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VRM.OQ - Q2 2020 Vroom Inc Earnings Call

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## CORPORATE PARTICIPANTS

**David K. Jones** *Vroom, Inc. - CFO*

**Paul J. Hennessy** *Vroom, Inc. - CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Colin Alan Sebastian** *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

**Daniel B. Powell** *Goldman Sachs Group, Inc., Research Division - Associate*

**Nathaniel Holmes Schindler** *BofA Merrill Lynch, Research Division - Director*

**Rajat Gupta** *JPMorgan Chase & Co, Research Division - Research Analyst*

**Ronald Victor Josey** *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

**Seth Mckain Basham** *Wedbush Securities Inc., Research Division - MD Of Equity Research*

**Sharon Zackfia** *William Blair & Company L.L.C., Research Division - Partner & Group Head of Consumer*

**Zachary Robert Fadem** *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

## PRESENTATION

**Operator**

Good afternoon, ladies and gentlemen. Welcome to the Vroom Second Quarter 2020 Earnings Conference Call. Today's call is being recorded and will be available for replay on the company's website under the Investor tab at www.vroom.com.

The discussion today may include forward-looking statements about future events, including the expected impacts related to COVID-19. Also, the company may make some forward-looking statements about their operations, earnings potential, liquidity and outlook on the call today. These and other forward-looking statements speak only as of the date of this call, and are subject to a number of important factors that cause actual results to differ materially from those in the forward-looking statements, including the risks and uncertainties outlined in today's press release. We direct you to the company's most recent SEC filings, including its quarterly report on Form 10-Q for additional discussion and factors that could cause actual results to differ materially from those in the forward-looking statements.

The company may also discuss certain non-GAAP financial measures during today's call. You may find a presentation of the most directly comparable GAAP measures and a reconciliation of those measures in today's press release.

I'll now turn the call over to Paul Hennessy, Vroom's CEO.

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Thank you, Sydney, and thanks, everyone, for joining Vroom's first earnings call as a public company.

I'd like to thank all of our employees, investors and Board of Directors for all of their hard work and support in building a great customer-centric public company.

Looking back on the second quarter, I'm very pleased that we substantially exceeded the financial targets in our plan. Of course, it's always the goal to do better than our plans, but the second quarter gave us so much more than that. The COVID-19 pandemic has, of course, been the black swan event for our country, in general, and definitely for our company. Our single retail store TDA experienced massive annual sales declines in revenue and continue as we speak. The wholesale markets underwent an alarming bout of instability and illiquidity, and we had to institute emergency furloughs and salary reductions.

To say that it's been a challenging environment for us would be an extraordinary understatement. And yet, it has also been an extraordinarily valuable quarter for us as it allowed us to learn so much about the capabilities of our business model, our operations, our employees, nearly all of them validating. Our learnings have reinforced our belief that we are well on our way to building a business that can be a dominant digital car retailer in the coming years. When I say the word validating, I want to spend a couple of minutes to tell you what I mean by that.

We founded Vroom based on the firmly held belief that the used car market was poised to finally enter the digital age. On our road show, many investors asked us what we meant by that, given the existence of so many car selling sites, some of which have been around since Amazon was selling only books in the mid 1990s. Our response, "Yes, that's true." But the purpose of nearly every single one of these sites was, and is, to funnel customers right back to the same old way of buying cars, namely small car dealerships that under serve their customers and over earn.

At Vroom, we have formed a direct relationship with our customers. We are buying cars from them at market-setting prices, and we are selling them expertly reconditioned and authenticated cars also at market-setting prices. Of course, that's the job of any great e-commerce company in any vertical. It was certainly the mantra at Priceline for the many years that I was there as an executive. But controlling the customer relationship and the transaction in the world of car retailing is very risky business. We go to bed each night owning hundreds of millions of dollars of car inventory, and we hope that one day soon, that number will be in the $1 billion. Thus, when the COVID pandemic came to the United States, it was a very sobering time for us as we have been in this game long enough to understand that aging inventory can be the death of a car retailer. And yet in the early days of COVID, we saw a significant contraction in retail demand which had ripple effects into the wholesale markets. Given the severity of the contraction and the extreme lack of visibility, we made the difficult decision to dramatically reduce our exposure to these alarming trends. It was at this moment that we learned how valuable our technological and operational infrastructures are to us.

At our core, we are a data-driven, demand-driven company. It informs how we buy cars, how we price our cars, how we invest in the reconditioning of our cars and how we market our cars. We didn't build these tools to conduct fire sales. Frankly, that's the best analogy of what we were doing in late March and into the first half of the second quarter. We not only stopped buying new inventory, we methodically, dynamically and carefully priced our inventory to move very quickly. We did so in a way that protected our company and our balance sheet, while also very clearly stimulating demand for our cars. Thus, while nearly every other used car retailer was in the state of paralysis in late March and April, we were breaking company e-commerce sales records on nearly a daily basis. We commenced this activity with the grim determination to sell down our inventory, even if it meant taking significant gross margin hits. But the power of our data and our pricing tools allowed us to sell down nearly 70% of our inventory, while still maintaining positive gross margins.

At our peak in March, we were carrying over $200 million in inventory. At our low point in Q2, our inventory hit a low watermark of approximately $70 million, which brings me back to the word validating. What did we validate? We believe we have validated the premise that a car retailer, one with only a single physical retail location, which, by the way, is currently experiencing huge double-digit comp store decreases, can safely carry the inventory necessary to achieve market leadership. And that's a very big deal for us, because in the digital world, inventory equals unique content. Each and every car that we carry and sell is like a snowflake, not a single one the same as any other, different color, different make, different mileage, different age, different state of condition. And for us, the more content that we have, the better our ability to line up the specific customer who is looking for that specific content. And therein is how a digital flywheel is born. Content begets conversion. Conversion begets success and high NPS. High NPS begets inventory turns and gross profit. And inventory turns and gross profit begets more and more content. Throw in repeating customers from prior delightful transactions in massive multiyear digital and media brand building to help lower the marginal cost of finding our customers over time, and you can see how and why we are so excited about what's ahead in the coming years.

So yes, COVID has been a huge challenge for us. But it's also given us the added confidence to go bigger, faster, because of the unplanned but very valuable derisking exercise that we just executed.

And that brings us to today. We definitely have a bit of a high-class problem right now. We were so successful selling down our inventory in April that we were somewhat caught offguard as demand snapped back. Thus, we spent every day since May trying to build back our inventory, all while our customers prevent us from doing so to the degree that we want and with the speed that we want because demand has been so robust. From a sales perspective, we have been a classic example of a V-shape recovery.

As I mentioned, we delivered a record month of unit sales in April as we sought to derisk our business. With the inventory at extreme lows in May, our unit sales that month were roughly half of April levels. We've rebounded rapidly off of the May lows, with strong monthly sequential increases in unit sales in June and July.

As Dave will discuss momentarily, we've made great strides in building back our inventory, but we're still not where we want to be in terms of cars in inventory that are fully reconditioned and ready to be sold and delivered. Lower availability inventory levels impact conversion. So we continue to leverage our asset-light reconditioning model and are working with our third-party reconditioning partners to ramp capacity levels quickly. The good news here is that the high demand and limited supply has had a very powerful and positive impact on our gross profit per unit. Thus, as Dave will soon detail, our total company gross profit is running well ahead of our expectations and are what underpins the guidance that we're giving for the third quarter.

We have also noticed a fairly profound shift in the buying preferences of our customers. Specifically, we have seen a downward shift in the price points that our customers are looking for. Fortunately, for us, our tools were able to discern this shift in real time. And given that our inventory was and is at such low levels, we have been restocking our inventory at the same lower price points to line up with what our customers are demanding. Thus, we've been able to maintain our GPPU targets while decreasing the overall dollars committed to our inventory due to the lower cost paid for each car that we hold.

Looking forward to the remainder of the third quarter, we will continue to invest and experiment in our end-to-end e-commerce platform as well as in our driveway delivery experience. We expect to continue to accelerate sales and gross profit per unit in the quarter on a monthly sequential basis as we scale inventory and take advantage of what we believe are structural shifts in consumer behavior and demand for the Vroom model.

And finally, we're very excited about the brand campaign that recently kicked off. As I mentioned earlier, we believe, and our market studies tell us, that the American consumer is not fully aware of what their actual experience will be as they head into the digital world to buy a car. Many do not understand that many lead-gen sites out there will ultimately lead them to the same old, underwhelming and unsatisfying experience at a used car dealership lot. The goal of our campaign is to better educate the customer to this reality and offer them the delightful digital experience offered by Vroom. We hope and expect that this message will break through to consumers, all while continuing down the path that we hope and expect will make the Vroom a trusted household names and the place to buy or sell a car.

And with that, I'll hand it over to Dave for further remarks on our financials and our guidance. Dave?

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**David K. Jones** - *Vroom, Inc. - CFO*

Thanks, Paul. Good afternoon, everyone.

Let me unpack the second quarter a little bit. E-commerce units sold in the second quarter increased 74% year-over-year, albeit with constrained inventory levels. Listed vehicles decreased from over 5,000 in March to less than 1,500 in April. I'm happy to say that through our employees' hard work, our listed inventory is currently over 8,000 units, and they are driving strong year-over-year and monthly sequential growth here in the third quarter.

In May, we implemented technology to allow us to list coming soon inventory. This has enabled us to increase the amount of listed inventory, and therefore, increase demand to our website. Of the listed inventory today, approximately 50% is coming soon and another 11% is sale pending. Of course, our immediate goal is to drive that 50% coming soon number down substantially between now and the end of the year. But as Paul mentioned, that continues to be a good challenge for us given the rising demand for our vehicles. The result of this demand and supply imbalance has certainly benefited our gross profit per unit and our inventory turns.

Since restarting acquisitions in April, we've also been focused on expanding our reconditioning capabilities. Today, we have 17 Vroom reconditioning facilities around the country, including our proprietary Vroom reconditioning facility in Houston, up from 14 at the end of Q1. These 17 facilities provide us with capability to recondition approximately 1,800 vehicles per week. We're currently operating at less than 100% capacity, and that's really driven mainly by newly opened facilities that are still ramping up. We're confident that we can -- currently have the capacity to meet our Q3 targets, and we believe our utilization will continue to increase, and we work with our reconditioning partners to continue expanding our reconditioning network.

In Q2, e-commerce revenue grew 45% versus the 74% growth in units. As Paul mentioned, this was driven by a year-over-year decline in our average selling price, which contracted from $30,749 in Q2 of last year to $25,393 in this year. This decline in average selling price in Q2 was driven by 2 factors, the first was obviously the pandemic and our strategic decision to price units to sell in the first half of the quarter. The second and far more contributing factor was consumer-driven. As we've mentioned many times, we are data-driven, and therefore, we acquire inventory based on demand that we see in our data analytics. That data is moving us toward lower-priced vehicles. We expect this to continue into Q3 and are forecasting an average selling price in Q3 of about $22,800.

That leads us to gross profit per unit. E-commerce gross profit per unit was $1,075 in Q2, well ahead of our plan of a decrease of $817 year-over-year. All of the decrease came from vehicle gross profit, which is principally a reflection of the pricing adjustments we proactively took in the beginning of the pandemic to move units. Our product gross profit per unit increased year-over-year from $618 per unit to $761 per unit despite the reduction in average selling price per vehicle, which reduces the fees we earn on arranging financing. This increase was driven primarily by higher attachment rates across all products offered. During the quarter, we saw gross profit for e-commerce unit go from $1,799 in Q1 to $1,236 in April, $191 in May and then a rebound to $1,714 in June as we were able to begin to offer fresh, higher-margin inventory that was purchased and reconditioned in May. We believe that the improved gross profit per unit will sustain through Q3. Our wholesale business declined about 40% year-over-year as we restricted purchasing to only trade-ins during the height of the pandemic. However, gross profit for wholesale unit exceeded our expectations due to the resilience of the wholesale market and our efforts to retail vehicles profitably during April and May. Current wholesale pricing is very strong, but we expect that, that may temper itself into Q3.

As Paul mentioned, TDA, our sole physical location, was negatively affected by shelter-in-place orders early in the quarter, and Houston continues to be a relative hotspot in the country. As a result, TDA experienced a 60% decrease in units sold in the quarter and a 63% decrease in gross profit per unit. We believe that TDA will rebound with an eventual recovery in the area, but we can't predict at this time when that will be. TDA remains an important piece of our puzzle as it forms the nexus of our owned, reconditioning and inventory capabilities, and it's also another outlet for fulfilling demand, which in turn allows us to hold even more inventory than we would otherwise.

However, keep in mind that Vroom's future is e-commerce, and we continue to see increasing strength in our e-commerce business as discussed. Thus, over time, we expect TDA to become a decreasing contributor to our future results, even as TDA recovers in the coming year from its COVID-related declines.

Turning to operating expenses. Our compensation and benefits were up approximately 18% year-over-year, although a portion of this was the $1.3 million of onetime noncash stock-based comp charges related to completing the IPO that we mentioned in the release. We expect to continue to invest in our people in Q3, and in particular, around technology, logistics and support functions that need to scale with the business. Marketing expense was down about 9% due to the pullback during COVID. We've since increased marketing efforts. So we're back to pre-COVID levels and expect to continue to invest in building on our brands going forward.

Outbound logistics increased 106% year-over-year as e-commerce volume increased. The COVID pandemic has also caused some decreased carrier availability and increased rates in the logistics industry. In addition, traditional car dealers have scrambled to try and adapt to the emerging new way that consumers prefer to buy cars. We hope and expect that this trend is temporary, but we do expect it will continue through at least Q3, and this dynamic is factored into our guidance. As you would expect, this is a variable expense and will continue to increase with volume. Given that, we're hard at work on our hybrid approach to logistics, identifying ways in which we can improve and expand our proprietary logistics network to achieve operating leverage on this line item.

Total operating cost per retail unit was 1,000 -- I'm sorry, $6,124 in Q2. We would expect that to be consistent to up a bit in Q3.

Finally, we've provided comprehensive Q3 guidance in today's earnings announcement. Even with some of the throughput constraints, we believe we can grow e-commerce units over 50% year-over-year in Q3. And despite lower average selling prices, we believe we will have ascending e-commerce gross profit per unit in the low to mid-single digits.

With that said, we'd like to now open the call for questions. Sydney?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Daniel Powell with Goldman Sachs.

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**Daniel B. Powell** - *Goldman Sachs Group, Inc., Research Division - Associate*

Great. One and then a follow-up. On the first one, just wanted to see how your capacity around production withstanding versus your owned facility in Houston where I understand you called out you're still a little bit more impacted by the pandemic versus your efforts to scale up your third-party reconditioning?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes, I'll take that. Thanks, Daniel, for the question. Our Houston factory is up and running at full capacity. So despite the -- some of the challenges with customers walking into the retail facility, the factory is running and running well. And then we, I would say, again, at capacity, and we're looking to continue to leverage our third-party reconditioning partners to scale capacity quickly. And again, our great partnerships are working, and we're doing that, and you see that reflected in our guidance.

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**Daniel B. Powell** - *Goldman Sachs Group, Inc., Research Division - Associate*

Great. And then on the marketing side, I realize things are uncertain right now. But sort of how are you thinking about your marketing plans for the back half of the year, given some of the production or inventory constraints you might be facing on the website that you're bringing people to?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes. We're good managers of our plan, and we've got the throttle on marketing. And so as we expand capacity, buy more units and list more vehicles, we're well positioned to turn up the marketing spend as appropriate to match supply and demand. So we're very surgical in the way we think about marketing. And so we'll continue to be that way.

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**Operator**

And our next question comes from the line of Nat Schindler with Bank of America.

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**Nathaniel Holmes Schindler** - *BofA Merrill Lynch, Research Division - Director*

Mostly, I want to talk a little bit about the ARPU decrease you saw. At least it's understandable on what you're saying on Q2, but the Q3 guidance calls for $23,500 in your e-commerce, and that's well below the over $29,000 you were in Q1 and the $30-ish thousand you were running prior.

Can you talk a little bit about how you have come down in price as you've expanded, and a little bit on the strategy there? Also, can you talk about what impact does the $600 shipping fee have at lower price points? And when does that start to be an impact on demand?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Great. I'll start, and then Dave, you can chime in. I guess the way I think about the average selling price, and I opened up in my opening remarks with this, is that we're data-driven and we're demand-driven. And not surprisingly, in a world with where the world has kind of shifted in terms of the amount of unemployment and maybe even uncertainty, the demand for higher-priced cars has come down. And so Vroom was agile in its execution, and then have been, since the crisis, been matching our supply to meet that demand.

So we've just -- we've effectively moved with the market, and we'll continue to read those tea leaves as appropriate and optimize, so that our customers find what they're looking for on the Vroom experience. So we'll do that. And so the strategy then, to answer your question is, to match demand. I've found that we seldom lose our way when we match our supply with the consumer demand. And so we'll continue to do that.

We've been also able to do that as we launch more reconditioning facilities. As Dave has mentioned, we've been able to get inventory in more and more distributed locations. That takes inbound and outbound miles out of our network, and that allows us to achieve gross profit per unit level, consistent with our plan. And so even though we've moved downward in average selling price, we've been able to deliver the gross profit per unit, again, in conjunction with our plan.

As far as the $599 charge, we have not yet seen that as a conversion negative. But I think that we've talked about over time, as we get further and further with inventory in remote locations, we think that a geo-based shipping fee makes sense. So shorter-haul distances will pay less and longer-haul distances would pay more, consistent with many of the players in the industry. And so we'll evaluate that as our inventory scales. But right now, we've not seen the $599 as a conversion negative.

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**Nathaniel Holmes Schindler** - *BofA Merrill Lynch, Research Division - Director*

Great. And just a follow-up. You did last year, you were doing about $1,700 e-commerce GPU, which is basically in line with the same user guidance for this coming quarter, but you were doing it with $8,000 higher cost car. And then you said there are some efficiencies you gained that allowed you to make this math. But how would GPU scale with price of car normally? So if all else being equal, this quarter, you were selling cars of $31,000 like you were last year, what would GPU be?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes, it's hard to create the world that we don't live in, right? And what's unique about life after COVID with a fundamental change in the wholesale market. But what I can tell you is that we brought a lot of data science to bear, and we brought a lot of analytical work and rigor to not only match the cars that are in demand, but decide what the appropriate prices that we should pay for them and what's the appropriate price that we should merchandise. And obviously, we'll continue to do that. That is what we do. And so if life were, I guess, in this alternate universe, as you've served up, we would be bringing to bear those tools, and I believe that we would have attractive gross profit per unit levels as well.

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**Operator**

Our next question comes from Zach Fadem with Wells Fargo.

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**Zachary Robert Fadem** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Given the constraints around acquiring inventory in the quarter, how would you frame the gap between your sales growth and actual demand? And as your inventory constraints ease in the upcoming months, at what point do you expect unit growth to fully catch up with the current level of demand?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes, that's a great question. The way that we're thinking about it, and you can see this on our website, we've almost returned to the inventory levels that we were in pre-COVID. But as again, as I said in my opening remarks, that those cars that are available and ready to go is where we're lagging because we're churning inventory so quickly. Our customers are just not letting us get ahead at a pace that we're way out in front. But we've got capacity, as Dave articulated, lined up not only in Q3 to match our guidance, but now -- and then I'd call a catch-up period that allows us to continue on our scaled ramp in conjunction with our long-range plan. So we believe that we're almost out of this capacity constraint issue in this quarter.

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**Zachary Robert Fadem** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And then to go through the numbers a little bit, at the high end of your e-comm unit guide of 8,800, that implies about 60% growth. And I'm curious, first of all, if that's your current run rate? And then second, could you talk about why that would decelerate from the 74% growth that you saw in Q2?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes. I'll answer that. And then have Dave, you can jump in. But I think that the -- there's 2 things at work here. One, I mentioned we had a record-setting April, then offset by May that was in half of April's numbers and then kind of ascending in June and July. So that's one issue. The second is comps as we started to scale last year. And so we tried to give you good guidance on what we're seeing in our business right now, and that's why we ended up at the range that we did. Dave, anything to add there?

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**David K. Jones** - *Vroom, Inc. - CFO*

No. I think that's right, Paul. And the comp is really an issue of a different comp year-over-year. So no, I think that's right on.

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**Operator**

Our next question comes from the line of Sharon Zackfia with William Blair.

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**Sharon Zackfia** - *William Blair & Company L.L.C., Research Division - Partner & Group Head of Consumer*

As you have shifted the inventory to a lower price point, can you talk about any potential changes you've seen in terms of your customer base, whether from a credit dynamic, where they align on the spectrum or geographic within the quarter?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Sure. Dave, do you want to take them on?

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**David K. Jones** - *Vroom, Inc. - CFO*

Yes. Sure. Sharon, I guess, I would say we've seen a very moderate shift in the customer base, but certainly not significant. In terms of geography, I think really no changes. We typically sell more cars where there's more dense population and more car dealers. That's why they're there. And I don't think we've seen any significant shifts in geography either. We do have some technology that scores leads as they come into our platform. And so that helps us manage the credit spectrum and manage the quality of the deals coming in that we address first. So I think that's helped us manage that aspect of the business.

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**Sharon Zackfia** - *William Blair & Company L.L.C., Research Division - Partner & Group Head of Consumer*

Okay. And I might have missed this, but did you, or can you provide an update on where you are on the white glove touchless deliveries?

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**David K. Jones** - *Vroom, Inc. - CFO*

Yes, Paul, you want to take that one?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes. I'm happy to. We are continuing to experiment on both our own version of that and leveraging a third-party supplier. But it's still early days in our evaluation. So I guess what I'd say is stay tuned on that, but we continue to roll out, I would say, greater level of last mile. And as I mentioned again in my opening remarks, we're going to continue to invest in the driveway experience. And so I think more to come there, Sharon.

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**Operator**

And our next question comes from the line of Colin Sebastian with Baird.

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**Colin Alan Sebastian** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Congrats, guys, on the IPO again, and nice to talk to you. I guess, my first question is a follow-up on the lower ASPs. Obviously, the GPUs still look very good. But I'm wondering if there are any implications in terms of what level of reconditioning those lower-priced cars require if they're older models, for example? And if those costs are higher, does that require any change to your partnership agreements? And then related to the bottlenecks that you have at the VRC level, I know it sounds like that those are easing now. But do those new agreements to gain the extra capacity have any impact on per unit's reconditioning or shipping costs that we should be aware of?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes. Let me...

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**David K. Jones** - *Vroom, Inc. - CFO*

Go ahead. Sorry.

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

No, go ahead, Dave.

**David K. Jones** - *Vroom, Inc. - CFO*

Yes, Colin. No, I think we talked quite a bit in the preparation for the IPO about reconditioning standards. And we have different standards for different cars -- or different vehicles, sorry. So a $50,000 BMW is going to have additional reconditioning standard than a $20,000 Camry. So that's really how we manage that. And that's one of the keys to be able to allow us to maintain that gross profit per unit at the lower average selling price. We also have, on our website, defect disclosure. So with those -- with all of our vehicles, we have the ability to show a customer a minor defect in a bumper, for example, rather than taking the bumper off, sending it to the paint shop, reinstalling the bumpers. So I think the combination of those 2 things gives us a lot of control over managing reconditioning costs.

On the VRC question, yes, new agreements. I think we've mentioned before, we work with Manheim and ADESA in terms of reconditioning. There's nothing in the -- each new location that we open is part of a master agreement. So there's nothing unique about opening additional ones. And I would say, you had mentioned bottleneck. I think we're not currently experiencing any significant capacity constraints in any of those. Like I said in my remarks that the ones that we turned on recently, they take a little while to ramp. So that affects the overall utilization. But that's one of the benefits really of being distributed -- widely distributed around the country as well. We don't have the geographic risk. We don't have a material concentration in any one area, and that will just get better and better as we continue to expand the network. So hopefully, that answers the question.

**Colin Alan Sebastian** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, that's helpful. I guess does the situation, does that impact the timing where you might decide to build out another owned facility or not?

**David K. Jones** - *Vroom, Inc. - CFO*

Yes. Look, I think the view there is still the same. We have plenty of experience with our own facility. And in fact, we try and give as much of the learnings that we have from that to our partners to help our own process in their shops. And we're certainly open to building another facility if the need arises. If we find a particular geographic location that we need the extra, or that we need our own facility, that's fine. If we find that there's -- for whatever reason, we need to build another one, we're okay with that, but certainly nothing in the short-term plan. I think we've got tons of runway.

**Operator**

Our next question comes from the line of Ron Josey with JMP Securities.

**Ronald Victor Josey** - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

I wanted to maybe ask a little more about inventory and then e-commerce GPPU. And just on inventory, as you move towards more on-demand cars, Paul and Dave, I just wanted to ask about the sourcing of those vehicles and the alternative sourcing, specifically. In the past, you've talked about consumer acquisition, I think, accounting for 35%, 40% of units. I wonder if you can give an update there. And then any other sources of acquisition maybe from partners or other areas? And then on GPPU for e-commerce, Dave, you noted higher overall attachment rates across the products offered and then sequential -- significant improvement and sequential improvement in June. Just talk about maybe what's driving that in June? Is that the financing? I know you said all products, but anything that sort of stands out?

**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

You want to take that one, Dave?

**David K. Jones** - *Vroom, Inc. - CFO*

Yes, sure. I think I'll do the last one first. On the e-commerce gross profit per unit, yes, we've seen higher attachment rates across the board on all the products. There isn't anything in particular that stands out in June. I think the significantly better results in June are the result of all of the inventory that we purchased in May, reconditioned in May and then now we're selling in June. And obviously, there's not a lot of overlap there. I'm just using that as an example. But no, there's nothing that stands out. I think we continue to have a lot of faith in our preferred lender relationships with Chase and Santander and Ally. Those preferred lender relationships really help us drive attachment. I think we're really focused on the e-commerce experience and different initiatives and testing around driving in this attachment. So a real focus on all of that constantly is what's helping us get there.

In terms of sourcing, I think early days on alternative sourcing. So not a whole lot to talk about. We still are acquiring a majority of our vehicles from auctions and consumers. You have the stats right on 35% to 40%. With the slowdown during the COVID period, I think that it took a little while longer to crank up our consumer acquisitions again. So that -- we had about 28% in the quarter, and then -- and that's about 34% year-to-date. But the recent results, we're right back to between 35% and 40%. So I expect that percentage will creep up again over time.

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

And Ron, what I would just add to that is that -- and you may have -- we've seen -- we've just turned on some TV advertising that, for the first time in Vroom's history, offering -- telling customers that we've got an offering to actually buy customers' cars. So again, it literally just launched this week, so stay tuned on that. But we had a high percentage of mix from consumers and with the world's best kept secret. So we're not keeping that a secret anymore. And we think turning on the marketing will continue the strategy of securing cars, the right cars that drive the right unit economics for our business that match demand.

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**Operator**

And our next question comes from Seth Basham with Wedbush.

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**Seth Mckain Basham** - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

Congrats on the IPO and strengthening results here. My first question is around the GPU guidance for e-commerce unit looking for $1,600 to $1,700, $1,800 for the third quarter, compared to $1,800 in the first quarter pre-COVID and about $1,600 in the third quarter 2019, and $1,700 or so, I think you mentioned, in June. It seems like you're making a ton improvements here. You talked about around attachment rates on the products as well as strength in terms of buying cars from customers that should be more profitable than buying from auction. Why shouldn't we be looking for higher GPUs in the third quarter?

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**David K. Jones** - *Vroom, Inc. - CFO*

Seth, it's Dave. I can start there. I think one of the biggest piece of it is the average selling price. So with a lower average selling price, we typically would earn a smaller fee that we collect on helping to arrange the financing. I think the rest of the products we sell, some of them may be affected by the ASP, but not as much as the finance. So I think we're -- like I said before, we're really focused on leveraging and increasing the attachment. And so that's what gives us confidence that we can continue to march towards the longer-term goals even with the average selling price, which as you know, was always in the longer-term plan. But we found ourselves there a lot more quickly, and the current environment is helping with that.

I don't know, Paul, do you have anything else there?

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

No. I think that's it, Dave. I was just going to make that point of the ASP does drive lower lending amounts, and therefore, puts pressure on the product side of the attach, which is why we're not guiding significantly above that while we ramp.

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**Seth Mckain Basham** - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

Got it. Okay. Fair enough. My follow-up question is around your reconditioning capacity. If I heard you right, I think you mentioned that you could recondition 1,800 cars per week, which would equate to about 23,000 cars per quarter. Yet you're guiding 3Q unit sales across e-comm and DTA to around 10,000. So it seems like there's a lot of underutilized capacity there. Is that correct? And do you think you'll be able to take advantage of that capacity over the coming quarters?

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**David K. Jones** - *Vroom, Inc. - CFO*

Yes. Seth, I think that's the plan. We've got catching up to do, obviously. As others experienced during the pandemic, we had a quick ramp down and then a quick ramp up. And so someone had mentioned acquisition availability earlier. We don't have any impediment to buying vehicles. They're easy to acquire, and obviously, we've been acquiring them with good margin lately. So I think it's really a matter of playing catch up with the capacity. But you're right. We feel like we're in a good spot now. Some of the -- again, the 1,800 was the total capacity of the 17 locations that we have. And obviously, that was up from 1,400 at the end of the first quarter. And so we've got a couple that are still ramping, and quite honestly, a couple that were new in the first quarter that are still ramping. But yes, we feel like we've got plenty of capacity, certainly to meet the Q3 plan, and we're going to work down that 50% coming soon as quickly as we can.

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**Operator**

And our next question comes from the line of Rajat Gupta with JPMorgan.

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**Rajat Gupta** - *JPMorgan Chase & Co, Research Division - Research Analyst*

Great. I just wanted to follow-up on the e-commerce and GPU question. Can you help break up the 1,600 to 1,700 across Vehicle and Product for us?

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**David K. Jones** - *Vroom, Inc. - CFO*

Hey, Rajat. Yes, we haven't given that breakout. That's -- we'll -- we manage that, as you can imagine, because there's so many variables that go into the Vehicle piece. And then obviously, we've got a lot of variables affecting the Product piece as well. So we kind of actively manage that. So we're actually not providing guidance on the breakout.

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**Rajat Gupta** - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got it. No worries. And just -- I was a little surprised by the guidance. I mean, clearly, it's improved through the second quarter, and June was strong. But from a year-over-year perspective, it's still down a little bit. But my understanding was that in the second half of last year, GPUs, especially on the vehicle side, were similarly impacted by just inefficiencies related to the ramp up of the unit. So I would have thought that there was an easier comp comparison on that front, but still looks like GPU is tracking down a little bit here despite a pretty strong used pricing environment. So just -- if you could just help bridge that gap a little bit, that would be helpful.

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**David K. Jones** - *Vroom, Inc. - CFO*

Yes. No, I think everything is right. I think the big difference is the average selling price of the vehicle. So what was $30,000 in the second half last year will be, like we said, closer to $22,000 to $23,000 this year. And so I think, actually, the great news is we're making great progress on our march towards a much bigger market at a lower average selling price. And we're doing that very profitably with the GPUs that we're predicting now on a much lower selling price.

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**Rajat Gupta** - *JPMorgan Chase & Co, Research Division - Research Analyst*

So just to clarify -- got it. Yes. So just to clarify, sir. Is the lower ASP also impacting the vehicle gross profit per unit? Or I would have thought that was more of an impact on just the product side, but it looks like it's also having a decent impact even on the vehicle side. Is that a fair assumption?

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**David K. Jones** - *Vroom, Inc. - CFO*

Yes, for sure. I think it impacts both the vehicle and the product.

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**Rajat Gupta** - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got it. And just my follow-up was on just potential for -- given you're seeing this traction on your platform, how should we think about the potential for third-party inventory listing going forward? Do you have any commercial agreements in place that you can talk about? What would the economics of those might look like? How would the reporting for that look like? Any color on that front would be helpful. And that will be all.

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Yes, I'll just take that one. And I would just say that it's very early days. And it's not a material part of our business at this time. But what I will tell you is that there is growing interest from a variety of participants to share their inventory on the Vroom platform and leverage our kind of the end-to-end e-commerce platform as well as our logistics network. So I think it's a stay tuned rather than something that you guys should probably model in this quarter, but there's building interest in there. And more to report soon.

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**Operator**

Thank you, and I'm not showing any further questions at this time. I'd now like to turn the call back to your speakers for any further remarks.

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**Paul J. Hennessy** - *Vroom, Inc. - CEO & Director*

Great. Just thanks, everyone, for attending our call. And special thanks to all of the Vroom employees that got us here, and we'll continue to drive our business forward. So thanks, everyone.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a great day.

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