



Carvana's Drop Is Only the Beginning

Carvana's (CVNA: \$6/share) stock dropped more than 50% on December 7, 2022 and, despite rebounding for a month, fell another 9% on January 19, 2023 and 21% in the past week. Recent [news](#) that the company adopted a "poison pill" to ward off hostile takeover lowers [stupid money risk](#) and supports our thesis that CVNA could fall even further to \$0/share. We first made Carvana a [Danger Zone](#) pick in [April 2019](#) and identified it as a Zombie stock in [June 2022](#). Since our original report, CVNA is down 90% while the S&P 500 is up 35%. See all our reports on Carvana [here](#).

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What Happened?

On December 6, 2022, Bloomberg [reported](#) that Carvana's largest (70% of outstanding unsecured debt) creditors entered into an agreement to cooperate in possible debt restructuring negotiations.

What Does It Mean?

Bankruptcy could be on the horizon. Though Carvana has denied any existing cooperation with creditors, investors have sold shares on the implication that a significant debt restructuring or bankruptcy is imminent.

This News Supports Our Zombie Stock Thesis

[Our thesis](#) stated that Carvana's business is undifferentiated and its cash burn, unsustainable. Given the latest developments, it is clear that creditors and investors are taking notice.

Carvana embraced a growth-at-all-costs strategy and could not turn a profit even with COVID tailwinds propelling its top-line forward. The company is now facing a challenging funding environment, softening demand, and fierce competition from incumbents such as [CarMax](#) (KMX) and AutoNation. The latest news leads us to reiterate our view: CVNA is a Zombie Stock, and the company's imminent liquidity issues could take its stock to \$0.

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David Trainer, Kyle Guske II, Matt Shuler, and Italo Mendonça receive no compensation to write about any specific stock, sector, style, or theme.

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Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

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Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

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