

## ACV Auctions

Auto IMS access unlocks incremental TAM,  
but macro still cloudy; Neutral

Reiterate Rating: NEUTRAL | PO: 18.00 USD | Price: 16.41 USD

## EBITDA beats with 50 territories now breakeven or above

Reported revenue in line with Street at \$118mn, but EBITDA of (\$5.4)mn beat Street's (\$7.7)mn. Revenue growth of 21% YoY accelerated 8ppts vs. 3Q despite GMV per unit declining 8.5% (1.4ppt improvement) reflecting ACV's pricing increase in 3Q. Unit growth of 15% accelerated 2ppts in 4Q to finish the year +10% YoY, 17ppts above the dealer wholesale market that contracted 7% YoY. EBITDA margin of -5% increased 8ppts YoY in 4Q as ACV leveraged its primarily fixed cost structure. For 2023, ACV disclosed that approx. 50 territories (of roughly 160) achieved breakeven or higher EBITDA, with >20 territories achieving double-digit margins and 3 territories over 25%.

## Guides to accel'ing rev, full year EBITDA profitability

ACV guided to 1Q revenue of \$141mn-\$146mn, suggesting stable revenue growth at midpoint, and EBITDA of \$2mn-4mn falling slightly below Street \$4.7mn prior. For 2024, mgmt. guides rev to \$610mn-\$625mn (+28% YoY at mdpt) and assumes 1) 5ppt revenue contribution from the acquisition of a Texas-based auction house (suggesting 22% organic growth); 2) the wholesale market grows modestly YoY; 3) ARPU expansion; and 4) cont. share gains in mid-teen range. 2024 EBITDA guide of \$20mn-\$25mn implies 3-4% margin, with revenue growth expected to outpace non-GAAP OPEX by approx. 10ppts YoY (suggesting 18% YoY). Mgmt. also expects ~45% of incremental dollar growth from revenue margin expansion should flow through to EBITDA in '24.

## Raising rev/EBITDA on higher unit growth

We raise our 1Q'24 revenue projection by 0.5% to \$145mn but lower our EBITDA estimate to \$3.6mn, now implying a 3% margin (from 5%). For FY'24, we raise revenue/EBITDA by 4.6/6.8% to \$619mn/\$22mn, which includes approximately \$31mn from ACV's Texas-based acquisition (5% of revenue guidance midpoint). The acquisition is expected be accretive to EBITDA but commercial investments lower '24 flow through.

## Unlocking incr. TAM with commercial market; Neutral

ACVA shares rose 17.2% after the print (vs. NDX +3.0%) with investors likely focused on the implications of ACV gaining access to Auto IMS, which unlocks an incremental 8mn units in the commercial market. However, given macro uncertainty still clouding dealer supply (30% lower vs. 2019), we question the ability to hit the "mid-term" (prev. based on 2026) rev/EBITDA targets of \$1.3bn/\$325mn (Street at only \$1.05bn/\$201mn). We raise our PO to \$18 (from \$16) on 3x 2025 EV/Sales (unchanged) on higher revenue.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.65)	(0.47)	(0.36)	0.01	0.40
EPS Change (YoY)	-3.2%	27.7%	23.4%	NM	NM
Consensus EPS (Bloomberg)			(0.02)	0.42	0.95
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	1,641.0x	41.0x
EV / EBITDA*	NM	NM	115.5x	27.3x	13.5x
Free Cash Flow Yield*	-3.1%	-0.8%	2.5%	4.1%	6.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

22 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	16.00	18.00
2024E Rev (m)	591.1	618.5
2025E Rev (m)	773.6	793.1
2026E Rev (m)	NA	1,016.5
2024E EPS	-0.29	-0.36
2025E EPS	-0.01	0.01
2026E EPS	NA	0.40

## Curtis Nagle, CFA

Research Analyst  
BofAS  
+1 646 855 2939  
[c.nagle@bofa.com](mailto:c.nagle@bofa.com)

## Steven McDermott

Research Analyst  
BofAS  
[steven.mcdermott@bofa.com](mailto:steven.mcdermott@bofa.com)

## Stock Data

Price	16.41 USD
Price Objective	18.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-2-9
52-Week Range	10.41 USD - 18.68 USD
Mrkt Val (mn) / Shares Out (mn)	2,560 USD / 156.0
Free Float	90.3%
Average Daily Value (mn)	15.57 USD
BofA Ticker / Exchange	ACVA / NAS
Bloomberg / Reuters	ACVA US / ACVA.OQ
ROE (2024E)	-13.6%
Net Dbt to Eqty (Dec-2023A)	-14.8%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

GMV: Gross Merchandise Value

ARPU: Average Revenue per Unit

TAM: Total Addressable Market

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Timestamp: 22 February 2024 06:45PM EST

# iQprofile<sup>SM</sup> ACV Auctions

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-16.7%	-13.8%	-11.7%	-1.0%	8.7%
Return on Equity	-19.6%	-16.0%	-13.6%	0.4%	12.5%
Operating Margin	-25.2%	-18.6%	-11.7%	-1.1%	6.8%
Free Cash Flow	(78)	(20)	63	105	176

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	2.7x
Asset Replacement Ratio	0.3x	0.1x	0.1x	0.2x	0.2x
Tax Rate	NM	NM	NM	29.7%	15.0%
Net Debt-to-Equity Ratio	-54.8%	-14.8%	-11.6%	-21.8%	-37.7%
Interest Cover	NM	NM	-50.4x	-5.8x	48.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	422	481	619	793	1,017
% Change	17.6%	14.2%	28.5%	28.2%	28.2%
Gross Profit	186	238	320	430	570
% Change	20.5%	28.1%	34.7%	34.4%	32.5%
EBITDA	(56)	(18)	22	93	188
% Change	-26.8%	67.5%	NM	322.8%	102.6%
Net Interest & Other Income	4	15	15	11	11
<b>Net Income (Adjusted)</b>	<b>(102)</b>	<b>(75)</b>	<b>(58)</b>	<b>2</b>	<b>68</b>
<b>% Change</b>	<b>-30.7%</b>	<b>26.4%</b>	<b>23.0%</b>	<b>NM</b>	<b>NM</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(102)	(75)	(58)	2	68
Depreciation & Amortization	11	19	31	30	37
Change in Working Capital	(9)	(1)	(15)	1	3
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	24	39	108	77	76
Capital Expenditure	(3)	(2)	(3)	(5)	(8)
<b>Free Cash Flow</b>	<b>-78</b>	<b>-20</b>	<b>63</b>	<b>105</b>	<b>176</b>
<b>% Change</b>	<b>NM</b>	<b>74.2%</b>	<b>NM</b>	<b>66.4%</b>	<b>68.3%</b>
Share / Issue Repurchase	(2)	(9)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	75	40	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	281	183	161	217	349
Trade Receivables	247	283	235	256	280
Other Current Assets	227	241	240	241	241
Property, Plant & Equipment	6	5	3	3	5
Other Non-Current Assets	155	211	214	222	229
<b>Total Assets</b>	<b>915</b>	<b>923</b>	<b>853</b>	<b>939</b>	<b>1,104</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	334	334	325	336	343
Long-Term Debt	15	115	115	115	115
Other Non-Current Liabilities	81	17	19	22	25
<b>Total Liabilities</b>	<b>429</b>	<b>466</b>	<b>459</b>	<b>473</b>	<b>483</b>
<b>Total Equity</b>	<b>486</b>	<b>457</b>	<b>394</b>	<b>466</b>	<b>620</b>
<b>Total Equity &amp; Liabilities</b>	<b>915</b>	<b>923</b>	<b>853</b>	<b>939</b>	<b>1,104</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Internet/e-Commerce

## Company Description

ACV Auctions transacted its first car in 2015 on its Online wholesale marketplace, which allows thousands of vehicle dealers to discover, buy, and sell used cars. In addition to ACV's auctioneering platform, ACV also provides dealers with transportation and financing services as well as data services including vehicle conditioning reports. Integral to ACV's auction marketplace is transparency and trust, which allows over 24k Market Participants to confidently transact with dealers across the US.

## Investment Rationale

ACV has rapidly grown to be one of the largest US Online marketplace for wholesale used vehicles, transacting 613k units in 2Q'23 on a run rate basis. We are positive on ACV's ability to take share in the fragmented wholesale car market. However, we believe more clarity on wholesale supply and progress towards ACV's self-admittedly "aggressive" 2026 targets are needed for shares to re-rate.

## Stock Data

Average Daily Volume 948,833

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.11A	-0.10E
Q2	-0.10A	-0.07E
Q3	-0.11A	-0.09E
Q4	-0.14A	-0.09E

# Actuals vs. Estimates

## Exhibit 1: Actuals vs. Estimates

ACVA generated 4Q Rev/EBITDA at \$118.4mn/(\$5.4mn), above Street at \$118.2mn/(\$7.7mn).

4Q23A			
	Actual	Est	Change
<b>Total Revenue</b>	\$118,377	\$120,220	(\$1,843)
y/y change	21%	23%	-2%
<b>Marketplace &amp; Service Revenue</b>	\$103,767	\$105,896	(\$2,129)
y/y change	23%	25%	-3%
<b>Auction &amp; Assurance Revenue</b>	\$65,600	\$68,208	(\$2,608)
y/y change	19%	23%	-5%
Units sold	143,999	150,949	(6,950)
y/y change	15%	21%	-6%
Auction & Assurance RPU	\$456	\$452	\$4
y/y change	3%	2%	1%
<b>Cost of Revenue</b>			
Marketplace & Service	46,975	48,296	(\$1,321)
Customer Assurance	13,666	12,332	\$1,334
Total Cost of Revenue	60,347	60,628	(\$281)
<b>Income Statement</b>			
Gross Profit	58,030	59,592	(\$1,562)
% margin	49%	50%	-1%
<b>Total Operating Expenses (GAAP)</b>	84,796	88,963	(4,167)
<b>Operating Income (GAAP)</b>	(26,766)	(29,371)	2,605
Other Income and Taxes	3,525	4,050	(525)
<b>GAAP Net Income (Loss)</b>	(23,241)	(25,321)	2,080
% margin	-20%	-21%	1%
Diluted Share Count	161,174	161,028	146
GAAP Diluted EPS	(\$0.14)	(\$0.16)	\$0.01
Adj. Diluted EPS	(\$0.04)	(\$0.05)	\$0.01
<b>Adj EBITDA</b>	(5,360)	(8,133)	2,773
% margin	-5%	-7%	2%

Source: BofA Global Research, Company reports

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# Estimate changes

## Exhibit 2: Estimate changes

For FY'24, we raise revenue/EBITDA by 4.6/6.8% to \$619mn/\$22mn

	1Q24E			2024E			2025E			2026E		
	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change
<b>Total Revenue</b>	\$145,320	\$144,632	\$688	\$618,502	\$591,139	\$27,363	\$793,124	\$773,597	\$19,527	\$1,016,534	\$967,979	\$48,555
y/y change	21%	21%	1%	29%	22%	6%	28%	31%	-3%	28%	25%	3%
<b>Marketplace &amp; Service Revenue</b>	\$128,466	\$125,540	\$2,927	\$544,335	\$514,390	\$29,945	\$695,787	\$667,654	\$28,133	\$883,637	\$828,928	\$54,709
y/y change	23%	20%	3%	29%	21%	8%	28%	30%	-2%	27%	24%	3%
<b>Auction &amp; Assurance Revenue</b>	\$82,214	\$83,012	(\$798)	\$346,821	\$333,689	\$13,132	\$447,261	\$441,433	\$5,828	\$577,814	\$556,205	\$21,609
y/y change	19%	21%	-1%	29%	23%	6%	29%	32%	-3%	29%	26%	3%
Units sold	175,813	\$175,813	0	742,231	708,704	33,526	920,366	892,968	27,398	1,132,050	1,071,561	60,489
y/y change	16%	16%	0%	24%	17%	7%	24%	26%	-2%	23%	20%	3%
Auction & Assurance RPU	\$468	\$472	(\$5)	\$467	\$471	(\$3)	\$486	\$494	(\$8)	\$510	\$519	(\$9)
y/y change	3%	4%	-1%	4%	5%	-1%	4%	5%	-1%	5%	5%	0%
<b>Cost of Revenue</b>												
Marketplace & Service	54,924	\$53,630	\$1,294	235,977	223,304	\$12,673	283,985	272,575	\$11,411	346,698	325,121	\$21,577
Customer Assurance	13,989	15,847	(\$1,858)	62,321	64,476	(\$2,155)	78,843	85,815	(\$6,971)	99,673	104,288	(\$4,615)
Total Cost of Revenue	68,913	\$69,477	(\$564)	298,298	287,779	\$10,519	362,828	358,389	\$4,439	446,371	429,409	\$16,962
<b>Income Statement</b>												
Gross Profit	76,407	\$75,155	\$1,252	320,204	303,360	\$16,845	430,296	415,208	\$15,087	570,163	538,570	\$31,593
% margin	53%	52%	1%	52%	51%	0%	54%	54%	1%	56%	56%	0%
<b>Total Operating Expenses (GAAP)</b>	96,638	88,949	7,689	392,751	366,059	26,692	438,664	431,667	6,997	500,643	476,730	23,913
<b>Operating Income (GAAP)</b>	(20,231)	(13,794)	(6,437)	(72,547)	(62,699)	(9,848)	(8,368)	(16,459)	8,091	69,520	61,840	7,680
Other Income and Taxes	3,640	4,061	(421)	14,560	15,044	(484)	9,909	15,044	(5,135)	(1,452)	3,511	(4,963)
<b>GAAP Net Income (Loss)</b>	(16,591)	(9,733)	(6,858)	(57,987)	(47,655)	(10,332)	1,541	(1,415)	2,956	68,068	65,352	2,716
% margin	-11%	-7%	-5%	-9%	-8%	-1%	0%	0%	0%	7%	7%	0%
Diluted Share Count	161,774	161,628	146	162,674	162,528	146	165,174	165,028	146	168,174	168,028	146
GAAP Diluted EPS	(\$0.10)	(\$0.06)	(\$0.04)	(\$0.36)	(\$0.29)	(\$0.06)	\$0.01	(\$0.01)	\$0.02	\$0.40	\$0.39	\$0.02
Adj. Diluted EPS	\$0.01	\$0.04	(\$0.03)	\$0.08	\$0.11	(\$0.03)	\$0.48	\$0.47	\$0.02	\$0.93	\$0.90	\$0.03
<b>Adj EBITDA</b>	3,673	6,955	(3,281)	21,936	20,536	1,400	92,755	85,675	7,080	187,946	178,610	9,336
% margin	3%	5%	-2%	4%	3%	0%	12%	11%	1%	18%	18%	0%

Source: BofA Global Research estimates

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## Price objective basis & risk

### ACV Auctions (ACVA)

Our PO of \$18 is based on 3x 2025E EV/Sales, a premium to our eCommerce & Marketplace and Automotive Commerce comp groups trading at roughly 2.5x. We believe a premium is warranted given significantly higher projected revenue growth and margin expansion relative to comp peers.

Upside risks: 1) marketplace unit growth acceleration 2) stronger than expected share gains from new and existing franchise dealers' partners and 3) a quicker than expected recovery in wholesale vehicle supply.

Downside risks: 1) slower than expected scaling of territories 2) wholesale vehicle supply disruptions 3) increased competition from larger rivals and 4) uncertain consumer discretionary spend impacting wholesale volumes.

## Analyst Certification

I, Curtis Nagle, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
<b>NEUTRAL</b>				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA



## US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
<b>UNDERPERFORM</b>				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA
<b>RSTR</b>				
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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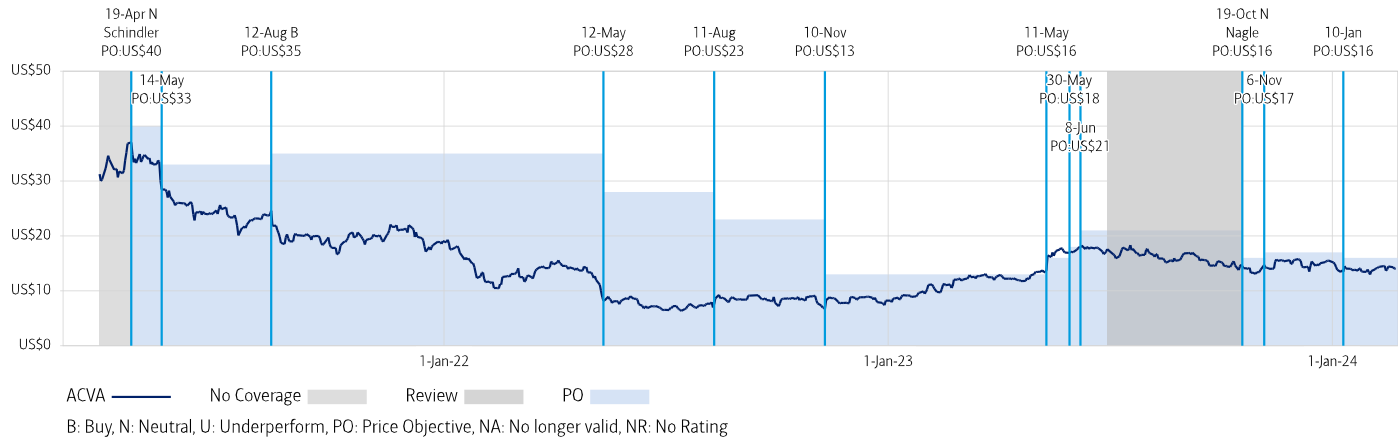
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# Disclosures

## Important Disclosures

### ACV Auctions (ACVA) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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