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Cars.com, Inc. (CARS)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. And welcome to the Cars Fourth Quarter 2022 Earnings Conference Call. This call is being recorded, and a live webcast and the accompanying slides can be found at investor.cars.com. An archive of the webcast will be available at Cars' Investor Relations website.

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

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

Good morning, everyone, and thank you for joining us. It's my pleasure to welcome you to the Cars' fourth quarter 2022 conference call. With me this morning are Alex Vetter, CEO; and Sonia Jain, CFO. Alex will start by discussing the business highlights from the fourth quarter and full year. Then Sonia will discuss our financial results in greater detail along with our 2023 outlook. We'll finish the call with Q&A.

Before I turn the call over to Alex, I'd like to draw your attention to our forward-looking statements and the description and definition of non-GAAP financial measures, which can be found in our presentation. We will be discussing certain non-GAAP financial measures today, including adjusted EBITDA, adjusted EBITDA margin, adjusted operating expenses, and free cash flow. Reconciliations of these non-GAAP measures and the most directly comparable GAAP measure can be found in the financial tables included with our earnings press release and in the appendix of our presentation. Any forward-looking statements are subject to risks and uncertainties. For more information, please refer to the risk factors included in our SEC filings, including those in our most recently filed 10-K, which is available on the IR section of our website. We assume no obligation to update any forward-looking statements.

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

Alex Vetter

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

Thank you, Robbin. And welcome to our fourth quarter and full year 2022 earnings call. 2022 marked a strong year of growth for our business as we helped consumers, dealers, OEMs and lenders in an environment that challenged many. Our strategic investments strengthened our platform advantage, most recently demonstrated with the successful launch of Accu-Trade and the integration of CreditIQ. As a result, we saw accelerated revenue growth in each quarter of 2022, delivering $654 million of revenue for the full year, an increase of 5% year-over-year. Our adjusted EBITDA was also strong at $187 million, representing a 29% margin.

Before diving into the details of our strong performance, I want to recognize that 2023 marks the significant milestone of Cars' 25th anniversary. Our success and durability are a testament to our incredibly talented team, highly recognized and trusted brand, innovative solutions, and our focus on empowering local automotive retail. The strength of this combination is what drives our platform strategy. We successfully expanded our business model beyond listings to drive vehicle sales and industry profitability through our category-leading audience and digital solutions.

In 2016, the acquisition of DealerRater enhanced the user-generated content on our marketplace. And today, we have over 12 million consumer-submitted reviews, enabling local retailers to build their online reputation. Two years later, we expanded our technology and media solutions by acquiring Dealer Inspire, which was the catalyst for our solution strategy. We leveraged our deep OEM relationships to scale the business from 1,700 websites in 2018, to over 6,000 today, and more than doubled revenue during the same period.

Also in 2018, we developed and launched Cars Social, which connects dealers and OEMs with in-market shoppers on social media platforms. Cars Social paved the way for FUEL, which leverages the rich first-party audience data of Cars.com with the ad tech capabilities of Dealer Inspire to deliver the industry's first targeted video advertising solution. It is our fastest growing media solution, and it's delivered significant market share gains for our customers.

And most recently, we further empowered shoppers and sellers with digital financing and trading technology through the acquisitions of CreditIQ and Accu-Trade, giving us robust vehicle financing, buying and appraisal solutions. Our strategic investments, combined with the team's focused execution, have expanded our industry footprint, while elevating our user experience, with integrated platform capabilities. These enhancements helped increase visits to our marketplace by more than 30%, and helped grow ARPD double-digits over the last five years. Importantly, our TAM has also expanded from $35 billion to over $50 billion. We're proud of this progress as we celebrate a quarter century of innovation. And we will continue to execute and make disciplined investments to support our strong brand, audience engagement, and differentiated platform strategy.

Now let's turn back to our Q4 and full year results. For the year, we delivered an average of 26 million monthly unique visitors, an increase of 5% compared to the prior year. Throughout all of 2022, Cars.com was ranked number one in Comscore's monthly unique visitor tracking. Due to our strong brand and organic audience, we continue to generate traffic more efficiently than our competitors. The strength of our high-intent audience where 85% of our shoppers plan to purchase within six months, powers our platform. The 587 million annual visits to Cars.com combined with the hundreds of millions of visits across Dealer Inspire websites, activates all of our solutions and generates immediate demand for our customers. And dealers increasingly benefit from this virtuous cycle, evidenced by our growing product adoption and year-over-year growth in ARPD.

We continue to win market share for our website business throughout the year, adding more than 700 Dealer Inspire website customers and bringing the total to 6,050 at year-end. Demand is also strong for Accu-Trade as dealers prioritize sourcing used cars more efficiently. We finished the year with over 500 Accu-Trade Connected customers and dealers appraised more than 600,000 vehicles during the year, either digitally from their websites or physically in their stores. Leveraging our proprietary vehicle valuation technology, we also generated more than 80,000 instant offers for consumers on our marketplace since launching in May.

Unlike others who buy cars directly and compete with the dealer, Cars remains focused on being an enabler, empowering retailers to control the last mile in retail while remaining asset-light and software-driven. Since launching CreditIQ, more than 2,200 dealers have enabled shoppers to get instantly preapproved on Cars.com and Dealer Inspire websites. Dealer adoption of CreditIQ continues because we are piloting soft credit applications and further enhancing consumer functionality with the addition of [ph] shop buy payment (7:31). We continue to strengthen our platform and introduce solutions that enable dealers to drive retail improvements and compete on dimensions other than price.

We recently launched the Dealer Experience Report, which offers personalized reports identifying consumer satisfaction scores, across the entire dealership experience. Early feedback from our customers has been positive. Jack Weinzierl of Boardwalk Automotive Group said, the experience review gives us a quick but critical snapshot of key dimensions of our customer experience and allows us to better-identify areas of improvement and take action to make our business better. We believe that these consumer insights on the store experience will not only strengthen our marketplace retention, but also improve the overall retail automotive experience.

As a result of our strong value delivery, we ended the year with 19,506 dealer customers, an increase of 327 compared to the prior year. We grew customers despite cancellations from large digital dealers stemming from their own internal operational challenges. Even with this headwind and the continued challenges with OEM production and delayed model launches, we accelerated our revenue growth each quarter of the year, culminating in 6% year-over-year growth in the fourth quarter, and grew ARPD by $28 compared to the prior year.

Our strategy is working. Traffic remains strong, solutions are scaling, and our profitability and free cash flow remain robust. Looking ahead, the broader industry outlook is mixed due to supply chain and other macroeconomic factors. However, new vehicle sales are still forecasted to increase approximately 8% year-over-year, driven by pent-up consumer demand and improving production levels, including over 60 anticipated new car releases.

New car average daily listings are also rising on our marketplace. They increased 74% compared to the prior year. However, they remain more than 60% below the pre-COVID period. Given these dynamics and our conservative posture of some OEMs, we remain cautious in our outlook for OEM and National revenue.

That said, the used car market remains healthy. And we believe supply-demand dynamics will continue to support robust margins for dealers.

Over the past 25 years, our business has proven to be essential, regardless of the inventory cycle. Additionally, as the industry shifts to digital solutions to better compete and evolve the retail experience, we are the optimal partner to empower this transition with our connected platform.

In summary, our strategy continues to create exceptional value for our customers, company and shareholders. We have tremendous opportunities to further drive profitable growth and lead our industry forward.

Now, I'd like to turn the call over to Sonia to discuss our financial results for the fourth quarter, full year and 2023 outlook. Sonia?

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. 2022 was a strong year. Revenue grew each quarter and fourth quarter revenue reached $168 million, an increase of 6% compared to the prior year. Performance was driven by growth in dealer revenue, which also grew 6% year-over-year to $149 million. OEM and National revenue for the quarter was $14 million, 7% lower than the prior year. Performance reflects continued lower OEM advertising budgets, which have been impacted by delays in new model launches, as well as production challenges and inventory shortages.

Moving to expenses. For the quarter, total operating expenses were $148 million compared to $154 million in the prior year. On an adjusted basis, operating expenses increased by $4 million [ph] or 3% year-over-year (11:34). This increase was primarily due to higher sales investments, as we added staff to support our new product launches. Travel and entertainment and bad debt expense were also higher, the latter somewhat elevated after particularly low bad debt in 2021. Additionally, product and technology expenses increased due to the acquisition, development, and launch of our Accu-Trade and CreditIQ products.

Net income for the quarter was $10 million compared to a net loss of $3 million in the prior year. Adjusted EBITDA for the quarter totaled $49.5 million, $2.7 million higher than the prior year. Adjusted EBITDA reflects our revenue growth, partially offset by increased operating investments, across the organization, to support the development, launch, and sale of our new products. Adjusted EBITDA margin for the quarter was 29.4% and was in line with the prior year.

Before I turn to our full year results, I'd like to take a moment to review our key operating metrics and trends. We ended the quarter with 19,506 dealer customers, an increase of 327 or 2% compared to the prior year, but 79 lower on a sequential basis. Dealer customers would have increased sequentially if not for the cancellations stemming from struggling digital dealers pulling back listings from virtual locations. Recall, we were impacted earlier in 2022 by cancellations from another large digital dealer. Excluding cancellations from these digital dealers, our dealer customer growth was 4% year-over-year.

Looking at our dealer customer base as a whole, we are very pleased with our continued strong retention rates, particularly in this current lean inventory environment. It is a testament to our value delivery and the fourth quarter was the highest quarter of marketplace customer additions in 2022.

ARPD, our other key driver of revenue, increased by $28 to $2,361 in the fourth quarter, fueled by continued adoption of our solutions. As Alex mentioned, Dealer Inspire had another solid quarter and revenue grew 28% compared to the prior year. While we expect to continue to grow our website customers, we are also increasingly focused on growing package value and ARPD. Underpinning the strength of our platform is our ability to consistently generate unique high-quality traffic and an engaged audience for dealers and OEMs. For the quarter we had 25 million average monthly unique visitors, and delivered a 140 million visits, both increasing 5% as compared to the prior year.

Now moving to our full year 2022 performance, revenue totaled $654 million and dealer revenue was $579 million both were up 5% compared to the prior year. Total operating expenses for the year were $588 million, compared to $575 million last year. Adjusted operating expenses were $20 million higher compared to last year which reflects higher marketing and sales and product and technology cost.

Our sales expense increased due to higher compensation cost as we added staff to support our new product launches. We also had higher marketing expenses as we made investments to raise awareness of our new products and incurred additional costs associated with the return of in-person customer events like NADA.

Our marketing investments support our entire platform. As Alex mentioned earlier, our first-party audience data supports our media solutions like FUEL and Cars Social. These investments also strengthened our digital solutions. Consumers who visit Cars.com are increasingly reading and writing reviews, completing credit applications, and becoming a more qualified lead for our dealer customer, as well as [ph] requesting instant cash offers (15:47). An investment in marketing is not just an investment in the Cars.com marketplace. It is an investment in our platform. Products and technology expenses also increased primarily to support the acquisition, development and launch of Accu-Trade and CreditIQ products. These increases were partially offset by lower depreciation and amortization.

Moving to cash flow. During the year, we leveraged our strong cash generation to make internal value-accretive investments, acquire and integrate our acquisition, and repurchase shares, all while paying down debt. Net cash provided by operating activities totaled $129 million for the year. And free cash flow was $109 million, $10 million lower compared to the prior year. This decline was primarily due to a one-time $9 million income tax refund received in the first quarter of 2021 related to the carryback of NOLs. During the year, we repaid $41 million of debt, repaying nearly all of the outstandings associated with the Accu-Trade acquisition, and bringing our total debt to $481 million at year-end. Of this, 83% or $400 million of our total debt is our [ph] fixed-rate 6.375% senior notes (17:08) maturing in 2028. With our debt paydown, net leverage improved to 2.4 times compared to 2.6 times as of September 30, 2022. And we are now squarely back within our target range of 2 times to 2.5 times.

Our strong cash flow generation enabled us to execute a balanced capital allocation strategy, which includes returning capital to shareholders. During 2022, we repurchased 4.2 million shares, or 6% of total shares outstanding at the start of the year. As of December 31, 2022, we have $151 million remaining on our share repurchase authorization, which has two years left. Overall, our liquidity remains strong, [ph] with $215 million (17:58) available on our revolver and $32 million of cash on hand. You can trust that we will continue to be judicious in the deployment of our capital.

Now, turning to our guidance. Our diversified revenue streams give us a solid foundation to deliver another year of profitable growth. We expect to deliver first quarter revenue of $166 million to $168 million, or year-over-year revenue growth of 5% to 6%. Our first quarter revenue outlook assumes a continued pullback by digital dealers and lower OEM and National advertising spend relative to the fourth quarter of last year.

Looking ahead, there continue to be mixed signals across the automotive industry, driven largely by continued supply chain challenges. While we have solid near-term visibility, in this current environment, there is less certainty longer-term. This is reflected in our full year revenue guidance, which calls for year-over-year growth but with a wider range of 3% to 6%.

Our full year guidance reflects the expectation of continued strong growth in dealer revenue tempered by the lapping of the Accu-Trade acquisition in March, and continued digital dealer softness. We expect lower inventory levels will also persist throughout the year, which impacts our customers' advertising spend. Recall, despite recent increases in the average daily vehicle listings, on our marketplace, overall listings remain down, 41%, compared to [ph] 4.3 million (19:37) as of the first quarter of 2020. Our growth expectations would be higher, in a less-constrained inventory environment.

I'm pleased that we have maintained a strong and consistent adjusted EBITDA margin profile, reflective of our disciplined approach to capital allocation and incremental investments. Our ROI-driven approach to investing has enabled us to maintain strong margins, even as we scale new products like Accu-Trade and CreditIQ, which typically require upfront investment prior to launch. With that as a backdrop, we anticipate adjusted EBITDA margin for the first quarter to be between 25% and 27%. And we once again anticipate margins to improve over the course of the year and expect to exit the fourth quarter of 2023 with margins approaching 30%.

Recall, we typically make seasonally higher investments in marketing and sales in the first quarter due to the timing of in-person industry events. And this year is no exception. Capital expenditures for the year are expected to range between $22 million and $25 million. And we expect cash taxes of approximately $10 million, which includes payments related to both the 2022 and 2023 period. Still, we expect to deliver yet another year of strong free cash flow.

In summary, our solid performance reflects the strength of our integrated platform, which enables us to innovate and better-serve consumers and customers while delivering profitable growth. We entered 2023 with the financial flexibility to continue making value-accretive investments and create long-term value for shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question today will come from Tom White with D.A. Davidson.

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

Q

Great. Thanks for taking my question. Nice end of the year, guys. Two if I could; maybe one for Alex and one for Sonia on the guidance. Alex, I was hoping maybe you could just characterize what the user engagement trends that you guys are seeing are kind of telling you maybe about the underlying customer demand for vehicles? How that's holding up kind of in the face of inflationary pressure and rising interest rates? 5% growth in uniques and traffic in the quarter, which suggests customer demand is pretty healthy, but just curious what you guys are seeing?

And then, Sonia, on the guidance, 5% to 6% revenue growth, for the first quarter, 3% to 6%, for the year. Can you just help us understand what would drive a slowdown in the business over the balance of the year if inventories and OEM spend is kind of only likely to improve kind of from current levels over the next few quarters? Thank you.

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

A

Sure, Tom. Thanks for joining us. Look, we have experienced a lot of positivity regarding user trends. And those trends continue into 2023. We're seeing persistent demand on the organic side, which is allowing us to be more judicious with our paid media. And so we see a strong, healthy market, particularly on the used car side. I think we also are seeing a lot of pent-up demand for EV interest. Our EV search traffic continues to climb with the introduction of a lot of new products coming to market; but more importantly, to consumer interest in those makes and models. And so, we feel really front-footed, and we're seeing strong value delivery and lead flow to our customers. We hope that persists through the first half of this year. And importantly, as we saw, last year, with limited inventory supply, it naturally drives users, to marketplaces, because they can search geographically-wide, [ph] and then don't have to reside just on the vehicles (23:57) that are available in their backyard. And so, I think that's partly what contributed to our strong traffic trends last year and carry forward into this year.

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

A

Yes. And then maybe picking up on the guidance question, we are really excited about our Q1 outlook with 5% to 6% growth. As I sort of tried to highlight, in our opening remarks, longer-term visibility tends to just be a little bit more challenging, in this current environment. Yes, inventory levels have been increasing, but off of an extremely low base, right? So, even when you look at where we landed for the end of the year, and compare that back to even Q1 of 2021, or going back further or to 2022, we have a long way to go to build back.

And again, in our subscription business, it does take time to lap the benefits of those subscriptions. So, I think that's really what's reflected in the low end of the range. But overall, if we take a look – take a step back to look at the full year, expecting continued strong growth, coming from our dealer revenue, I think, there are sort of two things I would call out that maybe temper that a little bit.

I think as you're aware, there are a number of digital dealers out there, who have been experiencing softness, in their own business, as they figure out what model works best for them. We've seen some pull-back on our site. I think we started talking about that in Q2 of last year. And so, our guidance factors in, and is effectively trying to derisk for our challenges those digital dealers are likely to continue to experience. And then we're also lapping the Accu-Trade acquisition beginning in March, which is going to have a little bit of an impact as you think about the year-over-year growth. And finally, as I mentioned, continued lower inventory levels put pressure on advertising budgets for some of our customers so may not be getting the growth that we want on the lower end of the range. So, again, trying to provide something that's a little bit more derisked. But obviously, our range is built around a forecast that takes into account both upsides and downsides to the business.

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

Q

That's great. Super helpful. Maybe just one quick follow-up. On the 2023 kind of EBITDA margin ramp, you guys described in the press release, it seems like it may evolve kind of very similar to last year. I mean, can we think about sort of margins being flat on a year-over-year basis as sort of a baseline or should we think otherwise?

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

A

No, I think they will. Look, in general, yes, they're evolving similarly to the way they did last year. Again, the caveat is simply that the longer-term visibility return of some of that higher margin OEM revenue is a little bit difficult to predict, which is why we provided guidance in this fashion.

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

Q

Okay. Thanks, guys. Appreciate it.

Operator: And our next question will come from Gary Prestopino with Barrington Research.

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

Hey. Good morning, everyone.

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

Great.

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

A couple of questions here. I can understand what's going on with the digital dealers. But I guess, for all of us, we'd like to know just how many of these dealers do you still have that are still in existence? And, I mean, are you assuming that further cancellations from some of these digital dealers because they're just running into issues with their business models?

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

Yes. So, the short answer is yes, we do expect further cancellations.

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

Okay.

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

Coming in Q1. Our guidance for both the quarter and the full year factors this in.

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

Okay.

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

I think it's important to know though, is like despite the fact that we have been experiencing cancels from digital dealers, the overall traditional dealer base continues to be extremely strong. If not for the cancellations that we were experiencing with digital dealers, instead of 2% year-over-year growth in dealer customers, we would have seen 4% year-over-year growth in dealer customers.

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

That's right.

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

Right. I know there's nothing you can do about that. I just want to get an idea of what could happen going forward.

And then, in terms of these digital dealers, are they just basically buying the marketplace listing services? They're not buying any of the high-end digital solutions. I would assume they have most of those in-house, right?

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

Correct, Gary.

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

So, the impact...

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

The average revenue per dealer is not that great. Correct. It's only really impacting our marketplace subscription counts and ARPD there.

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

Okay.

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

They build most of their technologies in-house.

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

Okay. So and then, Alex, could you maybe talk about you just came out of NADA. What are some of the observations you made there? What were the dealers basically asking for from Cars.com in terms of the technology solutions, things like that? Can you maybe just elaborate a little bit on that?

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

Sure, Gary. Well, we just got back from the show, in Dallas. And most of the industry trade publications heralded Cars as being one of the big hits of the show. Our booth was absolutely packed with dealers interested in the innovations that we're doing on the marketplace with our new Experience Report, giving them feedback on how their stores are performing.

And then also a lot of interest in Accu-Trade. Dealers now have heard enough from their counterparts that this is changing the game for them. And so, we had far more dealers leaning in to what we're doing to help them buy cars more efficiently and through alternative means. And so, by and large, it was a very successful show. We talked to over 1,000 dealers in a period of just a couple days, and it was a lot of fun as well.

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

Okay. But they're still very interested in digital solutions [indiscernible] (30:00-30:01).

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

A

Without a doubt. I think – Gary, my take was that NADA felt more like a software convention than a car show. I mean, most of the...

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Yes.

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

A

...companies there were trying to advent towards digital solutions. As you know, we've led here way ahead of our peer group. And so, we're seeing competitors try to demonstrate their digital prowess. But that's – our DNA and dealers know that they can count on us as the leader here.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you.

Operator: And our next question today will come from Marvin Fong with BTIG.

Marvin Fong
Analyst, BTIG LLC

Q

Oh, good morning. Thanks for taking my questions and congratulations on the 25 years, Alex. I know you've been there, since the beginning. I thought maybe to build on what you were talking about with the 4% growth excluding digital dealers. So, could you share with us what that has been in prior quarters? Was the 4% kind of consistent with prior quarters or was that an acceleration? And then I have a follow-up.

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

A

Well, revenue growth accelerated each quarter throughout 2022.

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

A

Yes. I think, Marvin, are you referring to the comment I made about digital dealers and the impact they had on dealer customer growth?

Marvin Fong
Analyst, BTIG LLC

Q

Yes, like the dealer growth if you excluded digital dealers, the impact of that, I think you said was up 4% in the quarter, year-over-year.

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

A

Year-over-year.

Marvin Fong
Analyst, BTIG LLC

Q

I was just trying to get a sense if that's an improvement from what you've seen in prior quarters on the same basis, that you exclude digital deals.

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

A

Oh, from prior years. Well, we've only really started, I would say, in Q2 experiencing cancellations from some of these digital dealers. One thing to bear in mind is that in terms of overall [ph] marketplace adds (32:00), Q4 was one – was our strongest quarter of the year. I don't think there is anything – I'm sorry if I'm not answering your question correctly but I...

Marvin Fong
Analyst, BTIG LLC

Q

No, that's fine.

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

A

Generally speaking, the growth is similar if you exclude some of our digital dealer cancellations.

Marvin Fong
Analyst, BTIG LLC

Q

Got you. No problem. And then, on the Dealer Inspire, so the – it looks like there was a substantial pickup in growth even though the dealer count...

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

A

Yes.

Marvin Fong
Analyst, BTIG LLC

Q

...for Dealer Inspire didn't rise as much. So, could you kind of, first part, just kind of break down why the – it looks like the revenue per dealer rose so much? And then like second part of that question is just historically, I think the revenue just kind of builds quarter-over-quarter, there's not much like up and down to it throughout the year. So, should we kind of consider the new revenue level that you found in fourth quarter kind of the baseline that you can build off of for 2023?

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

A

So, there were a couple drivers for that sequential pickup in year-over-year growth from Q3 to Q4. Obviously, it always helps that we are continuing to launch new websites. I think you've also heard us talk about efforts to focus on just the overall package value that dealers are signing up for between the website, add-ons, and what we can – how we can bundle our products together. So, pricing has definitely also been a focus of ours as we continue to grow this business. And that's something that factored into the increased growth that you saw in Q4.

And then finally, what I would say is I think most folks on the call are aware, we also have this advertising business, digital advertising business that sits within DI. And we've seen continued momentum in that business which continues to kind of buoy the overall growth of Dealer Inspire.

So, those are some of the factors contributing. I don't think there are any one-time items in the Q4 revenue number that would make me not want to use this as a base for how we think about our go-forward revenue growth for the business.

Marvin Fong
Analyst, BTIG LLC

Q

And then maybe if I could please...

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

A

[ph] For the 28% in particular (34:20), maybe slightly elevated relative to what you should be assuming in the future, if that makes sense.

Marvin Fong
Analyst, BTIG LLC

Q

Yes. Yes, right. I was thinking more from a dollar perspective.

And if I could just sneak another one in on Accu-Trade, I think last quarter you had about 430 dealers. Now it's 500 dealers. Just how do you feel about the pipeline there? I know it takes time to actually activate dealers, so you might have more in the pipeline than you're reflecting in your actual count. So, maybe you can just kind of comment on the growth trajectory we should expect for 2023 on Accu-Trade? Thank you.

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

A

Yes. So, Marvin, I'd say, I'm going to connect two of your question. I think first and foremost, despite the loss of digital dealers, you'll see in our numbers that we grew dealer count and ARPD. And certainly, our solution strategy is the chief reason for that strong ARPD growth and Accu-Trade is a big part of that. The dealer engagement here has been very strong. As you know that dealer – net new spending in Q4 tends to be softer just because dealers are curbing expenditures for year-end. And that we did see a shift for dealers to more on onboarding in Q4, where we really wanted to make sure that the dealers that signed up understood the value, got Accu-Trade on their website, showed them how to do appraisals in store. And so, we've invested in talent to help dealers with utilization and being successful. Our pipeline here is healthy and strong. And if you look at just Accu-Trade as a line item, within our revenue, our average revenue per dealer, it's one of the fastest-growing streams that we've got. And we're anticipating that trend to continue through 2023.

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

A

I would just add, you know, as part of NADA and talking about our solutions with dealers, one of the topics that regularly came up is they may have tried it in one or two stores. How do they now shift it to the broader set of dealerships that they own? So, I think we are seeing really fantastic interest and engagement. I think Alex shared some of the numbers, something it's like over 600,000 appraisals for the year. And even with our IPO offering, which is a little bit more oriented towards consumers coming to our marketplace, that's been a partial year. I think it launched in May. We've also seen tremendous activity there. So, it's a combination of both driving engagement of the product, which is going to create the best evangelism, I think, out there to bring more dealer customers to the platform and then, continuing to execute on the pipeline of dealers that we have.

Marvin Fong
Analyst, BTIG LLC

Q

That's perfect. Thanks so much for the color, Alex and Sonia. Appreciate it.

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

A

Thank you, Marvin.

Operator: [Operator Instructions] And we will now take a follow-up question from Gary Prestopino with Barrington Research.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Yes. I just want to ask about the National advertising revenue. I think you said, Sonia, you're kind of looking for it to be very similar – actually similar to Q4 and Q1. Is that right?

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

A

No. We expect it to be down in Q1 versus Q4.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay, down.

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

A

Couple of...

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Did you give a range?

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

A

...couple reasons for that.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Yes, okay.

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

A couple reasons for why we think it's going to be down sequentially. We did – we do see some of the OEMs starting the year with a little bit more cautious footing, and that's part of it. The other thing is we do have within that National and OEM line a handful of insurance companies that also do work for us and buy advertising from us. And as you can imagine, they've been struggling a little bit with their experiences through this last [ph] claims cycle (38:27) that they've gone through. So, those are two of the factors impacting Q1.

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

Okay. But as we go forward, as the industry starts to – if it puts out, as they said it was going to this year, we were going to have about a $500,000 increase in vehicle build? Would you anticipate that, that would go up sequentially? Or has something changed on a secular basis there that where the OEMs are going to not be using that mechanism as much as they had in the past?

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

So, I do think that [ph] as add inventory levels (39:07) increase, specifically as on-the-lot inventory levels increase, as new model launches actually come to market, which have continued to be slower than anyone ever anticipated, we will start seeing an uptick, right? But they do their planning well in advance. It does take time to catch up to the cycle. And again, I just point out that while we're excited about what we see happening, on our marketplace, in terms of the number of listings, it's still considerably down versus recent-past. And so, there is a build-back that needs to happen. It's going to take time. No one thought this chip shortage was going to last as long as it has. But no. I do think revenue will come back in OEM and National.

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

Without a doubt. But it will be back-loaded, Gary, which then for the full year has a de minimis impact on our full year guidance. And we do see the trends are improving. But it's largely going to be in the second half of this year. So, it sets up nice for 2024.

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

Okay. Thank you.

Operator: And our next question today comes from Doug Arthur with Huber Research.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC
Q

Hey. Good morning. Sonia, just on this dealer customer count being down sequentially, I'm wondering if you can just sort of disentangle, traditional dealers, digital dealers, Accu-Trade adds, Dealer Inspire adds because it seems like there's a number of different vectors going on here. So, I'm wondering if you can just help me with that.

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

A

Yes. So, I think what I can tell you is that if not for our digital dealer cancellations that we experienced in Q4, overall, our dealer customer additions would have been positive. So, that's really the primary driver. And marketplace also would have been up, if not for those cancellations.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. So, it's a pretty significant number then basically.

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

A

Yes. You can think of digital dealers as really being sort of like the size of a large dealer group, based on how they manage their virtual locations, and the geographies they want to participate in. And bear in mind that Accu-Trade, when we add Accu-Trade, Accu-Trade Connected is about across platform experiences. So, those Accu-Trade adds are not necessarily going to increase our dealer count.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. That's helpful. Okay. Thank you very much.

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

A

Thank you, Doug.

Operator: [Operator Instructions] There are no further questions at this time. I'd like to turn the call back to Alex Vetter for closing remarks.

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

Thank you. We want to thank everybody for your interest in Cars and want to mention that on March 6 we'll participate in the J.P. Morgan High Yield Conference, and we'll keep you posted on other investor engagements throughout 2023. This concludes our call. Thank you very much for joining us today.

Operator: And this does conclude today's conference call. Thank you for attending.