

## **Shift 2Q 2023 Earnings Conference Call Prepared Remarks August 10, 2023**

### **Susan Lewis, Vice President Investor Relations**

Good afternoon and welcome to the Shift Technologies Second Quarter 2023 earnings call. Joining me on the call today are CEO, Ayman Moussa, and CFO, Oded Shein.

During our remarks, we will make some forward-looking statements, which represent our current judgment on what the future may hold. And while we believe these judgments are reasonable, these forward-looking statements are not guarantees of future performance and involve certain assumptions, risks and uncertainties.

Actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statement. Please refer to our filings with the SEC for a full discussion of the factors that may affect any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise after this conference call.

During the course of the call, we will be referring to non-GAAP measures, as defined and reconciled in our earnings materials.

With that said, I will now turn the call over to Ayman.

### **Ayman Moussa, Chief Executive Officer**

Thank you, Susan. And good afternoon, everyone. It is a pleasure to be here and speak to you for the first time as CEO of Shift.

Today I would like to spend the majority of our time discussing the future. I will share my observations since I joined Shift in June and discuss our strategy to drive significant improvement in our operational and financial performance. And, finally, I will provide a brief update on our review of strategic alternatives.

Before we discuss those items, Oded will begin by reviewing our second quarter financial results. Note that these results do not reflect how we are thinking about the business as we go forward. Furthermore, they do not reflect the savings from the restructuring announced on July 11th.

Oded?

### **Oded Shein, Chief Financial Officer**

Thank you, Ayman, and good afternoon everyone.

Total revenue was \$47.3 million. Retail units sold were 1,998 and wholesale units sold were 187.

Adjusted GPU was \$1,522. The F&I and Other component was \$865, and continued to be impacted by a difficult financing environment and high interest rates.

Adjusted SG&A was \$23.6 million versus adjusted SG&A of \$28.3 million in the first quarter. The 17% sequential improvement was driven by a reduction across all areas of SG&A, with the largest reductions in selling expense and marketing. We expect SG&A to decline in future quarters due to the recently announced restructuring plan and other strategic initiatives to drive productivity and efficiency. Ayman will speak more about those shortly. The restructuring plan alone is expected to reduce SG&A by approximately \$14 million on an annual basis.

Adjusted EBITDA loss was \$20.6 million, a 14% improvement from 1Q.

We ended the quarter with \$32.2 million in cash and cash equivalents.

In addition to adjusted EBITDA loss, other uses of cash in the second quarter included working capital, interest expense and costs related to closed hubs and debt restructuring.

I'd now like to make a few comments with respect to liquidity.

First, subsequent to the end of the quarter, we initiated an amendment to our floor plan with Ally to align our credit line with our current business trends. The agreement provides us with additional flexibility by eliminating the minimum liquidity financial covenant.

Second, as we have recently disclosed, we are evaluating all avenues to raise additional capital, including negotiating with our existing debtholders. We will provide updates as they are available.

Ayman, I will now turn it over to you.

**Ayman Moussa, Chief Executive Officer**

Thank you, Oded.

When I joined in June, I recognized the importance of changing the course of the business quickly, specifically the need to urgently improve results, reduce the cash burn rate of the company, and raise additional capital to achieve positive unit economics and, subsequently, profitability. Before making any changes, though, I wanted to understand the major challenges in our way. Here's what I found:

- First, the Company's processes and procedures were overly complicated, hindering our customer relationships, our productivity, our efficiency, and our profitability.
- Second, the Company, for its size, was spreading itself too thin by targeting a wide geographic focus and neglecting market share opportunities in our own backyard. It has lacked a localization strategy.

- Third, the Company has gone through several changes in strategy over the last 18 months to adjust to industry and capital market factors, creating distraction and making it hard to achieve results among shifting priorities.
- And lastly, from a macro and industry perspective, we continue to see our customers impacted by interest rates that we haven't seen in decades and used car prices that are still at historically high levels, resulting in higher monthly payments and lower overall affordability.

While we cannot change the macro and industry trends, we can address the other challenges identified, and focus on what we can control. I have seen these challenges at dealerships before and have fixed them by focusing on the fundamentals of selling used cars, simplifying processes and procedures, and creating a localized customer experience. We are doing the same thing at Shift with a renewed sense of determination and urgency.

And we have already started making changes. In July, we announced a restructuring designed to streamline our operations and reduce our cost structure. The new organizational structure shifts more ownership to the teams in our stores who know our customers and inventory best and reduces SG&A. And we will continue to identify other areas of cost improvement.

And since then, we have put initiatives in place to drive our three strategic priorities which are:

- One, expand GPU through operational efficiencies and improving F&I;
- Two, optimize the customer experience to increase conversion; and
- Three, drive unit sales through in-market penetration.

Let's go through each strategic priority and I will highlight the opportunities and initiatives.

First, we will **expand GPU through operational efficiencies and improving F&I**. The two largest opportunities for Shift to expand GPU are by increasing the F&I attach rate and improving the reconditioning process. To improve our F&I attach, we have made several changes including establishing a new compensation structure, adding a new lending platform to serve more customers, and updating our F&I sales process to better educate our customers as to the benefits of the products we offer. With respect to reconditioning, I believe we can materially improve the time it takes to recondition a car by implementing best practices to optimize the workflow at each location, resulting in improved productivity and lower costs. For example, we have already reduced the maximum mileage for cars we acquire for retail which will naturally lower our processing times.

Our second strategic priority is to **optimize the customer experience to increase conversion**. At Shift, we believe we have a leading, technology-forward, omnichannel experience. As I mentioned earlier, with our restructuring, we are further refining the experience by putting more responsibility in the hands of our sales teams in our locations who are closest to the customers and our inventory. We are listening to our customers. In response to customer feedback and in an effort to improve transparency, we have removed the Shift Service fee. We have also

reworked our lead management process and we are empowering the team, with additional training and tools, to create localized and solutions-based experiences, to drive customer satisfaction and loyalty.

And our third strategic priority is **driving unit sales through in-market penetration**. In addition to reworking our lead management process, we have also adjusted our lead generation strategy, prioritizing our higher ROI marketing partners. We expect these changes to marketing to result in higher quality leads rather than quantity and drive local market share and marketing efficiency.

As you can see, the initiatives driving our three strategic priorities are all based on the fundamentals of buying and selling cars and providing a Great Experience to our customers. We are moving quickly and decisively to generate results.

Now I'd like to provide a quick update on our review of strategic alternatives. Since I joined, I have worked closely with the Board of Directors on the process. As Oded said, we recognize the need to raise capital to see results from our updated strategic priorities and initiatives. The process is ongoing and we will provide updates as they are available. We are dedicated to the success of this Company and the value its success will create for all stakeholders.

I would like to reiterate that the reason I joined Shift has not changed - there is an immense opportunity to improve the performance of the business and reach profitability. With the right strategy, processes and procedures in place for our great team to execute, we can achieve positive unit economics and, subsequently, company-wide profitability.

I would also like to take a moment to thank our talented team. Everyone has been engaged and extremely supportive of change in order to improve our results. This team wants to win and I believe we are on the right track to do so.

Because of our ongoing review of strategic alternatives, we will not be taking questions. Thanks for your time and have a good evening.