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Cars.com, Inc. (CARS)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Cars.com Inc.'s fourth quarter and full year 2023 earnings conference call. This call is being recorded and a live webcast and accompanying slides can be found at investor.cars.com. An archive of the webcast will be available at Cars.com Investor Relations website.

I'd now like to turn the call over to Robbin Moore-Randolph Director of Investor Relations. Thank you. Please go ahead.

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.com Inc.'s fourth quarter and full year 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 fourth quarter and full year. Then Sonia will discuss our financial results in greater detail, along with our 2024 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 measures 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. Welcome to our fourth quarter and full year 2023 earnings call. 2023 was a strong year of growth as we executed on our strategy to enable our industry. We delivered another quarter of solid performance exceeding our guidance. We grew revenues sequentially across marketplace, digital experience, trade and appraisal and media solutions.

For the year, ARPD grew 7%, resulting in $689 million in revenue, a 5% increase year-over-year. Our reoccurring revenue model supports our strong adjusted EBITDA, which was $195 million, representing a 28% margin. And we ended the year with more than 19,500 dealer customers and rebounding OEM interest in our retail media network.

2023 also marked a year of significant strategic progress. Our team executed on meaningful initiatives that advanced our platforms strategy and we continued to invest in innovation for both consumers and partners to drive further growth.

For our partners, we united our B2B brands under Cars Commerce, making it easier for them to do business with us and reinforcing our commitment to simplifying everything about buying and selling cars. This underscores our differentiated platform with a powerful combination of audience, technology, and data.

During the fourth quarter, we also expanded the Cars.com geographic footprint into Canada with the acquisition of D2C Media, a leading automotive technology and digital solutions provider. The integration of technology and teams is well underway and throughout 2023, we introduced new simplified marketplace subscription packages, enabling customers to seamlessly leverage our platform capabilities. This resulted in nearly 70% of Repackage Marketplace customers opting for higher tier subscription package that will drive continued growth in both revenue and adjusted EBITDA.

We're actively helping our customers drive commerce by consulting them on how to win the customer journey. Our Dealer Experience Report helps dealers improve and differentiate their retail experience.

For example, George Lawton, the marketing operations manager of Schomp Automotive, a 12-store dealer group in the greater Denver area, has been actively monitoring the experience report each month to manage the reputation of his stores. Since leveraging this report, Schomp's dealerships are trending up in every experience category.

Importantly, we had a record year for customer submitted reviews, now totaling more than 13 million, we continue to have the largest number of reviews in the industry, cementing our leadership position and reputation management.

Moving on to enhancements we made on our consumer experience on Cars.com. We debuted a new feature called Your Garage, enabling consumers to track and trend the real-time trading value of their car with the Cars.com instant market value. Initial results have been positive.

Consumers leveraging Your Garage visit our marketplace 70% more frequently, reducing our reliance on paid media. We also launched the all-new New Car Hub to help consumers and brands connect. With new car inventory up 36% in January and with approximately 70 new model launches planned for 2024, including a record number of EVs. OEMs and dealers need to stay in front of undecided shoppers. And New Car Hub combines Cars.com's proprietary research with OEMs branded content and why buy messages directly into our marketplace. OEM showcasing their vehicles on New Car Hub see increased consumer engagement in their make and models with increases in share of search volume, traffic and leads.

Helping OEMs and dealers work together to promote inventory and drive commerce is core to what we do. But we're also leveraging technology to make our industry more efficient. We continue to lead with innovation and are early adopters of AI.

We've extended the use of generative AI to support the user experience in our marketplace, and we're also in market with several tools such as Autocorrected, which identifies and highlights important features in seller notes and our conversations tool powered by AnaBot that helps our customers streamline and improve their operating efficiency and user experience. Our ongoing investment in AI technology reflects our commitment to innovation and the enhancement of our services.

In addition to enhancing our consumer and customer experiences, we continue to innovate and promote our original content and number one marketplace brand, Cars.com. Recall that the majority of our traffic comes to us organically. Unlike others, we don't rent our traffic. We own it. A true differentiator amongst our competitive set.

And to further our advantage, Cars.com has the number one most downloaded Auto Marketplace app where organic traffic increased 10% year-over-year. Investing in our brand, generating great content, and leveraging our editorial expertise, I'm pleased to report that we set a new all-time company record for total traffic in 2023, reaching 615 million visits, a 5% increase from the prior year.

Our platform offers a winning combination of demand, generation and industry-leading tech solutions that delivers significant value. Our website business continues to grow, and at year-end, we powered approximately 7,300 dealer websites, including D2C. With the expansion into Canada, our TAM expands as more dealers are interested in our website solutions that are supported by the Cars Commerce platform.

Dealer users of Accu-Trade, our trade and appraisal solution, also continues to climb. We ended the year with more than 880 Accu-Trade connected customers. For the quarter, dealers conducted more than 590,000 appraisals, a 15% sequential increase. Our technology enables dealers to quickly and efficiently buy and sell inventory while helping maximize profits and improving the customer experience.

As used car inventory becomes more constrained and used car profits come under pressure, it's more important than ever for dealers to reduce their dependence on the expensive auctions and source cars more cost effectively.

Accu-Trade enables dealers to save on average $1,300 per vehicle in costly auction and transportation fees by enabling them to buy cars directly from their customers. Unlike other services that generate leads that don't close or run auctions without sufficient buyers or sellers, Accu-Trade is a complete buying solution that enables dealers to source cars from their showroom service lane website and the Cars.com Marketplace.

Accu-Trade also offers the most accurate pricing and value for vehicles because we leverage not only Cars.com's robust retail supply and demand data, but we also have in-house industry experts who make real-time market adjustments. So, while the rest of the industry relies on historical trends and broad category-based wholesale data for ranges, we accurately price every car.

Our OBD scanner automatically syncs detailed mechanical findings from the customer's vehicle to inform the appraisal in real-time. Accu-Trade doesn't just focus on the history of the vehicle, we focus on its health, uncovering needed repairs that save dealers on average $650 per vehicle, while also providing consumers with greater transparency of the data powering the cash offer, thereby reducing negotiated friction between the buyer and the seller.

Dealers can now buy more cars from their own customers, which drives greater profitability as they can now avoid the costly auction altogether. We are proud that FordDirect selected Accu-Trade as their brand's preferred trade and appraisal solution for the shop, a newly launched preferred vendor selection program for their more than 3,000 Ford and Lincoln retailers. OEM endorsements help speed adoption, and we are excited about helping Ford and Lincoln dealers take advantage of our technology.

Cars Commerce has deep data and analytical capabilities. We recently launched our New Industry Insights Report, which analyzes supply demand, pricing and consumer behavior data from across the Cars Commerce platform. The January 2024 report revealed that the automotive industry is shifting to a buyer's market with more affordable new cars and increased new car inventory up 36% year-over-year.

Used car scarcity is also increasing with used vehicle listings down 4% compared to the prior year, indicating increased volatility in the used car market this year. While many marketplaces are solely focused on used cars, our new car content and expert insights coupled with improving new car inventory best position us to help OEMs and dealers stimulate demand and move inventory.

We recently gathered at the National Auto Dealers Association Conference, the largest annual gathering of US dealers and industry leaders. The show provides an opportunity for us to consult with thousands of current and prospective customers, gather their feedback and demonstrate our newest solutions.

I want to thank those of you who were able to join us for our first ever NADA Investor Breakfast. It was great seeing many of you in-person as we were able to provide a more hands on experience of our Cars Commerce solutions like Accu-Trade and VIN Performance Media, a new advertising solution that dynamically positions a retailer's VIN specific inventory in front of the right shoppers across search, social and display.

The single solution approach saves time and money while maximizing ad performance and operational efficiency. NADA clearly showed that our strategy is working, and we remain focused on simplifying everything about buying and selling cars and creating exceptional value for consumers, dealers, and OEMs.

Looking ahead, we remain squarely focused on five growth drivers. Grow and sustained engagement with our market leading audience, grow dealers and cross-sell our solutions to generate more leverage for our customers, create peerless experiences for OEMs and create more platform advantages. Our momentum is strong. We are growing demand for our connected platform and empowering our consumers and customers unlocking both top and bottom-line growth.

Now for more details on our solid results and 2024 outlook, I'll turn the call over to Sonia. Sonia.

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

Thank you, Alex. We ended the year with robust Q4 revenue growth and adjusted EBITDA margins that exceeded our guidance. Revenue grew sequentially throughout the year, reaching $180 million for the quarter, a 7% increase over the prior year. Excluding the two months of D2C media revenue, revenue increased 5% year-over-year and we delivered our 12th consecutive quarter of year-over-year revenue growth.

Our strong quarterly performance was driven by dealer revenue, which grew 8% year-over-year to $161 million. OEM and national revenue also increased to $15 million, up 8% compared to the prior year and up 6% sequentially. Notably, the OEM portion of OEM and national revenue increased significantly by 24% year-over-year, indicative of increased production, new model launches and a year-end list as OEMs invested the balance of their advertising budgets.

Other revenue was down approximately $2 million compared to the prior year due to the planned expiration of a non-cash Accu-Trade license agreement with another Marketplace participant that expired in early 2023.

Turning to expenses. For the quarter, total operating expenses were $165 million compared to $148 million a year ago. It is worth noting that unlike CreditIQ and Accu-Trade, the earnout associated with D2C runs through operating expenses primarily in G&A and is a partial driver of the year-over-year increase at $3 million.

On an adjusted basis, operating expenses were $151 million, $10 million higher than a year ago, primarily due to our continued investment in people, A $3 million increase in depreciation and amortization and investments in marketing to support the launch of our B2B brand, Cars Commerce.

Net income for the quarter totaled $8 million or $0.12 per diluted share, compared to $10 million or $0.15 per diluted share in the prior year. The change in net income is primarily attributable to changes in the fair value contingent consideration associated with our prior acquisitions, specifically CreditIQ and Accu-Trade. Adjusted EBITDA for the quarter was $55 million or 31% of revenue exceeding our guidance. sequentially, our margin expanded approximately 250 basis points and year-over-year, our adjusted EBITDA increased 12% or $6 million.

Now moving to our full year 2023 performance. Revenue totaled $689 million, up 5% year-over-year. Dealer revenue increased 7% to $622 million, driven by growth in website Accu-Trade, Our 2023 Marketplace Repackaging Initiative and media sales.

OEM and national revenue was $56 million or 5% lower compared to the prior year. The strength in our OEM revenue was offset by continued softness in national revenue, largely related to a significant pullback from our insurance customers due to macro and environmental factors. Additionally, other revenue was down approximately $4.5 million, primarily related to the aforementioned non-cash Accu-Trade agreement.

Turning to expenses. Full year total operating expenses were $635 million compared to $588 million in the prior year. On an adjusted basis, operating expenses were $38 million higher compared to last year. This is largely driven by increased compensation and employee related expenses, particularly in marketing and sales and product and technology.

In addition, as we'd accelerated product development and technology investments, depreciation and amortization expense was also up year-over-year. In addition to compensation, marketing expenses were also slightly higher year over year as we invested in both our consumer and B2B brand with our Cars.com possibilities campaign and the launch of the Cars Commerce go-to market brand.

Net income for the year totaled $118 million or $1.74 per diluted share, compared to $17 million or $0.25 per diluted share in the prior year. Current net income was primarily related to the release of a significant portion of the company's valuation allowance for deferred tax assets that was recorded in 2020. Adjusted EBITDA for the full year was $195 million or 28.3% of revenue, compared to $187 million or 28.6% of revenue in the prior year.

Now turning to our key metrics. While we experienced some variance in our dealer customer count related to the impacts of our 2023 Marketplace Repackaging initiative and the sunset of Digital Dealers, we added 950 new dealer customers through the acquisition of D2C Media and ended the quarter with 19,504 dealer customers, compared to 18,715 dealer customers for the third quarter of 2023.

As you can see, our platform strategy is working. ARPD grew 7% or $162 to $2,523, driven by the strategic decision to include more of our platform offering in higher tiers of our marketplace packages and increased dealer adoption of digital solutions. Our platform strategy ultimately drives higher customer lifetime value by improving both ARPD and retention through our enhanced value delivery.

As an audience-driven tech company, our ability to deliver a large and engaged audience to our customers is critical to the value we provide them. For the quarter, we delivered 143 million visits, a 2% increase compared to the prior year, and average monthly unique visitors were 24 million for the quarter.

Our asset light business model consistently generates attractive free cash flow conversion. Net cash provided by operating activities totaled $137 million for the year. Free cash flow was $116 million, $7 million higher compared to the prior year, driven primarily by an $8 million increase in adjusted EBITDA and favorable changes to working capital, partially offset by an increase in cash taxes of $17 million.

Our strong financial profile enables us to execute a balanced capital allocation strategy, which includes value accretive investments in the business, a thoughtful acquisitions strategy and return of capital to shareholders, all while maintaining modest leverage.

In 2023, we repurchased 1.7 million shares, or nearly 3% of total shares outstanding at the start of the year. As of December 31, 2023, we have $120 million remaining on our share repurchase authorization. Total debt outstanding at year-end was $490 million, and our net leverage of 2.3 times remains squarely in the middle of our target range of 2 times to 2.5 times. We have ample liquidity at $234 million, which includes $39 million of cash and cash equivalents and $195 million of revolver capacity.

Now, turning to our guidance. We expect to deliver another year of strong growth. Market conditions for our in-market solutions are improving with increased OEM production, new model launches, and rising dealer inventory coupled with a still cautious consumer, our in-market solutions are more valuable than ever.

With that as a backdrop, we expect to deliver first quarter revenue of $179 million to $181 million, or year-over-year revenue growth of 7% to 8%, which reflects continued growth in dealer revenue driven by ongoing adoption of our suite of products. The D2C acquisition and the full period impact of the 2023 Marketplace Repackaging initiative.

OEM and national advertising revenue is also expected to be up year-over-year, but historically it has experienced some seasonality from the fourth quarter to the first quarter. For the full year, we anticipate continued dealer and OEM adoption of our platform, which is reflected in our revenue growth guidance of 6% to 8%.

As we continue to make strategic investments that support our growth, we anticipate adjusted EBITDA margins the first quarter to be between 27% and 29%. Recall, we usually make seasonally higher investments in marketing and sales in the first quarter due to the timing of in-person industry events. And 2024 is no different.

We expect margins to improve over the course of the year and anticipate delivering full year adjusted EBITDA margin between 28% and 30%. Capital expenditures for the year are expected to range between $23 million and $25 million. Cash taxes are expected to increase slightly to approximately $20 million. And overall, we anticipate delivering another year of free cash flow growth.

In summary, we delivered strong results for 2023, driven by our focused execution. And looking ahead, we are well-positioned to deliver sustained value for consumers, customers and our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. [Operator Instructions] One moment, please, for your first question. Your first question comes from the line of Rajat Gupta from JPMorgan. Please go ahead.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Great. Good morning. Thanks for taking the questions. Congrats on the good quarter as well. I had a first question just on the 2024 guidance, the 6% to 8% revenue guidance. Can you give us a little more granularity on what's the breakup of that? how much is ARPD versus, just like for like price increases versus, just product mix, how much is dealer count, OEM revenue, et cetera? Any more granularity would be helpful. And I have a follow up. Thanks.

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

A

Yeah, thanks for the question, Rajat. It's Sonia. Maybe I can. I'll start by giving a little more color, and let's see if that helps a little bit. one of the things that's factored into our full year guidance is the acquisition of D2C. So, if you recall, we bought that business in November and captured two months of revenue in 2023 and we'll get the full benefit of that acquisition in 2024, along with sort of our efforts to continue to integrate that business, which means more sales of Accu-Trade in Canada, leveraging kind of the combined OEM endorsements that exist between our two companies to go faster in terms of Canadian expansion.

We're also positive on OEM and national revenue. We saw some positive performance in that business in Q4 that we're really excited about. And while there may be a little bit of lumpiness from Q4 to Q1, just in terms of how in terms of how OEM spend their budget, we expect a good year with inventory levels rising, new model launches, EV releases that require consumer education.

And then, lastly, on dealer revenue, that's been just a really strong portion of our business over the last several quarters. And I don't think anything has changed. Our focus is really on trying to grow ARPD there on an organic basis and we think we have the ability to do that, just given the suite of products that we have and the continued penetration. NADA, we saw a lot of really positive interest in our new media product as Alex was just talking about then performance media.

In addition, we saw a lot of really strong interest in Accu-Trade, you may have noticed we got it -- endorsement from Ford. We have a lot of other OEMs that are excited to partner with us, particularly given some of the used car pricing volatility that's out there. So, we generally see and are optimistic about the growth trajectory for 2024 across all of our lines of business.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Got it. Got it. Okay. That's helpful color. And then just on the dealer count, I noticed that excluding D2C media, it was down sequentially, maybe a little more than what we would have expected. one of your peers talked about some continued pressure on the independent used car dealer side of things.

Curious, how should we think about that for 2024 in terms of implications? What's kind of like embedded in your guidance in terms of behavior from those customers? And you talked -- you also mentioned in the presentation that you essentially have no digital dealers on the platform anymore. And curious, like, are you seeing -- are you expecting any of that to change just on the digital side as well in 2024? Thanks.

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

A

Hey, Rajat. Great question. Well, first of all, I've seen this cycle a number of times in my tenure in the space and what I will tell you is that Q4 tends to be a softer period in terms of dealer net adds. And then we're seeing that spill over into Q1. And I think it's largely attributable to the macro environment where profitability concerns regarding the price of used cars, lower inventory levels available in the market, new cars, not selling as fast.

And dealers take a general reactive stance where they cut expenses dramatically in the short-term and then revisit whether or not they should bring them back. And we see that, too, in our business. I wish it wasn't our behavior -- the behavior of our industry. But it happens.

The good news with our strong traffic trends, our organic concentration or our traffic concentration, our organic traffic, we've proven that we win a lot of these dealers back even when they do blink because of the current trends. I think broader forecast for this year are healthy and strong. So, we feel very good about the full year view. But I know we're feeling some choppiness right now because dealers are paranoid about the current environment. So, we're working with dealers on this stuff.

The good news is that when you look at the bulk of where our growth is coming from, it's on technology solutions that actually directly help the profitability concerns that dealers are feeling. And so, yes, it's a slower sales cycle to sell in our solutions. But once we get those solutions sold it has a halo effect and it's a stickiness effect for the whole platform. And so those would be the big headlines.

I think finally, I'd just also echo what Sonia said. Like, we look at the new car side of the business, the bulk of our business is the franchise dealer community. We don't index heavily in the independent dealer community like some of our peers. And so, they are also looking at us for media solutions that can help them move those new cars as well. And I think that gives us some, some strong footing heading into this year.

Rajat Gupta
Analyst, JPMorgan Securities LLC
Q

Got. And on the digital independent side, anything that's changed or you expect to change, and I know there are not many digital dealers left, but...

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

We're not expecting that, we're not expecting that to be a growth driver in the business. And as you noted, we have none of those dealers in our current accounts. So, we don't have any downside exposure to those operations. And there certainly should be upside. I mean, I generally believe that anybody that's trying to sell or buy or sell cars in the auto industry needs to be with our platform. But we're not needing those segments to come back in order to deliver our guide.

Rajat Gupta
Analyst, JPMorgan Securities LLC
Q

Got it. Got it. Great. Thanks for the color.

Operator: Thank you. And your next question comes from the line of Thomas White from D.A. Davidson. Please proceed.

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

Great. Thanks for taking my questions. I guess, first off on OEM, I guess the OEM component of the OEM and national line, I think you said up 24% in the quarter. Sonia, can you remind us when like the insurance advertisers that kind of cut spending, when do we fully lap that and how can we think about OEM kind of continuing on that trajectory for kind of the balance of 2024?

And then I guess maybe a slightly bigger picture one, I think you said you grew traffic 5% last year. Revenues also grew 5%. Can you just talk a little bit about your ability to kind of grow the business in excess of traffic growth in 2024 and the years beyond as you kind of build up some of these products that are that are less dependent on traffic. Thanks.

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

Maybe I'll -- thank you for the questions, Tom. Maybe I'll take the first one on sort of that insurance component. I think that really sort of spiked as an issue at the beginning of 2023. So, to large extent, we should be lapping some of those challenges as you look to 2024.

I do think the Q4 year-over-year growth that we saw in OEM, I wouldn't necessarily use that as like the run rate going forward. We do see more investment sometimes come into Q4 just based on the timing of releases, timing and phasing of their spend and investment in advertising. But we think -- we think 2024 has a really promising outlook when it comes to the OEM and national side of the business.

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

And I'd echo that if you look at the past 12 quarters, we've been steadily growing the dealer revenue and the total revenue for the business despite OEM headwinds. And so, the correlation between traffic and revenue I think is more coincidental because such a bulk of our revenue growth has come in through non-traffic dependent solutions like Accu-Trade or our Dealer Inspire websites.

These don't have a traffic dependence. And so, we've been outrunning the declines in national for a few years now with strong dealer growth and ARPD growth. Now that the OEM new car production levels have returned, we're seeing increased interest in our solutions like there's generally a healthy picture forming here, Tom. I think the opportunity for us to sustain our traffic levels, we believe it's there because we've got the brand, we've got the content, we can sustain healthy traffic levels.

We're not expecting big traffic gains in 2024. In fact, we -- our goal is more getting credit for all the value that we're delivering through things like showing up better in dealer CRMs, capturing the value of the traffic that we're delivering directly to dealer websites, the amount of phone calls that ringing in the stores, like we just need to tighten up the conversion funnel and the dealers performance, which is why we highlighted the dealer experience report in the call, because the value is there, it's just retailers don't always connect the dots as clearly as we'd like.

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

Q

Okay, great. Maybe just one last one if I could slip it in. Alex, when you're talking about the five growth pillars, I think you mentioned unlocking more platform advantages. Could you just elaborate a bit on kind of what you meant there? Thanks.

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

A

Sure. I mean, I think there's two things. One, we're trying to create more leverage for our dealer partners. And so, they're looking for fewer point solutions and more connected tech. So that clearly is a thread when we say we want platform efficiencies, we want to be able to deliver more product and solutions to dealers at lower costs because we're leveraging a common backbone or the infrastructure of Cars.com and giving that power to our dealers.

But specifically, when we lay it out on the slide that you're referring to, it's really about driving those internal operating efficiencies here as well. As you know last year, we started really in earnest, beginning to cross-sell our solutions and integrating our sales teams from our various platforms. That was part of the rebrand towards Cars Commerce is getting our sales teams to be able to sell all of our capabilities as opposed to one or another.

And then finally tightening up back-end operations, right. Consolidating our support teams so that we can deliver faster turnaround times for our customers, consolidating point vendors and negotiating preferred agreements for enterprise-wide use cases for various things like Slack or consolidating AWS accounts for D2C with the Cars Commerce platform. There are dozens of opportunities inside the company where we can find synergy and create leverage for investors in the business.

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

Q

Great. Thank you.

Operator: Thank you. And your next question comes from the line of Naved Khan from B. Riley Securities. Please proceed.

Naved Khan
Analyst, B. Riley Securities, Inc.
Q

Yeah, hi, thank you. A couple of questions from me, maybe just on as I think about your 2024 sort of ad spending on marketing activities, how should I be thinking about that relative to 2023? And how should that grow or not? And the second question I have is just on the VIN Performance Media, so demo at the NADA show was pretty impressive. What are you baking in, in terms of contribution from this in your annual guidance?

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

So, I think in terms of marketing expense, which I think you were asking about, we expect to see some modest increases in marketing expense on a year-over-year basis, but I don't think anything particularly dramatic. We continue to be focused on trying to deliver that engaged consumer audience to our dealer and OEM partners and then also, continue to be focused on how to think about elevating and continuing to elevate our brand in both the minds of the dealer as well as the consumer.

I think in terms -- I think your second question was on VIN performance media.

Naved Khan
Analyst, B. Riley Securities, Inc.
Q

That's right.

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

And just, guidance that -- it's we have -- we have a -- I guess, for lack of a better word, it's baked into the guidance that we've provided. We really just launched it in NADA. We've done a very small pilot kind of prior to that. So, the benefit of that is going to roll in throughout the year. And you should think about it in some ways as a little bit of an extension to the existing media buy that that dealers are already making with us. So, it'll have -- it'll be a benefit to our number that's baked into our guide.

Naved Khan
Analyst, B. Riley Securities, Inc.
Q

Got it. And so, Sonia, just to clarify your answer on the first question on the ad spending. So, as a percentage of revenue, it shouldn't really change in 2024 versus 2023 or how should I think about that?

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

Yeah, it's pretty -- I think we've been pretty consistent on a percentage of revenue basis now, and so it'll stay in that same ballpark.

Naved Khan
Analyst, B. Riley Securities, Inc.
Q

Understood. Thank you.

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

A

Thank you.

Operator: Thank you. And your next question comes from the line of Kunal Madhukar from UBS. Please go ahead.

Kunal Madhukar
Analyst, UBS Securities LLC

Q

Hi. Thank you for taking my questions. A couple from me, one on the cookie less world that we may be going into. Don't know how quickly that gets rolled out. But, at the Investor Breakfast at NADA, you talked about how a significant proportion of your traffic comes direct and is organic that you don't need to pay for. So, can you help us understand how you intend to capitalize on the brand and the loyalty of consumers that you've kind of built on?

And the second question on the Accu-Trade side, so one of the things that been -- that was apparent from the NADA show was everybody seems to have a similar kind of offering to help dealers with used cars or getting used cars on their dealerships. So, why should a dealer use you and use Accu-Trade versus some other service? And what stops them from using multiple services? Thank you.

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

A

Great. Great question, Kunal. Thank you. First of all, the demise of the cookies has been talked about for years, and I think it's proving to move a lot slower than a lot of the early projections in terms of when it would actually crumble. But we do see it as a tailwind for us. the absence of cookie tracking technology being more prevalent is that brands have got to spend more money in first party audiences, of which we have the largest original retail media network of any of our peer group that's heavily -- that's solely in market car shoppers.

90% of our audience is undecided and nearly all of them are in-market right now. And so, the opportunity for brands who use third-party technology companies or inferred audiences, those conversion rates and those programs are going to weaken with the collapse of the cookie and in favor of those brands having to spend more with first party marketplaces.

To your point like what do we do to generate loyalty? Well, the average consumer in the US is only in the market once every several years, and so having a brand that's synonymous with car shopping naturally is one of our wow factors because we generate a lot of our traffic, as you said, organically or directly coming direct to Cars.com.

But you also noted in the call that we rolled out things like Your Garage, which allows consumers now to register their car long before they're in-market. And then we send them real-time updates on what their car's worth and then can recommend trade-in solutions to them. Always developing that organic relationship with our platform and our brand.

So, I think we've got a number of ways that we keep our audience healthy and strong. It's a testament that after 25 years, we still are setting records for traffic growth. And so, I think we've demonstrated that we have a great formula for value capture and delivery.

Your second question was about Accu-Trade and the notion that everybody has a similar solution. And I would challenge that assertion because, yes, there are no less than 12 different dealer-to-dealer trading platforms. Many of them have -- some have tons of sellers, no buyers, others have tons of buyers, no inventory. And so, you've got all these digital wholesale platforms that tend not to have a true network effect.

And then on the instant cash offer side, you've got a lot of marketplaces selling leads to dealers about buying cars. That is not what Accu-Trade is. If you look at Accu-Trade, we are giving dealers the ability and the power to buy cars directly from their own customers. When those customers walk in the store, are considering a trade-in and their service lane off their website. And yes, you can also source private seller opportunities from the Cars.com marketplace.

But the power of our technology is that we don't give generic ranges. We give precise valuation tied to the health of the vehicle. This is saving dealers tons of money. It's speeding appraisals from hours to minutes. And it's also so much more cost advantageous than buying cars at the auction and with used car scarcity of being a predominant theme this year, we know that auction prices are going to go up. We know fees, both auction fees and transportation fees are hefty to the tune of $1,500 per vehicle sold.

Contrasted to Accu-Trade, which is $1,500 a month. And you can buy hundreds of cars directly from customers in your own backyard. So, we think the differentiation of Accu-Trade is vast from what we see out in the industry and the dealers that have adopted Accu-Trade have said it's an absolute game changer to both their top and bottom-line.

Kunal Madhukar
Analyst, UBS Securities LLC

Q

Thank you.

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

A

Thank you Kunal.

Operator: Thank you. [Operator Instructions] And your next question comes from the line of Doug Arthur from Huber Research. Please proceed.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Yeah. Good morning, Sonia, did you mention anything about Dealer Inspire in terms of growth in the quarter and number of dealers in the system?

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

A

I didn't. I don't think I gave the growth. we had another year of double-digit year-over-year revenue growth associated with that portion of the business. But I'll tell you that, like increasingly on a go forward basis as we continue to integrate products across the platform, being really precise on that number becomes a little bit, a little bit more challenging as we continue to focus on cross-selling.

In terms of total website customers, I think Alex have mentioned we ended the year with about 7,300. And that includes to be clear, includes customers acquired through D2C.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Right. So that's 950 in the fourth quarter. Okay. Because I think you -- I think the number you'd given out on Q3 for website management was 6,300.

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

A

6,350.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

6,350. Sorry. Okay. So, I don't mean to harp on this. Did the growth slow a little bit as the comps get tougher in the fourth quarter or it continued on a very strong trajectory at Dealer Inspire?

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

A

Yeah. So, it's kind of like this one-time bump from the addition and like bringing D2C on to our platform. And then we also saw continued growth at both DI and D2C in the fourth quarter in terms of -- in terms of new website launches. we've talked a little about it, particularly maybe a couple of quarters ago that we're going to continue to add websites as part of the Dealer Inspire business. But we've largely secured all of the endorsements that are out there.

So, the pace of which the websites getting added is, the cadence is going to change a little bit because it's not as though you suddenly win a big piece of business with 800 customers that you can go after, whereas we're adding customers, we're also very focused on cross-selling, upselling moving, moving folks up the Dealer Inspire package levels to get them more features and options that help them drive their business and that would show up in ARPD.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. And I guess actually on ARPD, I mean, obviously up 7%, very solid, although sequentially it looked a little lower. Is that the d2C impact?

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

A

Got it. Yes. We would have been -- we would have been basically at sort of 9% if you adjusted out d2C. They just come in with a slightly lower ARPD.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Great. Okay. Thank you.

Operator: Thank you. And your next question comes from the line of Gary Prestopino from Barrington Research. Please go ahead.

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

Hey, good morning, everyone. Couple of questions, Alex or Sonia, what amount of CreditIQ, how many dealers have now signed up for CreditIQ by year end?

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

We have to get back to you with an exact number. As you know, we folded the CreditIQ solutions into our top tier packages. So, I would say north of...

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

It's over 11,000.

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

...11,000. I was going to say it's north of 10,000, but north of 11,000.

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

Okay, that's fine. And then in terms of this Marketplace Repackaging, you said about 76% of dealers that had opted for a higher tier at this point.

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

Yeah, over 70%.

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

Okay. Is that about the peak of where you think you're going to get it at this point or you still think there's room to move that needle higher.

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

In terms of the dealers on premium packages or?

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

Yeah. That are opting up for higher tier packages. Yeah.

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

Yeah. I mean, I think it's very clear to us that the inventory turn rate of dealers in our premium tiers is significantly faster than dealers that participate at the basic tier. So yes, I see a path for us to continue to demonstrate to dealers that when they spend more with us, their business is improved. And so, I do.

At the same time, we are rolling out additional new solutions like VIN Performance Media that I think that premium tier will continue to buy, which will further, create a top tier dealer group whose all in versus maybe dealers that run, which is more our marketplace is their only spend. And so, there's growth for both here I guess would be the point. And so, we might always still have a 20% of the dealers that are in the lowest cohort of spending. But it doesn't mean that they can't grow too.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay, that's great. And then Alex maybe and I know it's a very different company than it was years ago, but what -- in the period of 2009, 2010 where we were coming off a real big trough in auto sales, what going into, 2011, 2012, 2013 where sales were up pretty nicely. What was -- was the dealer behavior and the OEM behavior at that point, was it to kind of in MASSCO for more services that the company offered more? Or is it basically a slow ramp that that moves with the increase in car sales overtime?

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

A

Well, it's hard to compare the past with the present because so much has changed, Gary, particularly, I would say, the level of digital sophistication by the industry is significantly higher. And so, we were doing far more education in those earlier periods than we are today. I think what's exciting to me now is that not only were the OEM upfronts, much more engaging by the car companies, but now the interest from EV automakers and dealers that previously were on the sideline with us, the level of inbound interest to, hey, my vehicles aren't selling as quickly as they used to. What can you do for me, is much more inbound today than it has been in prior years. We've always had to go out and educate. And now I feel that shift is happening.

I also will tell you that word-of-mouth and some of our digital solutions is also gaining steam. And I think that is a tailwind, particularly for Accu-Trade, because the dealers that have moved fully to buying cars from the public as opposed to the auction are the ones that are acquiring other stores and consolidating dealerships. And so, they're doing something that gives them a lot more confidence in their ability to generate leverage or synergy from acquisitions. And as you know, our bread and butter are those large dealer groups and regional chains.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And then just lastly...

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

A

And then the top trends, I'd say those are the big differences I would say, from the periods that you talked about to what I see today.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And then just lastly, with this endorsement by Ford for Accu-Trade, what do you have to do? Do you have to do anything to prepare to sell more into Ford with Accu-Trade or just does that endorsement just really help with dealer uptake of the product?

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

A

Well, it really helps dealers who say, I can't spend any more in this environment because I'm trying to cut back. It allows us to point to the co-op funds that are available for the dealer to use from Ford. And I think so that it removes price. I think Gary is an objection. It's not going to change the rate of sales in the sense that we're not going to have huge volumes coming at us. But I do think it gives us a lot of reason to go to Ford dealers above all else, because we take price as an objection off the table.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

So, when Ford gives this co-op incentive, what percentage of Accu-Trade do they end up paying for? Can you make that public or is that not something you can share?

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

A

No, we don't. We don't disclose Ford's allocations to their dealers. But this is nominal. Not I mean, nominal.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you.

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

A

Thank you, Gary.

Operator: Thank you. [Operator Instructions] And your next question comes from the line of Marvin Fong from BTIG. Please proceed.

Marvin Fong
Analyst, BTIG LLC

Q

Good morning. Thanks for squeezing me in here. So, apologies I missed the prepared remarks, but I did have a follow up on the FordDirect endorsement. And just curious, how should we think about that adoption curve now that you are part of the Shop platform, do you -- should we think about it as sort of a, burst of adoption in the next quarter or two or should be more of a gradual build in addition to your normal client wins?

And then second question, just lowering the full year guide, you're calling for 20 -- 28% to 30% adjusted EBITDA margin. So, I guess that's the similar margin that we've seen in the past few years and it's a very, very strong margin. But just curious though, do you guys ever foresee, breaking above 30% or do you sort of think that this is the margin that's appropriate for the firm or to drive continued top-line growth? Thanks.

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

A

So, couple of comments there and thanks for the questions. I think you should look at the FordDirect selection of Accu-Trade as more affirmation to a product that's in its nascent stages of market entry. Right. I think a lot of people have not fully understood the power of Accu-Trade. And the Ford team did tons of due diligence and homework into the various offerings and selected us.

And so, I think it's first and foremost just validation of what they believe will help their dealers the most. And I also think that this shouldn't be the last OEM endorsement that we achieved, because many more OEMs are now being asked to help their dealers do more digitally. And as you've seen with our dealer inspire business, we were able to secure endorsements from all OEMs and that does help dealers narrow the field of vendors that they would be willing to consider. And so, I do think it's it mostly is about affirmation.

Yes. I hope it will accelerate sales rates for Ford dealers in the summer months of this year as we get the education out there, because we still have to educate dealers as to what this is and why we will benefit them. But I'd look at it more as affirmation than a windfall of customers.

I think the second thing on the guide, I certainly know that we have tons of opportunity to invest and grow. I mean, I think our hardest job as stewards of capital is picking the right things that will generate the most growth. But there's a ton of opportunity to invest in areas that we currently don't have that would add to our platform and add to our value. And so, could the business get over 30%? Sure.

But we always want to keep positioning the business for sustained growth over the mid to long term. And so, it's a balance between harvest or continuing to set the business up for sustained growth. I don't know, Sonia, if you add anything to that.

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

A

I mean, the only thing I would add is I think we are seeing progress on margins. If you look at the guide that we've given for the full year or honestly even the guide we gave for Q1 on adjusted EBITDA margin relative to what we delivered last year, you're starting to see that progress. I think we do want to ultimately continue to grow this business at profitable way.

So, there is the question around how you think about making incremental investments to drive long term growth in the business, long-term profitable growth in the business and short-term margins. But I think you are starting to see that improvement come through in the numbers.

Marvin Fong
Analyst, BTIG LLC

Q

Okay, that's terrific. Thanks, guys.

Operator: Thank you. There are no further question at this time. I will now turn the call over to Mr. Alex Vetter, CEO. Please go ahead.

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

I just wanted to thank everybody for their interest in Cars Commerce. We're going to continue to share our story and look forward to seeing many of you as part of our upcoming IR engagements. Quick notes. On February 26th, we're going to be at the JPMorgan High Yield Conference in Miami. And on February 28th, we're going to host investor meetings in Minneapolis with Barrington Research. Details about these events, as well as a recording of our Investor Breakfast at NADA is available on the events section of our IR website. You can also download our Industry Insights report, which we've posted there as well.

This concludes our call for today and thank you and have a great day.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may all disconnect.