Shift 4Q 2022 Earnings Conference Call Prepared Remarks
March 28, 2023

Susan Lewis, Vice President Investor Relations

Good afternoon and welcome to the Shift Technologies fourth quarter and full year 2022 earnings call. Joining me on the call today is CEO, Jeff Clementz, 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 Jeff.

Jeff Clementz, Chief Executive Officer

Thank you Susan, and good afternoon everyone.

2022 was a year of significant change for Shift. Given auto industry and capital market dynamics, we adjusted our strategy to prioritize balance sheet health, reduce cash burn, and accelerate our path to profitability.

To that end, over the past several months we have rapidly executed a number of strategic initiatives in a short period of time. This included our merger with CarLotz, which closed in December, bolstering our balance sheet and bringing omnichannel capabilities. We reduced our geographic footprint both at Shift and CarLotz, and enacted other cost cutting measures such as reducing operating and corporate expenses, in turn lowering headcount.

These were not easy decisions, but our teams have done an incredible job to continue innovating and executing throughout the change, and I can’t thank them enough for all their hard work over the past few months.

Oded will cover our financial results shortly, but let me just comment that in the fourth quarter, excluding the impact of the December acquisition, both revenue and adjusted EBITDA loss came in range of the guidance provided on our third quarter call for Shift standalone.

Before I turn to our strategic priorities, I want to emphasize that cash usage and maintaining balance sheet health is our top priority. We expect sequential improvement throughout 2023 in units sold, unit economics, and EBITDA. We also expect our cash use to moderate significantly in the coming quarters. We acknowledge the need for additional capital to get to profitability, but we believe that based on our current outlook, we have sufficient cash to execute our strategy. We are actively exploring a variety of avenues to maximize shareholder value and fund our future business needs.

Turning to our first strategic priority, achieving positive unit economics by expanding GPU and leverage in sales and marketing, while tightly controlling G&A expenses. We believe that our work in the second half of 2022 and first quarter of 2023 has adequately adjusted SG&A to the size of the company today.

Starting with the CarLotz merger. On December 9th, 2022, we closed the transaction and immediately got started on integration by eliminating duplicative costs and roles. While a difficult decision, in early February we decided to exit CarLotz's presence on the east coast. We have also shut down the Downers Grove, Illinois location in order to focus on our core west coast markets.The remaining CarLotz location is in Pomona, CA, where we have the most operating expertise, logistical and brand awareness leverage, and ability to scale. We now have three markets that serve Los Angeles, Bay Area, and Portland.

Turning to the full company. While difficult, we reduced headcount by approximately 30% in the first quarter. In addition to general corporate roles, the majority of reductions were due to our move to a decentralized sales organization which occurred in February, which I will discuss in just a moment.

We believe that the CarLotz integration and strategic moves to rightsize our SG&A are largely behind us. While we will remain disciplined on G&A and tightly control costs, our focus is on driving leverage through revenue and unit sales growth.

This leads us to our second strategic priority, increasing penetration in our west coast markets to grow retail units sold. At Shift, we believe that we have a leading, technology forward omnichannel experience. Consumers want the convenience of being able to browse and purchase online, but also want the flexibility of being able to view vehicles and research their purchase in-person. We have created a model that enables Shift's customers to shop for a vehicle the way they want.

As part of our shift to an omnichannel model, as mentioned earlier, we moved to a decentralized sales organization. Going forward, local teams will take on more ownership of individual deals and will be assisted by a smaller central organization. This model will decrease handoffs and improve the overall customer experience, while simultaneously increasing efficiency and cutting costs. Results so far have been positive, with the new sales model lowering our cost per unit sold.

Additionally, we have seen positive results from our new buyer checkout and dashboard experience that we talked about last quarter, including increased conversion rates and lower CAC.

Turning to our third strategic priority, which is to create a differentiated auto marketplace. Partner Dealers on Shift's Marketplace will strategically participate in eCommerce to grow their market share, margins, and develop long-term relationships with digital customers. Shift customers will benefit from the Marketplace's expanded assortment with the same seamless, trusted customer experience. We continue to optimize and improve our marketplace platform, and expect that we will fully launch later in 2023.

In closing, I believe two things to still be as true today as when I first joined the company. First, we believe the auto industry as a whole is shifting from offline to online as consumers increasingly prefer digital-first transactions. Second, we believe Shift has differentiated technology assets to power an exceptional omnichannel experience. Shift has repositioned the business to remain on a path to profitability by 2024.

I'd now like to turn to the call over to Oded to review financial results and guidance. Oded?

Oded Shein, Chief Financial Officer

Thank you Jeff, and good afternoon everyone. I will first go over our fourth quarter financial results, and then review our guidance.

For the fourth quarter of 2022, total revenue was $66 million. This includes 2,520 retail units and 354 wholesale units.

Adjusted GPU of $1,041 came in below our expectations, primarily due to sell through of aged inventory, steeper-than-expected market depreciation, and below capacity reconditioning activity. We expect the fourth quarter to be the low point for GPU, and expect sequential improvement throughout 2023. Additionally, we were pleased that F&I remained relatively flat sequentially at $1,334 per unit.

Adjusted SG&A was $28.1 million, down from $39.4 million in the previous quarter. The decrease was primarily due to lower selling and marketing expenses as a result of the restructuring.

Adjusted EBITDA loss was $25.5 million. Please keep in mind that these results include approximately 3 weeks of CarLotz operations. Excluding the merger, both revenue and adjusted EBITDA loss came in range of the guidance provided on our third quarter call for Shift standalone.

Our adjusted EBITDA performance, despite the GPU shortfall, speaks to the G&A cost actions we have implemented over the past few months.

We ended the fourth quarter with $110 million of total cash. The increase quarter-over-quarter was primarily due to the closing of the CarLotz merger and working capital benefits, partially offset by our net loss.

As of December 31, 2022, we had 17.2 million shares outstanding. The shares outstanding at year-end have been retroactively adjusted for the 1-for-10 reverse stock split enacted on March 8, 2023 to bring Shift into compliance with the minimum bid price requirement for its listing on Nasdaq. As of March 22, we were back in compliance with the minimum bid requirement.

Turning to our first quarter guidance. During the first quarter, we continued to experience some disruption to the business as we integrated CarLotz and fully established the omni-channel experience. We are expecting sequential improvement from the fourth quarter, but the first quarter does not represent a normalized quarter of our updated omni-channel strategy.

For the first quarter, we are expecting revenue in the range of $56-$58 million; adjusted GPU in the range of $1,600-$1,800 versus $1,681 last year; and adjusted EBITDA loss in the range of $24-$26 million versus a loss of $46.6 million last year. For adjusted SG&A, we expect to see further sequential reductions to end the year with annualized adjusted SG&A between $85 and $95 million.

We expect to end the first quarter with approximately $70 million of cash and cash equivalents. During the first quarter, other uses of cash included transaction costs, costs associated with hub closures, including rent, and timing of accounts payable. We do not expect a similar impact to cash from these items in future quarters.

From an operating perspective, we expect cash usage to decrease in future quarters as we have the CarLotz integration behind us and other cost reduction initiatives are fully realized.

We’d now like to open the call up for questions.