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Cars.com, Inc. (CARS)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

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Director-Investor Relations, Cars.com, Inc.

Alex Vetter

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

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

OTHER PARTICIPANTS

Naved Khan

Analyst, Truist Securities, Inc.

Marvin Fong

Analyst, BTIG LLC

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Tom White

Analyst, D. A. Davidson & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for attending today's CARS' Second Quarter 2022 Earnings Conference Call. My name is Alexis and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions-and-answers at the end. [Operator Instructions]

I would now like to pass the conference over to the management team. You may proceed.

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 CARS second quarter 2022 conference call. With me this morning are Alex Vetter, CEO; and Jandy Tomy, Interim CFO. Alex will start by discussing business highlights from our first quarter, then Jandy will discuss our financial results in greater detail along with our 2022 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 financial measures to the most directly comparable GAAP measure can be found in our financial tables included with our earnings press release and in the appendix of the presentation.

For more information, please refer to our risk factors included in our SEC filings, including those in our annual, quarterly, and current reports, which are 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 2022 earnings call. We delivered another quarter of solid results at the high end of our guidance range, demonstrating the strength of our solutions strategy and the value of our marketplace.

Total revenue and dealer revenue both grew at 5% compared to the prior year. Revenue growth was attributable to ongoing product adoption and strengthening customer retention, which offset unsurprising decreases in OEM and national revenue which are a direct reflection of the continued production challenges. Despite the macroeconomic uncertainty, consumer demand persists albeit in a an environment with limited supply. In a recent Cars.com poll, users suggested they may delay their purchase due to a mix of factors including limited inventory, elevated vehicle and gas prices and rising interest rates. We expect these trends to continue through the remainder of this year as reflected in our second half guidance.

At the same time, we are also seeing the benefits of pent-up consumer demand and the growing strength of our durable solutions strategy. As a result of production challenges, OEMs are limiting their advertising and promotional spending for the remainder of 2022. We still plan to grow at 6% to 8% in the second half of this year, driven by dealer solutions, which will accelerate into 2023 while maintaining strong EBITDA margins. We are well positioned to meet the changing needs of both consumers and dealers, as we continue to deliver relevant digital solutions and advance our platform strategy.

As a reminder, our strategy is about connecting buyers and sellers across a range of solutions built from a common tech platform that reinforces our value. There are three key drivers to our success this quarter: audience, content and technology, which I'll highlight before turning the call over to Jandy for more details on our financial performance. First for the quarter, unique visitors to the Cars.com marketplace increased 3% compared to a year ago. This is driven by the strength in our original content and brand authority.

Our trusted editorial content is an established area of strength and expertise. Not only does our editorial content provide the most relevant shopping advice, but it's an efficient way to engage with shoppers early in their purchase journey. In June, we released our 2022 American-Made Index, where Tesla claimed the most American made vehicle for the second year in a row. This is especially relevant for shoppers given high gas prices and the growing demand for EVs.

The American-Made Index delivered a 44% traffic increase compared to the prior year, supporting our strong SEO position, and it strengthened our brand leadership with more than 500 press placements. We believe that the combination of in-market shoppers in a contextually relevant environment will help CARS flourish, despite many of the challenges affecting the broader media industry and position us to grow OEM revenue when productions levels normalize.

Let's turn to our technology solutions. The roll out of Accu-Trade is well timed in this lean inventory environment and is reflected in robust demand by dealers. Accu-Trade's valuation and exceptional vehicle operational capabilities enhance transparency and speed transactions for our industry. A far more profitable way for dealers to acquire cars is to buy them directly from the general public, bypassing the bidding wars in traditional auctions.

This week we announced the nationwide launch of Instant Offer on Cars.com that lets private parties get a competitive cash offer from a local dealership, sell their used car and pick up a check in the same day. Since piloting Instant Offer in May, we've generated more than 5,000 qualified cash offers to individuals looking to sell

their vehicle quickly and efficiently. We've experienced tremendous inbound interest, in Accu-Trade, and there's no better way to demonstrate the value to dealers than to have one of their own leading the way.

I'm pleased to welcome Brian Kramer to the Cars.com leadership team. Brian brings deep industry and operations experience coming to us directly from The Germain Automotive Group, a well-respected and successful operator where he leveraged Accu-Trade to transform the wholesale operations into one of the most profitable parts of the business. Since our roll-out of Accu-Trade at NADA our dealer customers are seeing improvements in three critical areas: operational efficiency, increased gross profit, and vehicle acquisition.

Two of our early adopters, Jay Alvarez of Hendrick Automotive Group and David Simches of Crown Automotive Group, shared some of their tremendous success with Accu-Trade. Hendrick is reporting a 58% increase in used car margin and acquired 130 vehicles in the first 60 days of using our solution. And Crown has moved to appraise vehicles in minutes, saving consumers and dealer staff considerable time by bringing transparency to vehicle valuation. As dealers start to see and discuss what Accu-Trade is doing for their dealership profitability, we are confident that interest and demand will continue to scale. The financial contribution from this subscription product in 2022 is relatively low, but it will have a more material impact in 2023 and beyond, as we roll out and ramp throughout the second half of this year.

We also continue to expand our Dealer Inspire website. At quarter end, we powered 5,650 dealer sites, and I'm excited to share that Subaru of America has named Dealer Inspire as a certified website and technology provider, giving us the opportunity to potentially service more than 570 dealerships in the US. We will expand our website market share and anticipate deploying our first Subaru websites during the third quarter of this year. Even with the overall advertising budget reductions across the entire automotive industry, our website solutions are growing, proving the power of our diversified solutions portfolio.

In total, we are seeing our platform strategy pay off in dealer growth and growth in average revenue per dealer. At quarter end, CARS had 19,517 dealer customers, a 672 customer increase compared to the prior year and up 17 sequentially. And ARPD also grew both sequentially and year-over-year. ARPD increases were driven by the ongoing success of our digital solutions.

In summary, we delivered another quarter of solid results at the high end of our quarterly guidance. We are well-positioned to further our growth in the second half of this year and beyond through the continued realization of our platform strategy.

And now I'll turn the call over to Jandy.

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. Like Alex, I'm pleased with our continued momentum. We delivered strong results in the second quarter. Revenue and adjusted EBITDA were very strong and both were at the high end of our guidance, setting us up well for continued growth and margin expansion for the remainder of 2022 and setting up a great starting off point for our subscription business in 2023.

Total revenue for the quarter was \$163 million, representing 5% growth compared to the prior year. Performance was driven by growth in dealer revenue, which grew 5% year-over-year to \$144 million as a result of 4% growth in dealer customers and 1% growth in ARPD, which was driven by continued adoption of our digital solution.

OEM and national revenue, which is closely correlated with the ongoing production challenges was 13% down compared to a year ago. Note that Accu-Trade also contributed to our growth in the quarter, which you'll see primarily in the other revenue line item. As we launch our new Accu-Trade connected product, this subscription revenue will show up in dealer revenue and continue driving our ARPD growth. Despite the ongoing inventory shortages, inflation, rising gas prices and interest rates, our products, our diversified business model and value we deliver to our customers gives us confidence that we will continue to deliver solid growth.

Moving on to expenses, for the quarter, adjusted operating expenses were \$139 million, \$6 million higher compared to the prior year. This increase was primarily due to higher product and technology expenses, including compensation and consulting costs related to the Accu-Trade and CreditIQ acquisitions. As planned, marketing and sales investments increased to help drive traffic and grow solutions revenue. Partially offsetting these increases was a decrease in depreciation and amortization expense.

Net income for the second quarter totaled \$6 million or \$0.08 per diluted share, essentially flat compared to a year ago. We delivered adjusted EBITDA of \$45 million or 28% of revenue, again, the high end of our guidance. Sequentially, margin expanded by 120 basis points.

Now, turning to our key metrics, which are the foundation of these solid quarterly results. Our business is underpinned by strong fundamentals. The value we deliver attracts and retains dealers, evidenced by growth of 672 dealers or 4% year-over-year, putting us at 19,517 dealer customers at quarter end. This represents sequential growth of 17.

Results for the quarter, also reflects 180 Accu-Trade only customers and cancellations related to a single digital dealer whose financial and operational position prohibited them from continuing to partner with us. Excluding these two items, dealer customers would have still grown during the quarter. We continue to push for growth in a universe of approximately 40,000 dealers in the US. The continued adoption and growth in our digital solutions fueled 1% year-over-year ARPD growth and 2% sequentially. Our website business also continues to grow. At June 30, we had 5,650 website customers, up 650 from a year ago and up 150 sequentially. Dealer Inspire revenue in total grew 14% compared to the prior year.

Generating unique, high quality traffic and an engaged audience is something we've consistently delivered for our dealer and OEM customers. For the quarter, we had 27 million average UVs and 148 million visits. We grow UVs, which does represent in-market car shoppers by 3% year-over-year. However, traffic was down 7% due to elevated traffic in the prior year related to strong consumer confidence and heightened consumer demand from the 2021 federal economic stimulus plan.

Our performance and strong execution continued to enable substantial cash generation, which we have been investing back into our business, strengthening our financial profile, and returning to shareholders through our share repurchase program. Cash provided by operating activities for the six month period ending June 30, 2022, was \$42 million and free cash flow was \$34 million. Cash flow in the current year period was down year-over-year due to three primary reasons: first, timing of payables, we had one extra payment run in the current year period; second lower year-over-year EBIDTA; and third, recall that last year, we had a \$9 million income tax refund associated with the CARES Act and our ability to carry back our NOL.

Net leverage at quarter end was 2.8 times, slightly above 2.4 times a year ago and our target range of 2 to 2.5 times. As a reminder, this temporary step-up reflects last quarter's borrowing to fund the Accu-Trade acquisition. While we're comfortable with this level due to our strong consistent cash generation, we anticipate getting back within our target range in coming quarters. We continue to maintain ample liquidity with \$185 million available on

our revolver, supplementing our cash on hand. Further, our strong balance sheet provides us with the financial flexibility to return capital to shareholders. During the quarter, we repurchased 1.7 million shares for \$18 million, bringing our total shares repurchased this year to 2.1 million, representing 3% of our shares outstanding.

Now, turning to guidance. For the third quarter of 2022, we expect to deliver revenue of approximately \$163.5 million to \$165.5 million, representing continued solid year-over-year growth as well as sequential growth. Our guidance reflects our strong first half 2022 performance balanced against the continuing industry-wide inventory shortages and a challenging macroeconomic environment. We expect our adjusted EBITDA margin for the third quarter to be between 29% and 31%, reflecting sequential margin expansion and our focus on profitability and expense management optimizing for growth.

For the second half of 2022, we expect revenue growth of 6% to 8% year-over-year, assuming the inventory does not recover before 2023. While we are encouraged by the OEM sentiment about our value, our guidance does not assume a recovery in this customer segment this year. Our guidance reflects continued momentum and sequential revenue growth based on performance of a well-executed and integrated solutions strategy.

In conclusion, as we look to the second half of the year, our strong financial position leaves us poised to execute and deliver value and profitable growth for this year and beyond.

With that, I'd like to turn the call back over to Alex.

Alex Vetter

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

Thank you, Jandy. Our platform strategy is working. Revenue is growing and diversifying and margins are expanding. The business continues to prove resilient and sustainable in many market conditions. And despite the challenges of the current environment, we have confidence in our ability to continue our growth as we rapidly accelerate our solutions strategy.

Operator, we're ready to begin the Q&A.

QUESTION AND ANSWER SECTION

Operator: Absolutely. [Operator Instructions] The first question comes from the line of Naved Khan with Truist Securities. You may proceed.

Naved Khan

Analyst, Truist Securities, Inc.

Q

Yeah. Thanks a lot. Just a couple of questions. So, one on the Instant Offer, maybe you can provide some color on the interest level you're seeing from the dealers, it looks like you did beta tests or early test run, and it was positive, just talk about the demand there from the dealers. And in terms of the Accu-Trade, I think right now you're having a subscription model. Maybe can you touch on like what the opportunities are? Can you move to a usage-based monetization as adoption continues to grow? Thank you.

Alex Vetter

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

A

Sure, Naved. Thank you. Well, since our debut at NADA with Accu-Trade connected to Cars.com to say response has been overwhelming would be an understatement. I've watched a lot of products in this industry and Accu-Trade has got the ear of a lot of dealers. We've done over 1,000 demos since that time. As you know, we are selling a subscription product. So it's not like you can sign up and configure something for free. It's going to take us a lot more time to get to 10,000 dealers. We're looking for billable dealers and we've got to ramp and onboard them. So average onboarding time for a dealer with Accu-Trade takes more than a few weeks, [ph] let's say (00:18:46) our marketplace takes 48 hours.

And so, there will be a slower ramp here as we get dealers on board. But as we share on the call, there's been meaningful step changes in dealer profitability, moving to our Accu-Trade solution both on vehicle acquisition, time, efficiency in the dealership and overall more accurate vehicle valuation which is saving the dealer money and reducing friction between buyers and sellers. And so, we know we're going to end this year with a really strong exit rate and then this is adding meaningful subscription revenue.

Our introductory pricing is \$1,500 a month. I see a lot of upside room to take that further, but we want to build some critical mass in market share, because I think dealer voices will be our best marketing and testimonial. Then we will look at a [ph] D2D (00:19:42) trading model where it will be variable pricing based on transactions, but that will be Phase 2.

Naved Khan

Analyst, Truist Securities, Inc.

Q

Got it. And then just on the Instant Offer, can you go over like what the initial uptake is looking like and where do we go from here, so give us some color?

Alex Vetter

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

A

Yeah. Well, we just launched the consumer utility nationally, and that was largely because we got to a pretty healthy base of dealers across the country. We've got dealers in almost every city now already using Accu-Trade and so we felt that we could turn on the consumer functionality on Cars.com. Nationally, we made a press announcement this week, and we'll begin marketing that directly to consumers. Ironically, we don't need to do

much marketing because as you know, we get the propensity of our traffic through organic means. And so, we're already seeing significant consumer volume on both vehicle appraisal and instant cash offer without any incremental marketing spend.

I think as we scale dealers, that may change because we're going to have to support a much bigger base of dealers. But I'm just sharing that at the onset, just turning this functionality on, we're getting sufficient volume to support the dealers that we've got. And importantly, Accu-Trade is more than just the opportunities that we generate. Dealers are using this to appraise vehicles in their service lines, in their showrooms during the trade-in process. And so dealers like we shared in the call, in some cases, they are processing hundreds of appraisals using Accu-Trade technology in addition to the opportunities that we're generating for them through cars.

Naved Khan

Analyst, Truist Securities, Inc.

Q

Got it. A quick follow-up, if I may. Maybe just talk about Google Vehicle ads, I think it was launched earlier this year. Has there been any kind of impact either on CARS or on other participants?

Alex Vetter

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

A

Yeah. Sure. So we're, of course, monitoring Google's moves closely and both as a longtime advertiser on Google and then also across our dealer business as a solutions provider. And so I'll just share that we've seen both positive and negative impacts. I think first on the B2C side, Google vehicle ads are making rapid search investments more efficient.

We're seeing – our own participation in the channel generate cost per actions lower than historical SEM, because we're providing larger ad forms and actual content into the environment. I think the downside is that it's pushing down organic results for the whole industry. I guess the upshot for that is we were watching our competitors be far more negatively impacted than we are. And we're maintaining our page 1 strength because of our original content and operating model. And so, it's a mixed bag there.

The channel is definitely being consumed mostly by the larger participants in the market. And again, most of our competitors are having to bid a lot more there because they fall under page 2 or in some cases 3 in organic ranking. And that's not an issue that we're seeing at this time for our brand. I think on the dealer customer side, we also are hearing, frankly, lukewarm feedback. We're buying VLAs on behalf of dealers. And let's face it, Google's search bar is not high intention in the moment. It's very preliminary research, even more so than Cars.com, which is a research destination for auto. And so, they're less likely to convert coming off of the Google search bar than they are from Cars.com. In fact, we're seeing that our vehicle exposure on Cars.com is generating almost 5 times more efficiency for the dealer than the Google Vehicle ads. So I think we feel really good about the strength of our subscription offering relative to this open auction, but we're watching it closely.

Naved Khan

Analyst, Truist Securities, Inc.

Q

Great. Thank you.

Operator: Thank you, Mr. Khan. The next question comes from the line of Marvin Fong with BTIG. You may proceed.

Marvin Fong

Analyst, BTIG LLC

Q

Great. Good morning. Thanks for taking my questions. Another question on Instant Offer. You covered that quite well already, but how many of your almost 20,000 dealer base do you believe would be good customers for Instant Offer? And a follow-up question just on EBITDA margin, the guidance for third quarter was quite strong, almost 30%, which I think previously you stated it would be more like fourth quarter you would get there. Is this a sustainable level, or is this just a function of pulling back on marketing spend or other expense items? If you could just comment on how you see EBITDA margins performing, that'd be great. Thank you.

Alex Vetter

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

A

Sure. Well, first of all, from a TAM standpoint, if you think about the way dealers buy cars today, 40,000 dealers are sourcing cars at auction. I mean, they all have legacy systems. And then the digital auctions, again, 30,000 dealers minimum buying cars through these dealer auctions. So, I look at Accu-Trade and say like this TAM can be larger than any of our other solutions that we've introduced, because it's got universal utility. Even if you're not a Cars.com customer using Accu-Trade to appraise vehicles accurately and quickly and reducing friction between your customers is a benefit into itself. And so, I do think Accu-Trade has a potential that could be wider than our marketplace. But at the same time, we are integrating these things so that dealers see the benefit of both being on our marketplace and using Accu-Trade.

For instance, the Accu-Trade dealers also get this trade-in functionality on their vehicle detail pages on Cars.com. So when they're marketing for consumer shopping for a car, they can begin the trade in process online directly from their Cars.com vehicle listing ad. I do think it's going to take time to ramp Accu-Trade, because again, it's not just signing up for free and configuring what you want to buy. So the dealers are going to have to do a little bit more due diligence to understand what does it take to use Accu-Trade to appraise their cars. But we're ramping our onboarding teams and we've got more subscriptions now that we need to get launched and live with growing demos coming throughout the second half of this year.

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

A

From a margin perspective, Marvin, it's actually a combination of both incremental revenue. So as our subscription revenue continues to build and grow, we're getting nice flow through to the bottom line in connection with also careful cost management. Marketing is about 25% of our total operating expense and we're planning on that being at about the same level as it was in the second quarter, but that's a lever. But across the whole business, we're definitely watching expenses and optimizing for growth, but it's a combination of both nice flow through from the revenue perspective as well as the expense management.

Marvin Fong

Analyst, BTIG LLC

Q

Terrific. Thanks, Alex and Jandy. Appreciate it.

Alex Vetter

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

A

Thanks, Marvin.

Operator: Thank you, Mr. Fong. The next question comes from the line of Gary Prestopino with Barrington Research. You may proceed.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

Good morning, all. I've got a number of questions here that I just want to clear up one thing with Accu-Trade and this Instant Offer. Does a dealer have to be a marketplace customer to get Accu-Trade?

Alex Vetter

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

A

No. They can actually buy Accu-Trade for their own website for a lower fee, Gary, and use the Accu-Trade functionality in their own website and store if they want to get the connected package, which brings incremental vehicle buying opportunities direct from a marketplace that does require them to be part of our marketplace.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

Okay.

[indiscernible] (00:28:31)

Alex Vetter

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

A

Yeah. Most of them are, Gary, like we're seeing 100% desire to be a part of sourcing inventory from the open market.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

Okay. So, well, what I'm trying to understand is Instant Offer kind of works through Accu-Trade, is that correct or is that just a separate product?

Alex Vetter

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

A

It works through Accu-Trade. So the Instant Offers, the dealers can go in the Accu-Trade tool, appraise the car, put the number on it, get the instant guarantee from us and buy the car directly from the consumer. But the opportunities flow directly into Accu-Trade.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

So that's what I'm saying is – they still, no matter what a dealer in order to do Instant Offer is still going to have to pay something to be on the Accu-Trade platform. It might not be the same as a marketplace guy, but they're still going to have to pay, right, or am I wrong there?

Alex Vetter

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

A

Correct. No, that's correct.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

Okay. Okay. That's fine. And then with the Subaru business, are they also offering their dealers co-op advertising or co-op dollars to sign up for you on the website side?

Alex Vetter

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

A

I don't believe there's co-op dollars eligible for the website. They negotiated with us on the partner pricing so that partnership established or set pricing terms between us and Subaru. A lot of our OEMs do offer co-op dollars for marketing services that go above and beyond the base websites. I just don't know off the top of my head if Subaru is eligible. We'll check and get back to you if we can today.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

Okay. That's fine. And then lastly, I just want to clear something up here. You said you had a net increase of 17 dealers and along with – and that includes 180 Accu-Trade dealers. So it looks like you do the math, it's a net loss of 163 dealers, and then it's the cancellations related to a single digital dealer, could you kind of clear up that or maybe or am I right with my math there? Because it's just a single digital dealer. How did you lose so many dealers?

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

A

So the single customer has multiple locations. So the subscriptions are based on the locations where they're advertising inventory. So with that cancellation, that more than offset the addition of the 180 Accu-Trade dealers.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

What I'm trying to understand, Jandy, if they're a digital dealer, they shouldn't have locations. They should just be all – all done on the web. So that's what I'm trying to understand.

Alex Vetter

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

A

Gary, so our subscription prices, we charge based on the DMA. So if a digital dealer wants to sell cars in San Antonio, in order for those cars to appear in San Antonio ZIP codes, they need to pay access to that market. And so whether – physical dealers don't have to think about this and worry about this, but the virtual dealerships, certainly every time they want to expand their reach and have their searches appear more in various cities, we're charging them incremental fee.

Gary Frank Prestopino

Analyst, Barrington Research Associates, Inc.

Q

Okay. That clears it up. Thank you very much.

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

A

Thanks, Gary.

Operator: Thank you, Mr. Prestopino. [Operator Instructions] The next question comes from the line of Tom White with D.A. Davidson. You may proceed.

Tom White

Analyst, D. A. Davidson & Co.

Q

Great. Thanks for taking my question, and good morning. I guess on ARPD growth is up 1%, it was up 1% last quarter. So hoping you could just maybe disaggregate a little bit kind of the different moving pieces there between I guess maybe pricing and product mix? And how should we think about ARPD growth kind of in the back half of this year? And then I have a follow-up on Subaru deal.

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

A

Yeah, yeah. So from a solutions perspective, that's really what's driving the growth in ARPD, both Dealer Inspire solutions and fuels. We also, as you probably remember, have been doing very targeted rate increases across the dealer base that also contributed nicely to the ARPD growth. But offsetting that are downgrades related to lower inventory levels. So as you know, our part of our pricing is dependent upon how many cars dealers have on [ph] their laps (00:33:41). And with the significant declines over the last two years, well, six quarters, I suppose that's put pressure on the marketplace ARPD. The other piece in there as well is mix. So as we continue to grow, our dealer customers, dealers are typically coming in at slightly lower rates than existing customers. So that's also putting pressure on marketplace.

Tom White

Analyst, D. A. Davidson & Co.

Q

That's super helpful. And I know you guys don't guide ARPD, but I mean, given kind of all those moving pieces and kind of what's going on the macro, I mean, do you think that ARPD can kind of continue to grow at a similar level here over the back half or is there a reason to maybe be a bit more conservative on modeling that piece.

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

A

Yeah. Yeah. Tom, we really expect ARPD to be the driver of our growth here with the solutions that we're rolling out with Accu-Trade, with continued growth in DI and even the stability in the marketplace, dealer customers in the core business, we do think that ARPD can continue to grow and will continue to grow, particularly because this Accu-Trade connected package is being sold to dealers and that's what – you will see that come through in dealer revenue and come through in ARPD.

Tom White

Analyst, D. A. Davidson & Co.

Q

Okay. Sounds good. And then on the Subaru deal, I remember I think it was with the GM deal, there was sort of like a – you could only kind of go after one tranche of the dealers at a time, just curious if there's a similar dynamic here or can you kind of go out and try to tackle 750 or whatever the number was, all those dealers at once? How should we think about kind of the phasing potentially there?

Alex Vetter

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

A

Yeah. So, Subaru being a smaller OEM than GM was when we rolled out GM has no staging. And so basically it's more of a jump ball and we've seen strong inbound interest from Subaru dealers nationally. And then, importantly,

I did confirm that there is co-op eligibility for dealers on dig ad spending so we can support more of the dealers marketing spend that's [ph] co-op-able (00:35:55) by Subaru.

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

And the websites, yeah.

A

Tom White

Analyst, D. A. Davidson & Co.

Okay. Thanks, guys.

Q

Jandy Tomy

Vice President, Treasurer & Interim Chief Financial Officer, Cars.com, Inc.

Thanks, Tom.

A

Alex Vetter

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

Thank you.

A

Operator: Thank you, Mr. White. There are currently no further questions registered at this time. [Operator Instructions] There are no additional questions at this time. So I will now pass the conference back to Alex Vetter for closing or additional remarks.

Alex Vetter

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

Just wanted to say thank you for your interest in CARS and joining us today and that concludes our call. Thank you.

Operator: That concludes the CARS second quarter 2022 earnings conference call. Thank you for your participation. You may now disconnect your lines.

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