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Cars.com, Inc. (CARS)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the CARS Second Quarter 2023 Earnings Conference Call. This call is being recorded and a live webcast and the accompanying slides can be found at investor.cars.com. An archive of the webcast will be available at CARS' Investor Relations website.

I'll now like to turn the call over to Robbin Moore-Randolph, Director of Investor Relations.

Robbin Moore-Randolph
Director-Investor Relations, Cars.com, Inc.

Good morning, everyone, and thank you for joining us. It's my pleasure to welcome you to the CARS second quarter 2023 conference call. With me this morning are Alex Vetter, CEO; and Sonia Jain, CFO. Alex will start by discussing the business highlights from our second quarter. Then Sonia will discuss our financial results in greater detail, along with our 2023 outlook. We'll finish the call with Q&A.

Before I turn the call over to Alex, I'd like to draw your attention to our forward-looking statements and the description and definition of non-GAAP financial measures, which can be found in our presentation. We will be discussing certain non-GAAP financial measures today, including adjusted EBITDA, adjusted EBITDA margin, adjusted operating expenses and free cash flow.

Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure can be found in the financial tables included with our earnings press release and in the appendix of our presentation. Any forward-looking statements are subject to risks and uncertainties. For more information, please refer to the risk factors included in our SEC filings, including those in our most recently filed 10-K, which is available on the IR section of our website. We assume no obligation to update any forward-looking statements.

Now, I'll turn the call over to Alex.

Alex Vetter

President, Chief Executive Officer & Director, Cars.com, Inc.

Thank you, Robbin, and welcome to our second quarter 2023 earnings call. I'm pleased to report another quarter of solid results and profitable growth. Revenue grew 3% year-over-year to $168 million, driven by dealer revenues that increased 6% year-over-year to $153 million. We also improved our adjusted EBITDA margin sequentially to 27%.

Our success this quarter was driven by a number of factors that will underpin performance for the balance of this year and into next. Specifically, the rollout of our Marketplace Repackaging initiative, increased adoption of our digital solutions, and our continued investment in delivering the highest quality in-market digital audience to our partners.

We are over 60% complete with our Marketplace Repackaging initiative that we started earlier this year, and the results have been strong. We're seeing improved yield from repackaging with two-thirds of our dealer customers opting into our upper tier packages. This is driving both revenue and adjusted EBITDA.

Our new packages allow dealers to capture the benefit of our investment in product development and more than 30% increase in traffic and value over the last five years. As dealers opt in to our higher tier packages and leverage more features, their engagement increases and it is far more likely for dealers to stay within our ecosystem.

In fact, we're seeing our strongest retention from higher ARP dealers who use at least three of our products, which leads to an ARPD of approximately 3 times the average customer and shows a clear upside potential as we remain focused on cross-selling additional products.

As with any pricing initiative, we experienced incremental cancellation. And as expected, this was largely confined to a segment of lower inventory dealers with legacy rates. In total, ARPD for the quarter grew 6% year-over-year, and marketplace accounted for more than 50% or $78 of our year-over-year growth in ARPD.

Please note that a significant portion of our repackaging work in the quarter was back-half weighted. And as a result, the benefit will not fully be reflected in our financials until the third quarter. While our Marketplace Repackaging initiative has been significant focus this year, we continue to see strong results from cross-selling solutions, which drove the remaining 50% of our year-over-year ARPD growth.

We added more than 500 new website customers since last year, bringing our total to 6,200, up 9% year-over-year. We also saw 1,800 net new website product upsells compared to the prior year. And Accu-Trade, our no-risk dealer appraisal solution, also demonstrated momentum with connected customers growing to more than 750 units, up approximately 130 units sequentially and 650 units year-over-year.

And dealer usage also continues to climb. Appraisals completed using Accu-Trade totaled more than 430,000, a 10% sequential increase. As used car prices continue to fluctuate, it's more important than ever to have real-time transparency and consistency in the vehicle's valuation. Accu-Trade improves profitability by accurately pricing any car every time within minutes, to close deals that are right on the money.

Combining digital solutions with demand generation capabilities is a strong differentiator for our strategy. This quarter, Cars.com supported 27 million unique visitors to shop, buy and sell vehicles across 156 million visits, a 5% increase from the prior year. As a reminder, more than 60% of our audience comes to us organically, which is also a competitive advantage and a testament to our longstanding investments in editorial content and the Cars.com brand.

We clearly see the power of our audience through our traffic delivery into dealer websites. Cars.com is consistently the leader in driving website referral traffic directly into dealer systems. In fact, we generate two times as much traffic as our publicly-traded peers. And the strength of our organic traffic also allows us to bring more net new visitors to our customers than any other marketplace.

Platforms promote their participants, whereas aggregators hide them for selfish gain. As dealerships lean more on Google Analytics to monitor and measure traffic and value delivery, they will see Cars.com's platform power is far more evident. Further, consumers referred to a dealer website by Cars.com are three times more likely to buy a car than shoppers who only visited a dealer's website. This is proof that access to the unique Cars.com audience helps dealers sell more cars faster.

Innovation has also been a part of our DNA since the beginning, and we continue to evolve both our consumer and dealer experience to allow far more efficient buying and selling of vehicles. Increasingly, innovation is becoming synonymous with adoption and integration of artificial intelligence. We have been doing this for some time.

We use AI behind the scenes to help power our Conversations chat tool, a messaging solution that instantly connects customers with dealerships 24/7. Ana Bot, our proprietary AI-fueled chatbot, handled 60% of all conversations on our marketplace and the DI-powered websites this quarter, and Ana's advanced language learning model continues to self-educate and improve.

I'm also excited about the power and potential of generative AI to improve our products. Using large language models to analyze millions of reviews only available on Cars.com, we are now using generative AI to synthesize consumer sentiment regarding dealer experience. This helps consumers understand the expected dealership experience without having to sift through hundreds of dealer reviews.

We are also using generative AI to synthesize vehicle reviews and listing details. This quarter, our teams have deployed technology that will provide users with bulleted synthesis of vehicle attributes, cleaning up cluttered vehicle detailed descriptions into cleaner, more powerful vehicle displays. Rather than expect consumers to read hundreds of reviews or sift through unstructured data, we are using the power of AI to gain efficiencies, create better consumer and customer experiences, and add meaningful value.

To reflect our spirit of innovation over 25 years, we recently elected to modernize our Cars.com logo, which continues to emphasize our position at the nexus of car buyers and sellers. Coupled with this change, we launched a new ad campaign called Possibilities, which reminds us that both car buyers and sellers want the same thing, a happy customer driving off the lot in their next ride.

As the second largest purchase that most consumers will ever make, car buyers typically spend two to three months sourcing information and getting inspiration about vehicles, retailers, financing and valuing their trade-ins.

Importantly, a car purchase is often triggered by a lifestyle or life stage change, and our new campaign showcases the excitement of purchasing your next car, and our new tagline, Where to Next, highlights how personal transportation facilitates the next stage in a driver's life.

Our new logo and brand campaign kicked off in June, with high-profile media placements across TV, digital, social and audio, and has directly delivered more than 800 million impressions. We are excited about the positive response our campaign has generated and expect to see this translate into continued organic traffic momentum.

Our platform of Possibilities offers a comprehensive suite of solutions to help car buyers and sellers. Our high-intent audience, coupled with dealer adoption of our solutions, creates a virtuous cycle that fuels our profitable growth. And as inventory and OEM production builds, this will further propel our performance.

Looking ahead, I'm confident we are well positioned to drive our growth for the second half of the year and beyond through our continued dealer adoption of our new marketplace packages, our digital solutions, and providing a high-quality market audience to our partners.

Now, I'll turn the call over to Sonia to discuss our detailed financial performance in greater detail. Sonia?

Sonia Jain
Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. We achieved another quarter of solid results, delivering both revenue and adjusted EBITDA within our guidance range. Total revenue for the quarter was $168 million, representing 3% year-over-year growth.

While we experienced continued softness in our OEM and national revenue, dealer revenue growth was particularly strong and up 6% year-over-year, driven by continued growth in solutions and media products, as well as growth resulting from our Marketplace Repackaging initiative. And given the subscription nature of our business, we expect to build upon second quarter's results with accelerated revenue growth in the third quarter.

Diving deeper into our financial results, I'd like to cover our expenses and the disciplined approach we're taking to invest in top-line growth. For the quarter, adjusted operating expenses were $147 million, $8 million higher compared to the prior year. This increase is primarily due to higher marketing and sales expenses due to compensation and our investment in the Cars.com brand, including the launch of our Possibilities campaign. These investments are critical to maintaining and growing our industry-leading brand, which allows us to deliver a highly engaged audience to our dealer customers.

As Alex mentioned, Cars.com drives more new consumers to dealer websites than any other marketplace. And through the addition of features like instant cash offer and instant financing, we're helping our dealer customers further identify high-intent, ready-to-transact consumers.

We also continued investing in product development to support our growth, which led to higher product and technology expenses, driven by compensation and third-party costs, specifically related to licenses and consulting costs.

Net income for the quarter totaled $94 million, or $1.37 per diluted share, compared to $6 million, or $0.08 per diluted share a year ago. Our current quarter net income was primarily related to the release of substantially all of the valuation allowance on our deferred tax assets originally recorded in 2020. Based on our recent performance and expected future income, we believe we will be able to fully utilize our deferred tax assets.

With the financials as context, let's turn to the initiatives that drove our success this quarter. As Alex mentioned, our Marketplace Repackaging initiative is more than 60% complete as of the end of the quarter and has proven accretive to both the top and bottom line. This is a strategic initiative intended to better align our value delivery with price, simplify the go-to-market experience for both our dealer customers and sales team, and enable dealers to leverage some of our cross-platform capabilities within one package.

As with any initiative that involves increased pricing, we anticipated incremental churn this quarter, particularly given that we had five cohorts who either received advanced pricing notifications or pricing changes in the quarter. Encouragingly, as we enter the second half of the year and move beyond the Marketplace Repackaging initiative, we have seen dealer customer trends stabilize in the month of July.

We ended the quarter with 18,785 dealer customers, 2% lower compared to the prior quarter. This variance was largely driven by cancellations from lower inventory lower ARPD customers. Independent of our repackaging initiative, June's retention rate remained at a historical high, evidence that our value delivery remained strong.

Overall, marketplace contributed more than half of the 6% year-over-year growth in second quarter ARPD, and sequentially, it drove our $86 ARPD increase. Given our subscription-based revenue model, we expect these strong results to fully accumulate in the third quarter.

Our continued efforts to cross-sell have also played a strong role in our ARPD growth. Increased sales of digital solutions drove approximately half of our year-over-year improvement in ARPD. Our Dealer Inspire revenue grew 29% year-over-year from a combination of growth in websites, increased media upsells of our digital advertising solutions, including cross-platform advertising on Cars.com, and renegotiated contracts that better align our value delivery with our pricing and packaging structure.

While OEM and national spending has not yet bounced back, we are seeing strength in our dealer media products. They were responsible for nearly half of Dealer Inspire's year-over-year revenue growth. Not only are we seeing existing dealer customers expand their use of our marketing services, but we're also seeing more dealers eager to take advantage of the cross-platform benefits of our marketing products.

Note, we do not include digital advertising revenue in our ARPD today, but if we did, ARPD growth would be 4 points higher year-over-year. Our performance this quarter reflects the strength of our platform strategy with growth across all major pillars of our business.

Now, transitioning to cash. Cash provided by operating activities for the six-month period ending June 30, 2023 totaled $56 million and free cash flow was $46 million. The $12 million increase in free cash flow year-over-year was primarily due to positive changes in our working capital and higher adjusted EBITDA, partially offset by increased cash taxes of $12 million during the first half of 2023.

Similar to last year, we also made our semiannual bond interest payment of $12.8 million this quarter, but our cash interest was lower year-over-year due to the expiration of the swap and lower outstanding principal on our credit facility.

During the first six months of the year, we paid down $22.5 million of debt, reducing our total debt outstanding to $459 million as of June 30, 2023. At quarter-end, net leverage was 2.3 times, comfortably in the middle of our target range of 2 to 2.5 times. We continued to maintain ample liquidity of $259 million, comprised of $230 million of undrawn revolver capacity and $29 million of cash on hand.

Additionally, our strong balance sheet provides us with the financial flexibility to return capital to shareholders. And year-to-date, we repurchased 900,000 shares for $17 million. Our continued strong execution and revenue generation enables us to maintain a balanced capital allocation strategy. As a result of our steady operating performance and consistent reduction in leverage, S&P Global upgraded our credit rating to BB- from B+.

Now, turning to our guidance. For the third quarter of 2023, we expect to deliver strong sequential growth with revenue between $172 and $174 million, representing continued solid year-over-year growth of 4.5% to 5.7%. Our third quarter guidance reflects the continued rollout of our Marketplace Repackaging initiative, expansion of dealer solutions and media products via cross-sell, and modest sequential improvement in OEM and national revenue.

We expect third quarter adjusted EBITDA margins to be between 26.5% and 28.5%. Our adjusted EBITDA margin guidance reflects third quarter revenue guidance and increased marketing investment to support our new Cars.com brand campaign.

For the year, we're narrowing our revenue growth guidance range from 3% to 6% to 4% to 6%, effectively raising the midpoint of our full year 2023 revenue guidance. Our guidance reflects our strong first-half performance and the continued benefit of our Marketplace Repackaging initiative as well as modest second-half improvement in OEM and national revenue.

We are also reaffirming that fourth quarter adjusted EBITDA margins are still expected to approach 30%. Our strong core operating KPIs, dealer customers, ARPD and high-intent scale audience, together with continued focused execution, position us well to achieve these goals.

And with that, I'd like to open the call for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Tom White from D.A. Davidson. Please go ahead, Tom.

Tom White
Analyst, D.A. Davidson & Co.

Q

Great. Good morning, everyone. Thanks for taking my question. A couple, if I could. So, I guess – so revenues for this year – for the quarter rather, total revenues came in at the low end of the range, but the dealer revenue was up – nicely up 6%, beat our forecast by a couple million bucks. So, it looks like, I guess, national revenue and the other line maybe lets you down a bit. I think you said last quarter that the national was perking up a little bit, so I'm curious to hear a little bit of an update on that.

But, net-net, you're tightening the range for the full year on revenue to the high end. So, maybe just a bit of color on what's giving you confidence to do that. It sounds like maybe it's not national revenue perking up. Maybe it's better retention rate from dealers after the price hikes. Just kind of curious what's giving you the confidence on that.

Sonia Jain
Chief Financial Officer, Cars.com, Inc.

A

Thanks for the question, Tom. So, we did have a really solid Q2 print, particularly in dealer revenue. It's not just the Marketplace Repackaging that we think is putting a lot of momentum into the business, but we're still seeing strong cross-mail activity with solutions and our media products as well. You're spot on that we did experience a little bit of softness in OEM and national as well as in our other line. We don't talk a ton about the other line, but there was some revenue that we've been seeing last year related to the acquisition of Accu-Trade, some license agreements that we inherited that we anticipated would run off this year. And what you see in the delta there is simply the runoff of those license agreements, which were actually non-cash. So, they don't really have any material impact to adjusted EBITDA.

I think in terms of the forward-looking guide, a little bit on that. We have the Marketplace Repackaging. The 6% year-over-year growth that we reported on ARPD is sort of like a blended view of what we saw transpire over the course of the quarter. I think we've talked a little bit about how we've taken a phased approach to repackaging, launching kind of cohorts each month. And so, as you can imagine, the benefit of ARPD is building in each sequential month.

If you look at June as an example and peel back the onion a little bit in terms of the drivers of ARPD, our core marketplace ARPD actually did grow double digits on a year-over-year basis. I think, one of the challenges in the numbers right now when you look at dealer revenue and dealer ARPD is the fact that we also had digital dealers in our numbers last year that we don't have in the numbers in the same way this year. And that's offsetting some of the benefit of Marketplace Repackaging.

Tom White
Analyst, D.A. Davidson & Co.

Q

Okay. That's helpful. And then just on the national line, I could be wrong, but I was under the impression that last quarter there was some comments that suggested that maybe that was perking up a bit. And TrueCar's OEM revenue line, I know it's different than yours. It's not kind of display advertising based, but theirs perked up a little bit quarter-over-quarter. So just curious like what you're hearing there from OEMs, did anything slip out of the second quarter and kind of get delayed to the back half? Or is it still just very kind of hard to forecast or hard to know exactly how that line is going to come in this year? And then I'll get back in the queue. Thank you.

Alex Vetter
President, Chief Executive Officer & Director, Cars.com, Inc.
A

Yeah, Tom, my understanding of their OEM business is it's incentive spending. And we do know that OEMs are increasing incentives as inventory isn't moving nearly as fast as they would like. We think that's a low road to growth for OEMs, and we're recommending them spend more dollars to promote and compete for those vehicle sales as opposed to moving immediately to discounting. So, we do have fundamentally different approaches to creating value for OEMs.

I think we're very pleased with the reception we're getting from OEMs. Certified pre-owned has picked back up where OEMs are starting to lean back in, and the conversations we're having are all very productive. We're just not getting the conversion yet that we would have expected. But we still feel good about the business line going into the second half of this year and don't see downside feedback from clients, but rather more upside.

Tom White
Analyst, D.A. Davidson & Co.
Q

Good. Thank you.

Operator: And our next question comes from Marvin Fong from BTIG. Please go ahead, Marvin.

Marvin Fong
Analyst, BTIG LLC
Q

Good morning. Thanks for taking my questions. Maybe, Sonia, I think you mentioned that the dealer churn stabilized in July. Just exactly what do you mean by that? Do you mean that the dealer count was kind of flattish compared to June, or is the churn just stabilizing, but still at a negative number? Just more color on that would be helpful.

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

Yeah, I think a little bit more stabilizing from a dealer count perspective relative to June. I think as I mentioned earlier, we've taken kind of this phased approach to rolling out the repackaging where we get notifications to dealers in advance. Q2 saw a lot of activity between notifications and actual rate increases, given that we have some going into effect in Q3. So, it almost became a little bit of a bottleneck, so to speak, as you think about dealer communications. Coming out of the second quarter, we're 60% complete with repackaging as of the end of Q2. As of the end of July, we're 80% complete.

So as we head into the back stretch of the year, we're shifting from – our focus a little bit from repackaging and more to our ordinary course activities of continuing to focus on the cross-sell of our solutions and media products.

Marvin Fong
Analyst, BTIG LLC
Q

Great. Thanks. And my next question is just on OEM advertising, I guess, just to drill down on that. So, you provided full year guidance and obviously [ph] better than implied (00:26:32) fourth quarter performance. So, what's sort of your assumptions embedded in your guidance right now? And just for how OEM, that line item will perform in the fourth quarter? Should we expect another sequential improvement from third quarter? Or just share your thoughts there would be helpful. Thank you.

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

Yeah. No, great question. Generally, what you said. We are cautiously optimistic about the OEM and national line. As Alex mentioned earlier, the feedback and the reception we're getting from our OEM customers has been positive. But as I think I'm sure you're aware, while production levels have been increasing, new model launches continue to be shifting out, and that's typically one of the big drivers for OEM spend. That being said, we are expecting a modest improvement in our OEM and national revenue as we look sequentially into Q3 and then into Q4.

Marvin Fong
Analyst, BTIG LLC
Q

Perfect. Thanks so much.

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

But we'll still – just to caveat on what I mean by modest, it's likely that the numbers will still be down year-over-year, but we'll see an uptick relative to where we are right now.

Operator: And our next question comes from Rajat Gupta from JPMorgan. Please go ahead, Rajat.

Rajat Gupta
Analyst, JPMorgan Securities LLC
Q

Great. Good morning, and thanks for taking the question. Just had one classification first on the repackaging initiatives, the 60% you mentioned and then the 80% you are through the third quarter, that is a subset of the 25% targeted dealer base you were targeting this year, right? Or is that 80% relative to the 25% number? Just want to clarify that.

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

Yeah. Happy to clarify. So, no, we were actually targeting much more than 25% of the customers. So, we are targeting the majority of our – substantially the majority of our dealer customers.

Rajat Gupta
Analyst, JPMorgan Securities LLC
Q

Got it. So, it's 80% of all your dealer customers, basically?

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

We're not going to all of them. A lot of them are already at market rates today, but call it like 70-ish percent.

Rajat Gupta
Analyst, JPMorgan Securities LLC
Q

Understood. Got it. That's helpful clarification. And then in terms of the dealer count, sequential move lower, any granularity on the franchise versus independent dealers, one of your peers continues to see pressure in the independent segment. And wondering if you're seeing any similar trends. And also like any conversations you're having with some of the digital-only used car dealers around potentially returning to the platform. And just have one more.

Alex Vetter
President, Chief Executive Officer & Director, Cars.com, Inc.
A

Sure, Rajat. Great question. One point of clarification I want to make is that while we are targeting the majority of our dealer base, we also are targeting the biggest increases came early in the year. And so, now that we got through July, we picked up another full 20% of the dealer base through the repackaging, pleased that July results were stable on dealer count, which means we're getting better at justifying the rate that we're asking for and minimizing dealer churn.

Of the churn that we did experience, it was largely two things. The largest increases, the dealers that were furthest away from market rates, so their increases were much more sizable than others. And there was a heavy concentration of that of smaller independent dealers with lower inventory. So, I think the combination made a lot of sense to us that we were asking a lot in a year-over-year format from these dealers, but we know the value's there.

I think your point on digital dealers is timely in that, as you know, we're entering this year with almost 650 dealers taken out of our denominator. About 650, I think, Sonia, was the number of digital dealer locations that we had advertising on the platform. And so, that's been a headwind we've been out running, but still generating decent growth on dealer revenue. And we are now back in discussions with many of the digital dealers.

It's not in our guide. We're not expecting that to come back in any meaningful way this year, but I think it's telling that the digital dealers that pulled back end of last year, beginning of this year, are starting to realize that they've got to spend money if they want to move inventory, and we're a fertile marketplace to help them do that. You had a follow-on question, too, I think.

Rajat Gupta
Analyst, JPMorgan Securities LLC
Q

Got it. Yeah. Just last one on the EBITDA margin guidance for the fourth quarter, the exit rate 30% number. The reason for putting that out there, is that to imply that 2024 is going to be at least 30% EBITDA margins on an annualized basis, or was that to indicate some sort of new seasonality in the business? Just a clarification there. That's all I have.

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

Yeah. We've had that 30% target sitting out there sort of since the beginning of the year really just to – I think we're very committed to showing kind of the sequential improvement that we can drive in terms of adjusted EBITDA margin in the business. It is subject, though, to investments. And I wouldn't necessarily – and we have historically as an example tended to have lower margins, as an example, in Q1 when we have big industry events. So, it's not necessarily setting a new bar for go-forward expectations. We will set our 2024 adjusted EBITDA guidance in subsequent quarters.

Rajat Gupta
Analyst, JPMorgan Securities LLC
Q

Got it. Great. Thanks for taking the questions and good luck.

Operator: [Operator Instructions] And our next question comes from Gary Prestopino from Barrington Research. Please go ahead, Gary.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.
Q

Hi. Good morning, everyone. The dealer customers being down, was there any more drip of digital dealers coming out this quarter, or was that all done by the end of March?

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

Yeah. Good morning, Gary. On the digital dealer question, that was really done in March. So, no additional [ph] drip (00:33:10) there.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.
Q

Okay. And then assuming the dealers that you were using that really pulled out, were they the majority – they were not using any of the really high-priced digital solutions, things like that. These were just mostly independent that were low-budget dealers?

Sonia Jain
Chief Financial Officer, Cars.com, Inc.
A

That is correct. When you look at Q2 and some of the churn we experienced, the majority of those dealers are independent dealers. And even within that, they tend to be our lower ARPD, lower inventory, sort of one product using dealers.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.
Q

Okay. So – all right. So, in terms of Accu-Trade, Alex, are you finding that the dealers that you're signing up for Accu-Trade do not have the solution to source used vehicles from consumers or trade amongst themselves? Or are you displacing something? Or are they just taking on two or three different services that do the same thing?

Alex Vetter
President, Chief Executive Officer & Director, Cars.com, Inc.
A

Great question, Gary. Dealers generally have multiple ways they source inventory. The most prevalent or legacy way of doing that is, obviously, buying cars at auction. The emerging trend in the industry is, obviously, buying cars more directly from the public, because you're able to get fresher inventory that hasn't cycled through the retail market yet. And typically, if you can help a customer get out of a car, you've got a much higher likelihood of selling them a new car, so it gets really two for one.

If you think about the legacy way of buying cars, you can spend thousands of dollars in fees at auction, where with Accu-Trade, for $1,500 a month, you have unlimited buying power, right? Every customer that comes through your service lane, everyone who's shopping for a car on your lot and, of course, sourcing private party opportunities directly from our marketplace. So, we were really thrilled to see the organic lift in the number of cars appraised through Accu-Trade.

The dealer account number is growing nicely. Solutions accounted for 50% of our ARPD growth, and that's very sticky revenue, and we see that with – the dealers are using multiple solutions from us. It not only stabilizes that – or creates that new revenue stream, but it also has a stabilization for the marketplace.

And so, we're thrilled with the growth in Accu-Trade and just need to accelerate now, which will naturally happen when we're through this Marketplace Repackaging. It takes a lot of cycle time to get through 16,000 dealers with rate negotiations for your core marketplace offering. And so, our teams are largely through that with 80% of it through – through July. And so, you'll see us shifting more towards cross-selling and up-selling now in the second half.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

And then could you make any comments on fuel? We haven't heard anything in your narrative there. I mean – and that is a very high-priced product. How has the uptake been going there in terms of both your acceptance of the...?

Alex Vetter
President, Chief Executive Officer & Director, Cars.com, Inc.

A

Great question, Gary. FUEL is one of a few in-media offerings that we have, and generally we're pleased with it. We didn't call it out specifically because we are seeing interest from dealers and more media services from CARS. And so, that's actually something that we're looking forward to exploring more in the second half, because dealers are starting to see inventory not turn quite as fast organically on their lots, and so they're turning to us for more additional media services.

I think it wasn't a huge focus for us in Q2, again, for the Marketplace Repackaging initiative. But now that we're through that, dealers are talking to us more increasingly about spending more to move inventory. And not only do we have FUEL, but we've got retargeting solutions, we've got an inventory extension solution. So, we may not call it out by name, but media upsells are picking up steam right now, which is nice top line and high margin revenue for us.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And lastly, do you guys see the OEM revenue ever getting back to maybe where it was pre-COVID or a year or two before COVID? Given that everything you read from these OEMs is, we've got to cut costs, all right. GM said that directly on their conference call. I mean, is that something that you think will ever recover? And if it's not going to recover, is there anything that you can do to really try and increase the profitability of that business at a lower revenue stream?

Alex Vetter
President, Chief Executive Officer & Director, Cars.com, Inc.

A

Gary, I'm a believer. And I think the only thing we could debate is by when. I think the macro thesis is, do you believe that car companies need to do more digitally or less digitally going forward? And I think, overwhelmingly, the data supports that they need to do more digitally. OEMs continue to force dealerships to spend on their physical plant. And we believe that they need to help dealers spend more on their digital plant. And we're well-positioned to help them do that.

As you know, we've got multiple vectors for growth with OEM. We are talking about raising rates on our website offering because we know we can justify higher fees there. There's more that we can do on data targeting, particularly with the collapse of the cookie and IP tracking. They're going to have to spend more with first-party data sources to reach people when they shop, which we've got the largest organic audience for them to reach buyers there. And we're also talking to them about technology solutions.

I mentioned last month that we're talking to a few OEMs about using our trade-in tools, our financing offerings. So, there are new revenue streams and discussions that were happening, and I'll tell you that initial upfronts for 2024 are preliminarily very strong in terms of what we're hearing from them. So, I'm a big believer. I understand with the inventory shortage why it hasn't been a big boon for our business this year, but I'm a definite believer that this line of business is going to grow materially over the next few years.

Gary Frank Prestopino Q
Analyst, Barrington Research Associates, Inc.

Okay. Thank you.

Operator: Our next question comes from Steve Dyer from Craig-Hallum Capital Group. Please go ahead, Steve.

Ryan Sigdahl Q
Analyst, Craig-Hallum Capital Group LLC

Morning. Ryan on for Steve. Just one follow-up, or I guess one question from us. Curious on the OEM and national, are you having any increased interest or conversations from OEMs as they look to advertise new EV models, as they're ramping production, demand seems a little lackluster for certain OEMs anyways. Just curious any interest on the EV side.

Alex Vetter A
President, Chief Executive Officer & Director, Cars.com, Inc.

EV inventory has exploded up almost 230% on our platform, but consumer demand has actually softened, from a consumer demand standpoint. And what we know about the EV market is search trends tend to correlate more with gas prices than they do with product availability. Consumers flocked to EV search share last year when gas prices were clipping north of $4 or $5 a gallon. And now that those prices have moderated, we're seeing search share wane.

Unfortunately, many OEMs are immediately moving to drop price. And we think that is certainly one way to move that inventory. We think that there is generally low consumer awareness of the various EV offerings out there still. And I hope that the OEMs that are listening right now and their agencies will call us, because we can introduce their products to people who are actively shopping for them in real-time and increase their likelihood to convert much more than just dropping price and screaming incentives.

Ryan Sigdahl Q
Analyst, Craig-Hallum Capital Group LLC

Very good. Thanks. Good luck.

Alex Vetter
President, Chief Executive Officer & Director, Cars.com, Inc.

A

Thank you.

Operator: And at this time, there are no further questions. I would like to turn the call back over to Alex Vetter, your CEO, for closing remarks.

Alex Vetter
President, Chief Executive Officer & Director, Cars.com, Inc.

I want to thank you for your interest in CARS today and joining us. I'd like to mention that Sonia and I are going to be participating in the BTIG Virtual Conference on August 16, and we'll keep you posted on other investor engagements throughout the year. This concludes our call.

Operator: This concludes today's conference call. Thank you for attending.