quarter was despite a headwind of increased inventory reserves as a result of our increasing inventory position.

Product gross profit per unit of $1,131 also expanded $228 per unit sequentially, a 25% improvement due to increased product attachment rates and, to a lesser extent, an increase in the average loan size.

For the third quarter, we expect ecommerce GPPU in the range of $2,350 to $2,450, which is a 10% year over year gain at midpoint. While we expect to continue building on our strategic profitability pillars, we acknowledge the used car retail pricing environment will likely provide less of a sales margin tailwind in Q3 than in Q2 as the market shows signs of normalizing. We anticipate quarter to quarter variability, and remain confident in delivering over 200% total gross profit growth for 2021.

Wholesale results were strong this quarter. Units grew 16% sequentially to just over 10,000, and wholesale gross profit per unit reached $850, up significantly from a loss of $33 in the first quarter. We are happy with the higher margins we've had on our wholesale units thanks to a very robust wholesale pricing environment. As we head into the third quarter, we anticipate 9,500 to 10,500 wholesale units and per unit profitability of $50 to $100. While we continue to drive fundamental improvements in our wholesale strategy, we expect that the extraordinary pricing tailwinds in the wholesale market will moderate.

Our Increasing consumer-sourced vehicle purchases also affect wholesale gross profit per unit. We offer customers an easy on-line submission of basic vehicle information to get a real-time price for their vehicle and we pick that vehicle up sight unseen. Our customers love this game changing process and it drives some of the highest NPS in our business. As a result, some of the vehicles that we purchase for retail sale do not wind up meeting our retail criteria and are ultimately sold in the wholesale market which puts downward pressure on overall wholesale GPPU.

As we expand our last mile network and are able to pick up a majority of our consumer-sourced vehicles with a Vroom employee and equipment, it will give us the opportunity to inspect every vehicle and make real time adjustments to acquisition pricing. We believe there is upside to our current wholesale GPPU as we scale our logistics organization over time.

TDA units of 1,583 decreased 11% sequentially. As we've said in the past, our top priority is scaling our e-commerce operations, which drives transient pressure on TDA as the ecommerce business consumes local inventory. In the third quarter we anticipate 1,550 to 1,650 units and per unit profitability of $1,650 to $1,750.

On a consolidated level for Q3 we expect $858 to $891 million in total revenues in Q3 and $51 to $56 million in total gross profit.

Operating expenses of $124mn grew 14% sequentially. As Paul mentioned, we are pleased to have very healthy liquidity after our successful convertible note offering and we are excited to deploy that growth capital to deliver the top line results we saw in Q2 and that we are guiding to in Q3, as well as building for the long term future of our high-growth organization. We are making simultaneous investments in people and third party support for the medium term growth, as well as in technology for the long term growth.

Within Op Ex, Compensation expense of approximately $51.8mn grew 30% sequentially as we invested heavily in our sales and sales support teams as our business rapidly expands both in selling vehicles AND buying vehicles from consumers. The massive growth we have driven in consumer-sourced vehicles is proving to be very beneficial to our gross profit per unit; we will continue to build the org to support those efforts for the long term benefit of our business.

Logistics expenses of $20.2mn grew 33% sequentially driven by growth in ecommerce units, and higher market rates from our third party logistics providers. This is another area of simultaneous investments that will result in a tremendous transformation of our customer experience and in the long term we believe we will obtain significant leverage from an expense point of view. We are racing at building out our proprietary logistics network and very pleased that we are ahead of schedule. We launched 7 new last mile logistics hubs in 2Q, bringing our total to 25. We also delivered 26% of our ecommerce units with our last mile services during the quarter, up from 16% last quarter. We are confident on hitting or exceeding our goal of 30 last mile hubs by the end of the year, which would allow us to service at least 50% of total deliveries. Our first tranche of owned linehaul trucks are fully online and running and we are also accelerating our buildout to this important piece of the logistics network. Given the acceleration in our strategy, we now expect Logistics capital expenditures to be about $25M for the full year vs prior expectations of about $10M.

Marketing expenses decreased 21% sequentially to $23.5mn off elevated levels in 1Q, when we launched our Super Bowl campaign. However, we continue to make other national and performance marketing investments that drive brand awareness. As a result, we continue to expect higher levels of marketing spend sequentially.

As I mentioned, we have simultaneous investment across many areas of the business as we work on our asset light model to build a more leverageable structure for the future. We believe our current investments are needed as we continue to deliver the huge top line growth that will ultimately get us to profitability. Our third quarter guidance implies approximately $6,800 of Op Ex per retail unit, which is reflective of our continued investments across the business, including investment in marketing, as we build the Vroom brand, as well as investments in both variable processing costs and the technology to reduce or eliminate those variable costs as we transition over time to a more digital business.

We believe that level of investment will be similar through the balance of 2021.

We continue to be on target to reach healthy triple digit ecommerce unit growth and over 200% total gross profit growth for 2021. Incorporated in our annual guidance reiteration is our expectation for units to sequentially build for both quarters in the back half of the year.

Lastly, turning to our balance sheet and liquidity. We ended this quarter with nearly $1.5bn of cash on our balance sheet and $86mn of availability on our floor plan facility.

Operator, we’re ready for questions.