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# Cars.com, Inc. (CARS)

Q1 2022 Earnings Call

## CORPORATE PARTICIPANTS

### Robbin Moore-Randolph

*Director-Investor Relations, Cars.com, Inc.*

### Alex Vetter

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

### Jandy Tomy

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

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## OTHER PARTICIPANTS

### Dan L. Kurnos

*Analyst, The Benchmark Co. LLC*

### Tom White

*Analyst, D. A. Davidson & Co.*

### Naved Khan

*Analyst, Truist Securities, Inc.*

### Douglas Middleton Arthur

*Analyst, Huber Research Partners LLC*

### Gary Frank Prestopino

*Analyst, Barrington Research Associates, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the CARS First Quarter 2022 Earnings Conference Call. This call is being recorded and a live webcast can be found at [ph] investors.cars.com – <http://investor.cars.com>. (00:00:15) A replay of the webcast will be available until May 19. A copy of the accompanying slides can also be found on the company's Investor Relations website.

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

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### 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 first 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 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 the presentation.

For more information, please refer to the 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.

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## Alex Vetter

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

Thank you, Robbin, and welcome to our first quarter 2022 earnings call. Our momentum continues, driven by robust dealer customer growth, ongoing product adoption and record retention, resulting in continued revenue growth for the first quarter. Dealer revenue increased 6% compared to a year ago, and total revenue grew 3% in an inventory-constrained operating environment that has also impacted OEM and national revenue.

Consumer demand remained strong and outpaces supply as new car production was muted as a result of the ongoing chip shortage. Sales of used cars, on the other hand, remain robust. This has led to elevated retail prices for both new and used cars and soaring profitability for brick-and-mortar dealers. The average retail prices for new and used vehicles listed on Cars.com increased 27% and 37% in the first quarter, respectively, as compared to the prior year.

Despite the current market conditions, dealers continue to value and adopt our industry-leading digital solutions. Our consistent value delivery resulted on us reaching 19,500 customers, the highest dealer count in more than three years, and an impressive 677 increase compared to last year and 321 compared to the fourth quarter. This is tremendous growth and we still have ample room to grow our dealer base with over 40,000 dealerships in the US.

Our solutions are also attracting and retaining a wide spectrum of dealers with both franchised and independent, recognizing the exceptional value we provide across our platform. ARPD growth reflects the ongoing success of our core marketplace, website solutions, and our targeted advertising solution, FUEL, despite the impact of inventory shortages.

Dealers continued to invest in our digital solutions and more touch points with consumers, which is underscored by our continued growth in website customers reaching 5,500 at quarter end. This extended network is creating substantial cross-selling opportunities for us to bring additional digital solutions to dealers who seek innovative ways to find and engage customers along the car-buying journey.

Our marketplace is vital to the success of consumers and dealers. We consistently generate sales from high-quality organic traffic more efficiently than our competitors. For the quarter, leads to dealers grew double digits and unique visitors increased 2% compared to a year ago. And the majority of our traffic comes to us organically, largely driven by our strong consumer brand, the quality of our consumer experience and our original editorial content that covers the most relevant and friendly car shopping advice for consumers.

With the recent surge in interest for electric vehicles due to record-high gas prices, we launched EV-related editorial content and a reimagined landing page with enhanced search functionality to guide shoppers deeper into the purchase funnel. This has generated incremental traffic to Cars.com and elevated our expertise in Google's electric car search results. Inventory searches for EVs are up nearly 200% year-over-year on our marketplace. And our new landing page, which hosts our comprehensive EV buying guide, delivered nearly a 400% increase in SEO traffic in March over the prior month. Our EV expertise has spurred significant national media attention this quarter, including a week-long exposure on the country's number one morning show, Good Morning America. Our

leadership continues in Q2 with a second installment of our popular livestream event, where our editors share their EV expertise and answer consumer questions live.

We continue executing on our go-to-market strategy, demonstrating the full value of our platform, from our leading marketplace and traffic-driving editorial content to our industry-leading technology solutions, all of which empower dealers and OEMs to efficiently scale their business. Michelle Scalise, Business Development Manager for Security Chrysler Dodge Jeep Ram in Amityville, New York is one such customer. She leverages the full suite of CARS products and appreciates the value delivered from the connected CARS platform. Michelle says, and I quote, "Cars.com customers are more knowledgeable and it's very rare that we don't sell them a car. And using CARS for our total solution, including Cars.com, Dealer Inspire, DealerRater and FUEL brings everything together, making it easier to run our dealership." As evidenced by Michelle's testimonial, using our enterprise suite of solutions is a winning strategy.

We had great success at the recent NADA Convention, our industry's leading trade show. In just three days, we closed nearly 200 sales across our business, including our newest solutions CreditIQ and Accu-Trade. Our booth was packed with dealers wanting to learn more about our suite of solutions that are seamlessly integrated into our platform. I'm more than pleased with our strong performance and reception to our new digital solutions, which will begin to launch in the second quarter and have a larger revenue impact in 2023.

By far, the biggest dealer need in the current inventory-constrained environment is vehicle acquisition. So, it wasn't surprising that our most sought-after solution was Accu-Trade, a digital vehicle acquisition appraisal and valuation solution. Dealers ranging from single-store to multi-store operators are interested in the value and power of our solution to help them efficiently source inventory with the right valuation and appraisal data to help them buy cars with ease. In March, we began piloting this solution in select markets and are expanding the pilot program during the second quarter. We're extending our end-to-end capabilities and equipping dealers with a much-needed set of solutions to help them drive sales.

Our digital financing solution, CreditIQ, also drew strong interest at NADA. We're in the early stages of online financing, but are seeing strong demand from dealers and household names in the auto finance industry who are excited to use our technology to reach larger in-market audiences. The power of our platform is in our high-intent audience with 148 million visits to Cars.com, plus an incremental 304 million visits across Dealer Inspire websites. Our opportunity continues to expand with the addition of Accu-Trade and CreditIQ, and we look forward to updating you on the rollout of these solutions.

In summary, once again, we delivered results in line with expectations and I want to reiterate how pleased I am that our momentum continues.

I'll now turn the call over to Jandy.

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## Jandy Tomy

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

Thank you, Alex. I'm pleased with our solid start to the year. Revenue total \$158 million, a 3% increase compared to the prior year. Dealer revenue grew 6% to \$140 million as a result of 4% growth in dealer customers and 1% growth in ARPD driven by strong customer retention rates and further adoption of our digital solution. The ongoing inventory shortage continues to impact our OEM and national revenue, which was down 16% from a year ago. New car inventory isn't expected to begin to recover until the fourth quarter this year. Despite the macroeconomic headwinds associated with inventory shortages, inflation and rising interest rates, our diversified business model gives us confidence that we'll deliver another year of solid growth.

Turning to expenses, for the quarter, total operating expenses were \$147 million compared to \$137 million a year ago. On an adjusted basis, operating expenses were \$141 million, \$10 million higher compared to the prior year. This increase is primarily due to an increase in marketing including the return to an in-person NADA, as well as higher product and technology expense driven by higher compensation and consulting costs, including the addition of the integration of CreditIQ and Accu-Trade.

Net income for the quarter totaled \$4 million or \$0.06 per diluted share, compared to \$5 million or \$0.08 per diluted share a year ago. We delivered adjusted EBITDA at \$42 million or 27% of revenue within our guidance range. Margin for the quarter reflects our product mix, lower OEM and national revenue, and higher growth in our solutions business.

Now, turning to our key metrics, our business is underpinned by strong fundamental. The value we deliver attracts and retains dealers, evidenced by growth of 321 dealers in the quarter, putting us at 19,500 dealer customers at quarter-end. This is our highest number of dealer customers in more than three years. Our website business also continues to grow. As of March 31, we had 5,500 website customers, up 800 from a year ago. Dealer Inspire revenue in total grew 15% year-over-year. ARPD for the quarter grew 1% year-over-year, driven by growth in our digital solutions and FUEL products.

Generating unique, high-quality traffic is something we've consistently delivered for our dealer and OEM customers. For the first quarter, we have 26.6 million average monthly unique visitors and 148.5 million visits. We grew our UVs, which best represents in-market car shoppers by 2% year-over-year while traffic was down 5%. More importantly, our value delivery was up. We grew our leads to dealers 12% year-over-year. All of this despite inventory levels being down more than 30% year-over-year.

For the quarter, cash provided by operating activities was \$30 million and free cash flow was \$26 million, \$18 million lower than the first quarter last year. This decline was primarily due to a \$9 million cash tax refund that we received last year in the first quarter related to the CARES Act and higher compensation payments in the current year period. During the quarter, we borrowed \$45 million on our revolver and together with cash on hand, funded the upfront purchase price of Accu-Trade, resulting in total debt outstanding of \$520 million at quarter end and net leverage of 2.7 times. Net leverage improved from 2.9 times a year ago. And while 2.7 times is slightly above our target range of 2 times to 2.5 times, we are comfortable with this temporary step-up to fund M&A given our consistent strong cash generation. We have \$185 million available on our revolver and our total liquidity was \$215 million at the end of the quarter. With our strong balance sheet and modest net leverage, we began returning capital to shareholders. In March, we made the first purchases under our recently authorized share repurchase program, buying 338,000 shares for a total of \$5 million.

Now, turning to guidance. For the second quarter, we expect to deliver revenue between \$161 million and \$163 million, representing year-over-year growth of 3.5% to nearly 5%. This guidance reflects the continuation of our solid first quarter performance, as well as the ongoing industry-wide inventory shortage, which will continue to mute our growth. This low-production environment, further delays in new model releases, and lower incentive spend have a negative impact on our OEM and national revenue specifically. While dealers are experiencing record profits and our retention rates remain strong, dealers and OEMs are less inclined to increase or shift their advertising budgets during this time.

We expect revenue growth to accelerate throughout the year as our growth in our subscription products accumulates and we roll out and ramp up our newly acquired product. We are reaffirming our full-year expectation for revenue growth between 6% and 8%, with double-digit growth in the fourth quarter. Our guidance assumes

inventory shortages begin to recover in the fourth quarter and the macroeconomic environment does not have a worsening impact on car-buying consumer behavior and dealer spending on products and solutions.

Our expectation for the second quarter adjusted EBITDA margin of 26% to 28% reflects the impact of our projected revenue mix with lower OEM revenue and growing solutions revenue, as well as higher year-over-year expenses as we continue to invest in marketing and in our people, including the integration and launch of our recently acquired dealer solution. Adjusted EBITDA margin is expected to approach 30% by the fourth quarter as revenue growth accelerates and OEM and national revenue begins to recover in connection with inventory.

In conclusion, our business is well-positioned for continued growth. In particular, during this challenging macroeconomic environment. Our team remains focused on execution and delivering value to our consumers, customers, and to our shareholders.

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

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### Alex Vetter

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

Thank you, Jandy. I'm pleased with our progress in advancing our platform strategy, enabling OEMs and dealers to better compete in a rapidly evolving industry that's driven by changing consumer preferences.

And with that, we're ready to begin our Q&A. Operator?

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Your first question comes from the line of Dan Kurnos of the Benchmark Co. Your line is open.

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### Dan L. Kurnos

*Analyst, The Benchmark Co. LLC*

Q

Great. Thanks. Good morning. Alex, nice result on the dealer customer growth. It's pretty positive, especially in this environment. Maybe just a couple things, I know it's super early with the acquisitions you've made. You were at – you're at NADA, you're having conversations. Jandy's just made comments just about the tough environment. So, how are you thinking about things? I feel like I ask this a lot, but it's especially important now, I think. How do you think about things like bundling, trying to get these guys locked in to either longer-term commits or – I know you're doing some piloting and testing right now, especially on the C2B side. So, just help us think through the strategy here and how it evolves maybe over the coming quarters in light of the backdrop and trying to just continue the strong dealer momentum that you're seeing now, now that you have kind of a more robust product suite offer.

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### Alex Vetter

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Sure. Thanks, Dan, good to hear your voice. We were very pleased with the dealer growth in the quarter and see a continued opportunity to add dealers to our platform because, to your point, we've got a range of solutions that start from entry level to people like we featured in the call who participate with us across the full enterprise suite of solutions. And so, I think that gives us tremendous flexibility to solve dealers' individual problems and then grow

the relationship over time. You're seeing that in our strong ARPD in that we're able to get more solutions sold. When I look at the opportunities with both Accu-Trade and CreditIQ, keep in mind these are opening up brand-new TAMs for us. On CreditIQ, we've now been in active discussions with all the US large lenders who are eager to figure out how they can better help compete for market share.

And then on vehicle acquisition side, every dealer that we've talked to is interested in adding tools that will help them buy cars from the street. And so, I think knowing that we've chosen solutions that meet the customer need gives us a wide net of opportunity on ARPD. And then certainly, the cross selling opportunity grows because – your question about contracts, I would say we're less focused in trying to "lock" dealers into long-term contracts. We're winning with value and we're winning with service. Our philosophy is we want to win dealers based on our innovation, but we're going to keep them with service and value delivery. And I think that's what you see, double-digit lead delivery growth, website solution sales continued to grow and now, these new products are going to add to our capabilities.

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**Dan L. Kurnos**

*Analyst, The Benchmark Co. LLC*

Q

And just to be clear, Alex, the conversations even in this environment, obviously given sort of the uncertainties on the macro front, you're basically trying to communicate though that you're having still very constructive conversation and there's no hesitation in these communications.

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**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Yeah. No. I think – well, first of all, we know the dealers are reporting record profits and they are also eager to shift their business aggressively towards tech. I think if there's been any softness on things like FUEL and other broader marketing strategies in this environment because they are dealing with such limited inventory. But on the technology solutions side, there is an eagerness about how they can run their dealership with fewer resources relying on tech. And so, again, I think the only areas that are soft right now for us would be OEMs, which obviously don't have product to push. And so, they're not doing as much.

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**Dan L. Kurnos**

*Analyst, The Benchmark Co. LLC*

Q

: Got it. And just on the marketing front, Alex, just as we find it go forward throughout the year. Understanding again, sort of the tricky macro you guys are investing, you've got a bunch of stuff to invest against now, which I think is very telling for 2023, just how do you balance kind of maintaining sort of healthy EBITDA levels versus sort of going after the TAM expansion that you talked about over the coming quarters depending on how the environment evolves?

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**Jandy Tomy**

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

A

Hey, Dan, it's Jandy. It's a great question. I mean, it's one of the things that's so great about our business is that a tremendous strong cash flow that we're consistently generating, it gives us a lot of options, right? So, obviously, we are a company – we've been a company and continue to be a company that's very, very focused on profitability and cash flow. But in end, we can use that cash flow to invest back into our business, which is what you're seeing with the numbers this year, right? With the guidance we've given for the rest of the year, as well as our results here this quarter, is where we're putting a little bit more money back into marketing, into our people and into these acquisitions, which you see across our operating expenses. So, certainly, it's a balance and as the

revenue mix changes, we're mindful of the impacts to cash flow, but we're constantly looking for investing back into growth into the business.

**Dan L. Kurnos**

*Analyst, The Benchmark Co. LLC*

Got it. Thanks very much. And a solid start to the year.

Q

**Jandy Tomy**

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

Thanks, Dan.

A

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

Thanks, Dan.

A

**Operator:** Your next question comes from the line of Tom White of DA Davidson. Your line is open.

**Tom White**

*Analyst, D. A. Davidson & Co.*

Thank you. Good morning, guys. I guess first off, Alex, could you maybe talk a little bit about – a little bit more about Accu-Trade, the solution there and maybe how that offering is differentiated from some of the other competing consumer digital platforms out there? And I guess sort of as a follow -up there, should we anticipate any kind of like normalization in the growth rate of that business? I know it's still like super early, but I guess I'm just sort of looking forward to a period when local dealers' used inventory levels start to kind of normalize and they start getting inventory from the more kind of traditional channels, like a consumer trade [ph] and that the (00:23:00) dealership. How do you sort of see the growth rate of the Accu-Trade business kind of behaving once that happens?

Q

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

Sure. Well, Tom, we're in pilot right now with our dealer partners, and they're helping us develop the proper go-to-market here. But I can flash a couple examples. I mean, dealerships are spending, in some cases, in excess of \$10,000 a month on various tools from different suppliers that, frankly, we can bring them all together through Accu-Trade, whether that's pricing and analytics, or trade-in widgets on their website, or third-party services that allow them to source cars. In many cases, dealerships have three to five different vendors trying to do these things for them at any given time. And if you look at what Accu-Trade does, obviously our pilot go-to-market is on a subscription basis. We do see an opportunity to enter into a variable model as well, particularly as we get into dealer-to-dealer trading. But, we are intentionally being somewhat disruptive on pricing because we believe that dealer network wants fewer tools from a smaller number of vendor providers. And we certainly are bringing a suite and enterprise strategy to the dealer network.

A

I think when you look at the strength of Accu-Trade, it really comes down to a few things, such as their VIN-specific valuation capabilities that is far more precise than, say, a generic make, model, mileage-type valuation tools in the market. They don't – we don't rely on third-party inspections. And certainly we are backing up the Accu-Trade offer with a guarantee. So, we've got a lot of things that are helping dealers buy cars without any friction between them and the seller. And we're doing it in a software-as-a-service-type model where dealers know

that we're enabling them to do this not just online, but in their physical stores, in their service lanes. They're using Accu-Trade across their whole business and aren't using it as one narrow buying channel. You're going to hear more about this next quarter as we reveal some of the success stories that we're finding in our pilot, but there's no reason every dealer in the country wouldn't want Accu-Trade.

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**Jandy Tomy**

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

A

And to further that point, there's no reason that a change in consumer behavior would impact the ways dealers are looking to acquire vehicles, right, and value vehicles. This is something that they can continue to use as – going forward. No reason to change if the environment...

[indiscernible] (00:25:49)

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**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Right, trade-ins at the dealership, they can use Accu-Trade to properly value the car and buy it on the spot in the physical form. Great point.

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**Tom White**

*Analyst, D. A. Davidson & Co.*

Q

Got it. I appreciate that, Jandy, thanks. And then just a quick follow-up. Apologies if I missed this, but did you guys comment on whether dealer TAM and ARPD grew for the core listings business this quarter?

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**Jandy Tomy**

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

A

It did.

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**Tom White**

*Analyst, D. A. Davidson & Co.*

Q

Okay. Terrific. Thanks so much, guys.

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**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Thanks, Tom.

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**Jandy Tomy**

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

A

Thanks, Tom.

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**Operator:** Your next question comes from the line of Naved Khan of Truist. Your line is open.

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**Naved Khan**

*Analyst, Truist Securities, Inc.*

Q

Hey, guys. Thanks for taking the question. This has been [indiscernible] (00:26:30) two question, if I may. So the first, I think that dealer inventory appears to be improving, we've seen some signs of used price inflation

somewhat settling down. So, how do you expect these dynamics to drive marketplace revenue growth over time? And the second, on the outlook for the EBITDA margin approaching 30% by 4Q, how confident are you in OEM [ph] has been (00:26:59) rebounding to pre-COVID levels by then, given new car inventory now expected to recover into the latter half of the year? Thanks.

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Sure. Well, first of all, I think even what's interesting, if you look at the inventory levels on the new car side, we know those are down massively. But the used car business still remains very robust and dealerships do have healthy levels of inventory, particularly those that are relying on tech to acquire cars and keep inventory levels flush. I think even though the used car pricing is coming down, our subscription model is somewhat tied to inventory levels. So, we think our ARPD strength is actually quite good considering inventory levels are down, and most of the dealer additions that we've had over the last few quarters are coming in at a much lower subscription rate than, say, we were at a year ago because they just have lower overall inventory. And so, as inventory levels increase, it somewhat helps stabilize and/or even grow ARPD just being tied to that dynamic. I think the opportunity for us obviously is that – well, I'll let Jandy comment on the second part of your question.

**Jandy Tomy**

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

A

Yeah, yeah, absolutely. From an outlook perspective and the margins you were asking, the margins reaching 30% by the end of the year isn't necessarily directly tied to OEM's revenue returning back to growth. I mean, we certainly are expecting it to not get worse. Well, to recover and be rather flat by the end of the year from a year-over-year perspective. So, we're not assuming massive growth in OEM by the end of the year, more of a recovery and rather flat from a year-over-year perspective. So, that – I mean, just to put a little bit of a finer point on that.

And then to Alex's point, and I think the other – the question that Tom asked at the end of his was about marketplace, ARPD and dealer growth – dealer count growing, dealer count from a marketplace perspective did grow. ARPD, though, there's several components of it, right? There's the solutions from a website perspective, there's FUEL, and then there's the core marketplace. The core marketplace ARPD was a bit down year-over-year. It's the solutions and the FUEL business that really drove the year-over-year growth. Like Alex just said, from inventory levels being down and new dealers coming in at lower rates, ARPD from just pure marketplace subscriptions was a little bit down year-over-year. So, I wanted to make sure I clarified that.

**Naved Khan**

*Analyst, Truist Securities, Inc.*

Q

Awesome. Thank you.

**Jandy Tomy**

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

A

Thank you.

**Operator:** Your next question comes from the line of Doug Arthur of Huber Research. Your line is open.

**Douglas Middleton Arthur**

*Analyst, Huber Research Partners LLC*

Q

Yeah. Thanks. Jandy, just to clarify, are you saying the ARPD for the core listings business was down or that, as well as total revenues, attributed ex-new solutions, ex-FUEL, ex-Dealer Inspire was down a little bit year-over-year?

**Jandy Tomy**

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

A

You know what? I'd actually don't know the answer to that because we don't look at it broken out that way. You know what, actually, no. Here it is. It was up, marketplace, just the core solution was up year-over-year, driven by the customer growth.

**Douglas Middleton Arthur**

*Analyst, Huber Research Partners LLC*

Q

Okay. Because, I mean, Alex, you said, I believe, if I caught that correctly, that new dealer core listing marketplace customers are coming in at a lower price. So, the new solutions adoption must be pretty strong given you're up in overall ARPD. Is that a fair reading of it?

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Dealer customer growth, right, just the customer kind of [ph] alone (00:31:09), even though it's coming in at lower rates, it's still bringing in incremental revenue. So yeah, the combination of those two factors leads to revenue growth year-over-year. Does that answer your question?

**Douglas Middleton Arthur**

*Analyst, Huber Research Partners LLC*

Q

Yeah. Yeah. Okay. And then just going back to the margin outlook, I mean, given the fact that there's a lot of demand variables here for the rest of the year. What – as you look at your expense, how you modulate expenses particularly in marketing, how flexible do you feel or how much flexibility do you feel you have on some of these expenses, depending on where revenues come in?

**Jandy Tomy**

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

A

It's a fair question. I mean, we certainly have flexibility in different areas of the business, marketing is one example. I think we've proven to be pretty strong operators, especially when you go back two years ago to COVID. I mean, I'm certainly not talking about pulling some of the levers that we did back then, but there are other areas that we can look to to try to curb spending if revenue winds up coming in softer, but...

**Douglas Middleton Arthur**

*Analyst, Huber Research Partners LLC*

Q

Okay. I got it. Thank you.

**Jandy Tomy**

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

A

Thanks, Doug.

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Thank you, Doug.

**Operator:** [Operator Instructions] Your next question comes from the line of Gary Prestopino. Your line is open.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Thank you. Good morning, Alex, Jandy. Couple of questions here. First of all, when you're talking about closing nearly 200 deals in NADA, would you kind of – will most of those deals point solutions? Or did you also get a goodly amount of new dealers looking at your marketplace business wanting to sign up for it?

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Well, they were across the board, Gary, but the majority of the dealer sign-ups there were wanting to participate with us with Accu-Trade.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay.

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

It was an absolute homerun on that front. And so, we're beginning the enablement and the production side of all those orders now in Q2, getting those – all the initial pilot dealers up and running.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Was that – were most of the dealers that were signing up for Accu-Trade, were they independents versus franchise, or was it just mixed across the board?

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

It's almost all franchise.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay.

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

NADA largely is a big franchise dealer show. But we do have independent operators that are interested for sure.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. So, from the time that you signed these entities up for either Accu-Trade or CreditIQ, how long does it take for you to actually roll out the product to the dealer and the dealer starts using the product?

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

We're working through a lot of those details. We can turn on the digital side of it fairly quickly, particularly because we have all the dealer's information already in-house, either through Dealer Inspire or any of our existing solutions. I think for the dealers that are wanting to use Accu-Trade for their in-store appraisal process and even in their service lanes, certainly, that's requiring a little bit more time to get them to fully appreciate the totality of the solution. But we can start revenue recognition and dealer value delivery really quickly. It's just trying to get the whole dealership operation to embrace the tech it takes a little more time.

**Jandy Tomy**

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

A

So, it's really kind of a training issue to make sure that they fully appreciate everything the product does so they can now enjoy all the [indiscernible] (00:35:11) from it.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Would you know if the dealers that signed up for Accu-Trade had a competing product and they were going to double source, or were these dealers that really didn't have a product to source cars from consumers?

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

Well, I think the answer is both there, Gary, because part of the value is obviously sourcing sales either from their website or from our marketplace. And dealers across the country have various tools that do that today, certainly none that are integrated to do both through one technology. Like a dealer will use a third-party vendor for a widget on their website, they'll source leads through a various third-party or a buying matrix-type solution and so, they're using multiple tools. With Accu-Trade, they can do all of those things through one interface. And so, dealers initially reporting, oh, my God, I can actually save a lot of time. I have less things to train people on and I can buy cars directly from my own website and from Cars.com, it's far easier. So, I do think we will replace a lot of existing tools, but there is no reason that we also can't be in addition to other solutions that they use.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. And do they have to be a marketplace customer to use Accu-Trade or can you sell this just as a point solution?

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

A

They don't. But I will tell you, we've already won a lot of dealers back to the marketplace, because when they heard about Accu-Trade, they wanted to buy Accu-Trade and then said, let's get back on to the marketplace as well, because now we can sell cars and buy them from you. So, that's been a nice positive as well.

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. And then a couple of more questions, I promise I'll get off. Just in terms of as we look at the expenses as a percent of sales in the quarter, are those levels as a percentage of sales pretty much going to be consistent

throughout a whole year, Jandy, in terms of revenue operations, product technologies, marketing and sales, and G&A?

**Jandy Tomy**

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

So, marketing and sales is a bit elevated in Q1, frankly, because of NADA.

A

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Okay.

Q

**Jandy Tomy**

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

Year-over-year, you see that. But also, if you look at the trending out throughout the rest of the year, it'll come down a bit. It's still – we're still expecting to spend more each quarter than we did last year, but it'll be lower than Q1. Products and tech is, from kind of a pure dollars perspective, is a little bit light in Q1 simply because we only owned Accu-Trade for one month. So, Accu-Trade being kind of fully in for the rest of the year, you'll see a little bit of a step-up there.

A

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Okay.

Q

**Jandy Tomy**

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

And then G&A, you have to look at it without stock-based comp. Stock-based comp actually is going to go up a little bit. We brought more employees into the equity program this year. So, stock-based comp will be up, but if you look at it kind of normalized and without stock-based comp, G&A is probably flattish for the rest of the year.

A

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Okay. And then just lastly, on your share repurchase, just curious, you only repurchased 338,000 shares in the quarter. Were you locked out of buying your stock after the announcement that Sonia had left or was leaving?

Q

**Jandy Tomy**

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

We certainly do have a restricted trading windows, and because of the timing of when we put the plan in place, we didn't have the opportunity to have set up a 10b5-1. It needed a 30-day cooling off period.

A

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Okay.

Q

**Jandy Tomy**

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

So, that's part of the reason why the shares were kind of concentrated toward the beginning of the month.

A

**Gary Frank Prestopino**

*Analyst, Barrington Research Associates, Inc.*

Okay. Thank you.

Q

**Jandy Tomy**

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

Thanks, Gary.

A

**Operator:** There are no other questions over the phone. I'll turn the call over back to Alex Vetter, CEO.

**Alex Vetter**

*President, Chief Executive Officer, Founding Member & Director, Cars.com, Inc.*

Thank you for your interest in CARS and enjoy the rest of your week.

**Operator:** This concludes today's conference call. Thank you for participating. You may now disconnect.

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