24-Feb-2022

Cars.com, Inc. (CARS)

Q4 2021 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.

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

OTHER PARTICIPANTS

Robert Zeller
Analyst, Truist Securities, Inc.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Ryan Sigdahl
Analyst, Craig-Hallum Capital Group LLC

Marvin Fong
Analyst, BTIG LLC

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the CARS Fourth Quarter 2021 Earnings Conference Call. This call is being recorded and a live webcast can be found at investor.cars.com. A replay of this webcast will be available until March 10. A copy of the accompanying slides can also be found on the company's Investor Relations website.

I would now like to hand 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 and Full Year 2021 Conference Call. With me this morning are Alex Vetter, CEO; and Sonia Jain, CFO. Alex will start by discussing business highlights from our fourth quarter and the full year and provide an overview of expectations for 2022. Then Sonia 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 table included with our earnings 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 or information as of the respective date.

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

Alex Vetter

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

Thank you, Robbin, and welcome to our fourth quarter and full year 2021 earnings call. Cars delivered impressive results in 2021. We delivered double-digit revenue and adjusted EBITDA growth, underpinned by increased dealer customers, elevated ARPD, and record customer retention. We also announced two acquisitions, CreditIQ and the Accu-Trade Group, that further accelerate our platform strategy. This enables us to enter 2022 well-positioned for sustained growth and margin expansion.

Revenue momentum continued throughout the year as we increase value to our dealer and OEM customers, driven by our high intent organic audience, number one brand, and industry-leading solutions. Dealer revenue increased 19% year-over-year and total revenue increased 14% despite inventory constraints and continued OEM and national revenue softness. After adjusting for last year's pandemic-related credits, dealer revenue increased 10% and total revenue grew 6%. Consumer demand remained strong throughout the year, outpacing supply. While new vehicle production was down in the second half of the year, leading to widespread inventory shortages and softer sales, retail prices on both new and used cars skyrocketed, resulting in record dealer profitability.

Average retail prices for new and used vehicles on Cars.com increased 26% and 33% in the fourth quarter respectively. Despite the current market conditions, we continue to deliver high-value solutions that help dealers showcase their inventory and stand out on dimensions other than just price. Our level playing field enables consumers to easily find cars of high quality and dealers know they are working with a partner who doesn't force them to lower profits to climb in the search results.

Our reviews and reputation management solution from DealerRater is another great example of our objectivity. With more than 11 million reviews, consumers help determine which dealers are providing a great experience. This also allows individual dealers and salespeople to stand out and build their brands.

The power of CARS enables us to generate traffic far more efficiently than our competitors, who are forced to rent their audience via search. For the year, 70% of our traffic came to us directly largely driven by our original editorial content and category expertise. Just last week, our expertise was recognized by Elon Musk, who pointed to the Cars.com American-Made Index on Twitter, spurring a national conversation in front of its 70 million followers.

Our ability to consistently generate high-quality organic traffic and lead is paramount to a dealer's success. For the quarter, leads-to-dealers grew double-digits and unique visitors increased 6% compared to a year ago. This value is further evidenced by our historically low 2021 cancellation rate, which is half the 2019 average. We reached 19,179 dealer customers by the end of 2021, an increase of 807 dealers compared to the previous year and 150-dealer increase quarter-over-quarter.

For the year, ARPD also grew an impressive 16% year-over-year or 7% when adjusting for the 2020 pandemic-related credits. This was driven by continued strong performance in our website solutions and the adoption of FUEL which remains in high demand despite inventory shortages.

In 2021, total dealer websites grew to approximately 5,300, further demonstrating dealers increasing adoption of our innovative technology. Looking ahead, not only do we expect to continue to develop and launch additional dealer websites, but we also have tremendous opportunity to cross-sell existing products from DI, FUEL, and marketplace, along with newly acquired solutions across more than our 19,000 dealer customer network.

As we advance our platform strategy and strengthen our end-to-end transactional capabilities, we are making new solutions available to our customers. We continue to differentiate our industry-leading brand by enabling the local retail system to be more efficient to drive more profits and better compete. Last quarter, we introduced CreditIQ, a cutting edge automotive digital financing technology that has been well-received by the dealer community. The new solution enables dealers to facilitate instant loan approvals and online financing with consumers from lenders of their choice. This digital solution also addresses one of consumers most pressing pain points during their car buying journey, time spent in the dealership making decisions around their financing options.

CreditIQ is in the formative stages and we'll continue to make investments this year to accelerate its integration into our platform. We've already begun piloting CreditIQ technology on Cars.com and on Dealer Inspire website with approximately 100 dealer customers, and we expect to begin scaling this technology to a wider audience of users, customers, and lenders while we ramp investment in this differentiated digital financing solution.

We further enhanced our offerings with the recently announced acquisition of the Accu-Trade Group, which is expected to close later this quarter. This technology will enable dealers to quickly and efficiently buy and sell inventory at scale across a consumer-to-dealer network and a dealer-to-dealer exchange, helping dealers improve inventory churn and maximize profits. Nearly half of the 25 million end market shoppers on Cars.com are looking to trade in our used car before making a purchase. Using Accu-Trade proprietary VIN specific valuation and appraisal technology, dealers can confidently source inventory directly from the tens of millions of high intent end market shoppers who visit the CARS platform.

Consumers will also benefit from real-time transparency about a vehicle's guaranteed value and gain instant connection to the best buyer, making it the easiest way to sell their car. We will be launching new sell-it-yourself capabilities, allowing over 11 million annual private party car sellers the option to sell to another consumer or to one of our thousands of certified dealers. We will integrate this technology across our platform shortly after the transaction closes and invest in building out this consumer and dealer offering.

I want to emphasize that the power of our platform is our high intent audience with nearly 592 million annual visits to Cars.com and an incremental 952 million visits across Dealer Inspire websites. As we deploy our technology solutions via financing or trade-in, we can unlock a much bigger opportunity across a larger consumer and dealer network while leveraging insights and creating efficiencies across our platform.

I'm pleased with the progress we've made building innovative solutions that advance our business and the industry. These ongoing internal investments and innovation, coupled with high-value accretive acquisitions, position us to build on our momentum and deliver on our strategic growth priorities. CreditIQ and Accu-Trade, along with organic investments, bring to our Cars.com platform a critical set of technology capabilities, enabling an omni-channel experience for car shoppers and sellers.

In 2022, we are investing for growth. Sales and marketing expenses will modestly increase year over year with higher investment in the first quarter as we resume our participation in trade and industry events like NADA. Also, over the course of the year, we'll restore investments in the areas that have been curtailed due to the pandemic. While our near-term growth expectations have been somewhat muted by the inventory shortages, we expect our growth to accelerate in the second half of the year as inventory begins to recover and these investments particularly those related to integrating our acquisitions will result in accelerated long-term growth.

Our revenue comes from a diversified set of customers across dealers, OEMs, lenders, and other automotive industry participants. As the inventory shortages subside, we expect that our high ROI, innovative products and solutions to OEMs will deliver increased contribution to both revenue and margin.

CreditIQ and Accu-Trade will also contribute to accelerated long-term growth in both revenue and margin, especially after the first year of pre-launch development work and product integration. The completion of our tech transformation in 2021 enables us to innovate much faster, and it is a natural inflection point in our product development journey to bring these new solutions to market.

To help drive our growth, I'm pleased to welcome Matthew Crawford, who joined us last month as our new Chief Product Officer. Matthew has considerable experience managing, operating, and leading product development and enterprise scale. He has built two-sided marketplaces, integrated acquisitions, and scaled innovation for growth. I'm excited to bring Matthew's rich experience and platform expertise to our team.

Before I turn the call over to Sonia, who will discuss our financial performance and outlook in greater detail, I want to highlight our ESG work that is core to our culture. Powered by CARS action in 2021, we continue to drive environmental, social, and governance priorities throughout the company. Our commitment towards carbon reduction has come to life in several areas across the business, perhaps most importantly in the form of ongoing consumer education.

As the electric vehicle future takes hold, we will double down on our leadership in this area, increasing our EV-focused editorial content by over 20% this year. We will also continue to do our part in increasing representation in our company, industry, and communities. Within our industry, we will continue to provide ongoing support in education, technology, and financial investments to critical partners such as the National Association of Minority Auto Dealers, Women in Automotive, and Girls Who Code.

And at CARS, we are proud of our work to build an inclusive culture, where 45% of our employees identify as other than male, and a quarter of our team identifies as having a racial or ethnic background. We are committed to increasing our representation at CARS, and we hold ourselves accountable by formally tying executive compensation to our DE&I goals. These actions are a critical part of our corporate culture, and we will continue to create sustainable value across all our stakeholders.

And now, I'll turn the call over to Sonia.

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. I'm pleased with our team's execution. We delivered double-digit revenue and adjusted EBITDA growth, ending the year in a strong financial position. We also made two acquisitions, CreditIQ and Accu-Trade, that add new capabilities and new revenue streams to our platform. But let me begin with our quarterly results.

Revenue totaled $158 million, up 3% year-over-year. Dealer revenue grew by 8%, or $10.3 million year-over-year. Performance was driven by continued growth in dealer customers and ARPD, reflecting the strength of FUEL and our other digital solutions. Dealer Inspire revenue grew 19% year-over-year. OEM and national revenue for the quarter was $15 million, 23% lower than the prior year, reflecting the industry-wide chip shortage, which led to lower new vehicle production, lower new vehicle incentives, and resulted in lower advertising budgets overall.

New vehicle sales are projected to increase year-over-year. However, production is returning more slowly than many had anticipated. Despite these macro headwinds, our diversified business model allows us to perform well across industry and economic cycles, giving us confidence that we will deliver yet another year of strong revenue growth.

Moving to expenses. For the quarter, total operating expenses were $154 million, compared to $137 million in the prior year. On an adjusted basis, operating expenses increased $6 million, or 5%, year-over-year. This increase is primarily due to the higher product and technology expenses due to last year's pullback in investment, given the uncertainty of the pandemic. Cost of revenue also increased, driven by the strong growth in FUEL and our other digital solutions.

Net loss for the quarter was $6 million compared to net income of $7 million in the prior year. The current quarter was impacted by $10 million of compensation expense recognized as part of the CreditIQ acquisition. Specifically, under GAAP purchase accounting, $10 million of our $30 million upfront purchase price was deemed compensation expense and accordingly recorded in G&A. This is a one-time expense related to the acquisition.

Adjusted EBITDA for the quarter totaled $47 million, or 29.6% of revenue, compared to $48 million, or 31.7% of revenue, a year ago. Current quarter adjusted EBITDA margin reflects our product mix, lower OEM advertising, and higher growth in our solutions business, which comes at a slightly lower margin, as well as gradual investments in areas that had been curtailed during the pandemic.

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 19,179 dealer customers, an increase of 807 compared to the prior year and an increase of 150 sequentially. Our ability to grow the dealer base in this inventory-constrained environment is evidence of the value we provide dealers by directly connecting them with in-market shoppers.

We saw strong growth in our website customers. We ended the year with 5,300 website customers, a 900-customer increase compared to a year ago. Strong OEM program acceptance and dealer adoption drove this performance, which includes our continued launch of GM and Ford websites. Despite inventory shortages, we've grown our audience.

For the quarter, we had 24 million average monthly unique visitors, an increase of 6% year-over-year. We also delivered 134 million visits. Traffic was down 3% year-over-year, but in the context of vehicle listings, down 39%. We are driving a disproportionately high level of traffic. And perhaps even more importantly, we've grew leads double digits year-over-year, driving incremental sales to our dealer customers.

ARPD grew 3% year-over-year, driven by continued strong demand for FUEL and our other digital solutions.

Now moving to our strong full year 2021 performance. Total revenue increased 14% year-over-year to $624 million. Even after adjusting for last year's $38 million of pandemic-related invoice credit, revenue still increased by 6.5% year-over-year and dealer revenue increased 19% to $550 million.

Total operating expenses were $575 million compared to $1.4 billion last year. On an adjusted basis operating expenses were $31 million higher compared to last year, which reflects the gradual reinvestment in areas curtailed during the pandemic.

In 2022, we remain focused on being a technology enabler, empowering consumers, dealers, OEMs and now lenders with innovative solutions. To that end, we'll make incremental investments in innovation, including launching new products, optimizing our current suite of products and integrating and rolling out CreditIQ and Accu-Trade. As Alex mentioned, we are piloting the CreditIQ technology on our Cars.com platform as well as our Dealer Inspire website, and the reception has been enthusiastic. Overall, these investments will further set us up for sustainable growth in 2022 and beyond.

We ended the year with a strong balance sheet and have the financial flexibility to continue to invest in both organic and inorganic growth opportunities while maintaining modest leverage. Net cash provided by operating activities totaled $138 million for the year, flat year-over-year. Free cash flow totaled $119 million, $3 million lower compared to the prior year. Current year free cash flow was impacted by higher interest expense, normalized levels of working capital and purchase accounting for CreditIQ. To put this all in context, our LTM cash flow yield is 12%.

Our strong cash flow generation enabled us to repay $120 million of our debt, resulting in total debt at year-end of $477.5 million. Net leverage is down to 2.3 times compared to 3.4 times just a year ago and well within our target range of approximately 2 to 2.5 times. We are excited about our Accu-Trade acquisition and expect it to close soon. The $65 million deal at close will be funded with a mix of cash on hand and revolver draw.

Now turning to our guidance. Our 2022 outlook contemplates that vehicle inventory levels will improve in the latter part of the year. These inventory shortages will meet our growth in the first half of the year. OEM revenue will continue to face near-term pressure in this low production environment with delays in new model releases and lower incentive spend. And while dealers are experiencing record profits and our retention rates are at record highs, dealers and OEMs are less inclined to increase or shift their advertising budgets at this time.

That said, we are pleased with our year-to-date customer growth. It reflects the core strength of our platform and creates a solid foundation for growth in both ARPD and revenue. With that as a backdrop, we expect our first quarter 2022 revenue to range between $156.5 million and $158.5 million. We also expect year-over-year revenue growth to accelerate throughout the year as we continue to roll out of recently acquired and announced solutions and see inventory begin to recover. Full year revenue growth is expected to range between 6% and 8%, with double-digit year-over-year growth in the fourth quarter, assuming inventory recovers in the second half of the year.

Turning to our first quarter adjusted EBITDA margin. Our outlook includes the margin impact from our expected revenue mix, which includes a lower mix of OEM revenue versus solutions revenue, along with increased investments. During the quarter, we will invest in integrating our acquisitions into our platform to begin driving adoption through our dealer network, and we will continue to look for investments in areas curtailed due to COVID with our first quarter industry events and brand marketing. These investments advance our end-to-end platform capability and position us for accelerated future growth.

Given these factors, we anticipate adjusted EBITDA margin for the first quarter to be between 26% and 28%. Margins are expected to rise towards 30% in the fourth quarter as revenue growth accelerates, inventory returns and we see growth in our new solutions and modest growth in our OEM business and also because investments are expected to be weighted towards the first half of the year.

Capital expenditures for the year are expected to range between $23 million and $26 million, and we expect to deliver another year of strong free cash flow. We remain committed to strategically deploying capital that will drive the greatest shareholder value.

Our $200 million share repurchase program over the next three years reflects the strength of our business and the confidence we have in our long-term growth projections. It also underscores the strength of our cash flow, which gives us the capacity to invest in both organic growth opportunity and value-accretive M&A, like CreditIQ and Accu-Trade, while maintaining conservative net leverage and repurchasing shares. With these investment and our strong organic growth, we believe there's tremendous value in our shares and believe in investing in ourselves at this current valuation.

In summary, we've made significant progress in furthering our platform strategy, enabling us to innovate faster, better serve and support our consumers and our customers and drive sustainable growth. We're entering 2022 with tremendous momentum and are well positioned to deliver further growth.

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

Alex Vetter

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

Thank you, Sonia. In closing, we delivered robust growth for the year. Our platform strategy is clearly differentiated to continue to deliver revenue growth and value. We have sustainable winning and unique marketplace platforms and have added exciting new solutions to accelerate our growth. Our business has demonstrated resiliency and profitability during a period of uncertainty, and our momentum supports compelling long-term revenue and adjusted EBITDA growth for CARS in 2022 and beyond.

With that, we'd now like to open up the call for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Naved Khan from Truist. Naved, your line is now open. Please go ahead.

Robert Zeller Q

Analyst, Truist Securities, Inc.

Thanks for taking the question. This is Robert Zeller on for Naved. First, I just want to say it's good to see the return to growth in dealer customers with ARPU growing as well, all the more impressive in this tough environment. So the full year 2022 guidance assumes 6% to 8% revenue growth. And you mentioned in the press release, you expect growth to accelerate throughout the quarter. So is there a meaningful contribution from the acquisitions baked into this? Or do you expect most of the benefit to be seen in 2023?

And then as the company recognizes these earnouts over the next one to three years, how do these acquisitions affect your ability to pay down your debt? And what are your target net leverage multiples over the next one to three years? Thank you.

Sonia Jain A

Chief Financial Officer, Cars.com, Inc.

No, great questions. I'm going to try to get them and let me know if I missed anything. Starting out with guidance, we are guiding sort of annually to get to 6% to 8% revenue growth. And what I would say is the high end of that range reflects the acquisitions that we've completed. I think understandably, right, the businesses that we've bought have extremely strong technology but haven't necessarily had the customer distribution, and that's what we bring to the table. So we expect to be then rolling these products out across our network over the course of the year. We've already started doing that in a limited fashion with CreditIQ, and so they'll have some benefit to 2022. But really, the meaningful benefit, as you sort of indicated, is going to come in 2023 and beyond.

I think moving to your next question, which I believe was on leverage and how we think about our target net leverage ratio, we ended the year at 2.3 times. We're really pleased with how much we've managed to delever our balance sheet. And we think that's a really comfortable range for us. We are a growth business, and so we expect to deliver continued improvement over time and adjusted EBITDA. And so even with the earnouts we're contemplating, we feel very comfortable at the leverage levels that we're talking about.

Robert Zeller
Analyst, Truist Securities, Inc.

Q

Okay, great. Thank you.

Operator: Our next question comes from Dan Kurnos from Benchmark Company. Your line is now open. Please go ahead.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Great, thanks. Good morning. Alex, at the risk of sort of asking a question I think I ask you guys a lot in terms of the go-to-market strategy from here. You've got what is now a yet more comprehensive portfolio. And I think it's interesting, you sort of made remarks about obviously the dealers are flushed with cash right now. So certainly nobody – in this environment, nobody needs to sell cars they don't have, which is a challenge. But as you guys now have more tools in your arsenal to go back to the dealers and say, hey, look we can now offer -- you can now offer this and here's a complete platform approach.

Do you start changing your view on pricing and bundling and contract length? Are those like contemplations now? Just not – you guys have had excellent retention, obviously, in the tough environment. But the continued sort of shifting even more towards, I guess, a SaaS model effectively, is that being contemplated in sort of the forward outlook? Or am I off base on that?

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

A

Dan, thanks for the question. You're right to point out that the fastest growing part of our business is our software solutions, which don't have variable marketing or traffic dependence. And so we can invest in these very sticky software solutions that have the same reoccurring SaaS-like benefits that our marketplace broadly does. But we're selling them into the same established customer base. And so I do think that's where we see really strong growth in our EBITDA margins accumulating over time, because we're getting sell-through across our portfolio of solutions.

I think it hasn't – we haven't had to change our contract lengths or anything like that, because in this environment, what is consistent regardless of the macro factors is dealerships aggressively shifting to digital format. That's a consistent trend that's reliable. We actually even believe that the OEMs are going to have to start rethinking their distribution model and start marketing digitally more so than they do traditionally because of their scarce inventory.

And our platform is not advertising based. It's really a marketing platform. We're telling dealers they don't need to advertise in this environment, but their cars do need to be found, and that message resonates increasingly with OEMs as well, who still have inventory. It's just scarcely spread throughout the United States, and our platform allows consumers to find the specific cars they want and have them shipped if needed. And so, the business is proving to be really resilient even in this inventory-constrained environment.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

And then, at the risk of probably getting a non-answer, since you haven't really developed it yet, but the whole concept of now having access to C2C or C2B effectively, which is that untapped $11 million inventory. A lot of guys are trying to attack that space. How do you differentiate there? And we've heard from others just around sort of pricing backstops. Obviously, Accu-Trade gives you a specific measurement tool, which is unique. So, just help us think about being competitive in that space, how much share do you think you could capture? How meaningful that will ultimately be to results, knowing that you have not even launched it yet?

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

A

Well, Dan, I think the answer becomes more evident through our Accu-Trade acquisition, right? Giving consumers real-time vehicle values that not only are more accurate but can be guaranteed is a huge consumer benefit that doesn't exist in other environments. And importantly, where a – I know there's a lot of competition in this space, but a lot of our competitors are burning through a lot of capital to try to build these solutions. Part of our advantage is that the Cars.com brand generates a steady stream of organic sellers each and every day.

And so, we're able to enable this strategy, leveraging our existing traffic, our existing audience, and don't need to add a ton of marketing costs to generate a lot of opportunities for our dealers to buy cars directly from the public. And obviously, awareness on different ways that you can sell your car is expensive. And so, we're plugging in the Accu-Trade platform into our existing platforms, both on our marketplace and on dealer websites. And we can generate meaningful volume without having to spend tons of capital to sustain that revenue model on a go-forward basis.

Now, we've got to make some short-term investments this year to integrate the technology, which is why you see some near-term pressure on our EBITDA margins as we invest here to develop the solution into our marketplace and into our websites. But then we see meaningful both revenue and margin appreciation in the outer periods. As you know, in a subscription model, the impact isn't going to be as profound in the current year because a lot of the revenue is back end, but it has a tremendous implication on our financial outlook for 2023 and beyond.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Got it, great. Thanks, Alex.

Operator: And our next question comes from Gary Prestopino from Barrington Research. Gary, your line is now open. Please go ahead.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Good morning, all. I have a series of questions. So, first of all, Alex, can you maybe touch on how much your dealer retention has improved on a year-over-year basis? Can you slap some metrics on that?

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

A

Sure. I mean, we've cut our cancellation rate in half from 2019, which I think was a more normal operating environment. And as you can see in our numbers, like we've been experiencing strong dealer growth, which new sales are coming at a slower rate. So, I think a bigger contribution to our dealer growth has been just our consistent traffic delivery and our value delivery, which is persistent and organically driven.

We're pleased to see that that dealer growth continues in the first quarter of this year thus far. So, we see steady growth in dealers, but it's largely driven by dealers who are really appreciating that our value is tapping into a new incremental audience, where some of our competitors are just [ph] bidding up SCM (00:34:03) and selling that back to the dealer as a privilege, which doesn't really generate any incremental sales.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And then, Sonia, did you give us what the Dealer Inspire revenue grew at in the quarter? Are you still giving that metric out?

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

A

We do give that metric out, and I believe it was 19%.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

In the quarter?

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

A

For Q4, yeah.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. I have a couple of questions on this Accu-Trade business here. My understanding, I think, from the note that I put out that it's a subscription product paid by the dealers, right? And you're going to put this on Dealer Inspire websites, as well as put it on your marketplace platform. And it's going to be used for consumer to dealer, and then consumer to consumer transactions. Is that correct?

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

A

Correct. It will start as consumer to dealer. And then over time as we build out the dealer network, we'll enable dealer-to-dealer trading.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. Can you maybe talk about the ability here to give an instant guarantee to offer solution for vehicles, right? And I realize you've got all the data to back it up, but it's just – a lot of this has been specific valuation. What happens in the extent that the individual misrepresents the car to an extent that it – there's an issue there that would actually knock the value down that the dealer wanted to pay? How does that work?

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

A

Sure. Lots to unpack there, but let me give my best go here. First of all, obviously, the power of our data set is pretty incredible when you think about the forward-looking demand data signals that we generate each and every day across our dealer network of websites as well as our marketplace. And so using Dow's historical data, our forward-looking predictive data, we see that we can get hyper precise in terms of what a car is going to be worth over coming periods and, therefore, be able to price inventory pretty accurately both what it's worth today and what's likely to be worth over the next few periods. And therefore, we can provide instant guarantees through our wholesale partner who's agreed to buy cars using our data set in the event that dealers don't want to buy the vehicle.

Now consumers we know do admire their own cars more so maybe than the market will. And so that's part of the benefit of the Accu-Trade technology is it doesn't generate generic vehicle values but rather then specific vehicle values that are tied down to nuances that include not only the history of the vehicle but specific options and features. As the Accu-Trade team likes to say, they don't look at just the history of the vehicle, they like to look at the health of the vehicle. So part of our technology also comes with an OBD, which is an onboard diagnostic, where a dealer can plug a key into the car and actually retrieve the actual accident history of the car and any mechanical work that's been done.

So we know that we can deliver super precise vehicle valuations. We can also show the consumer what the market will bear for this car over the next few periods to help give the dealer tools to educate the consumer on the true value of the car, and we think that will remove friction from buyers and sellers and enable transactions to happen with greater ease.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

So my understanding is you're not taking any risk on this. You've got somebody backing it that will take the car if the dealers don't want to take the car. Is that correct?

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

A

That's correct. We're approaching this in a very asset-light SaaS-like software model and leveraging partners. And dealers, again, are going to carry the risk of the last mile, and we think they're the best equipped to handle the actual logistics and vehicle inspections. And we're more providing the software and the enablement.

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

Does the platform also include that the seller takes pictures and puts them up and it gets pushed to the dealer? Or there are -- isn't any of that involved?

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

That option will be there. Not all sellers would want to go to that degree, so therefore a local dealer can finish the inspection in person. But our goal is to enable a hyper local dealer network that's going to be far more efficient and profitable to allow local dealers to handle the last mile.

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

And then – okay, that's great. And then, lastly, you traffic was down a little but your unique visitors was up. Could you just maybe comment on was the traffic comp a tough comp versus last year? Or maybe there were a lot of people on fishing expeditions but weren't following through with elevated traffic?

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

Gary, we did have elevated traffic last year due to the COVID and shelter-at-home issues. But you'll also recall, we really relaunched our platform and frankly made it a lot more efficient. If you look at our lead conversion and our lead delivery, now part of that's also driven by scarce inventory. But our lead volume is up double digits. Our unique visitors are actually higher this year than they have been in the past three. Repeat visitation went down because consumers are finding the car that they're looking for and contacting the dealer more quickly. And so we're seeing double-digit value improvement in our subscription offering. So we're not worried about the visit decline. That will come over time. But I think part of that is driven by the inventory scarcity environment right now.

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

Yeah. No, just to add there, as Alex mentioned, just now, inventory is down. Our listings are down about close to 40%. And so when you think about traffic in that context, I think what you see is actually a really healthy, vibrant marketplace with a lot of consumer demand for vehicles.

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

Okay. Thank you.

Operator: Our next question comes from Steve Dyer from Craig-Hallum Capital Group. Steve, your line is now open. Please go ahead.

Ryan Sigdahl
Analyst, Craig-Hallum Capital Group LLC
Q

Good morning. Ryan on for Steve.

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

A

Hi, Ryan.

Ryan Sigdahl
Analyst, Craig-Hallum Capital Group LLC

Q

Curious on Dealer Inspire website solutions, nice growth continues there sequentially. How much of those customers are also marketplace customers? Or maybe said differently, how much those were cross-sold from marketplace into website solutions?

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

A

We continue to see a fairly sort of steady group of customers who are what we consider to be solutions-only customers. I think what's important to consider when you look at our growth for the year though or even our growth for the quarter is our growth is coming to us in a very balanced way in terms of growth in our marketplace as well as those dealers that are coming to us for Dealer Inspire specific solutions. And to your point, that does present a really attractive cross-sell opportunity for us, whether it's dealers who come to us first for marketplace and we can cross-sell them into our solutions, be it DI or FUEL or dealers that come to us via DI, have their website built first, and then we cross-sell them into marketplace.

We've talked about it on some of our other calls, perhaps a little bit less here. But when dealers are using both our marketplace as well as our Dealer Inspire product, we can meaningfully demonstrate to them the value of the referral traffic that our marketplace drives to their dealer websites and how we're actually driving leads that may be considered not traditionally from a marketplace to them. And we continue to see that as a really strong benefit that we bring to our dealer customers.

Ryan Sigdahl
Analyst, Craig-Hallum Capital Group LLC

Q

Good. One other one for us, just on Accu-Trade, can you elaborate more on financial expectations specifically for 2022? I guess, given the purchase price and the comment that it'll be accretive in 2022 at the time of announcement sounds a lot more measured here on this call on margin expectations just for this year on this call. Curious, I guess, kind of benefit this year to out-years and to intersect those comments, I guess.

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

A

Yeah. No, I mean, we do continue to expect Accu-Trade to be accretive to 2022. It is a slightly more established business than CreditIQ. We're acquiring it for its technology. That being said, it does have a base of customers. It's been distributed largely through third-party partners and we think there is a substantial opportunity for us to grow that base. What's key, though, in order to really grow that base is to get it more fully integrated into our platform, which is what we expect to do after close.

So I think what you're hearing from us is 2022 is going to be a bit of a year of investment for both Accu-Trade and CreditIQ as we get them established in our platform, start rolling it out to dealers. But we do expect them to have a revenue contribution. It's going to be more back half weighted. And since this is particularly for Accu-Trade, a subscription model, you're not really going to see even the full impact of the subscriptions we do get in 2022 until 2023. And that's when we expect to see more material growth from the business anyway because it'll be more fully integrated into our platform.

But if you want to try to put some harder numbers around it, what I would tell you is that our annual guidance range that we put out there, that 6% to 8%, if you look to the high end of that range, I would tell you that part of what gets us there is seeing the ramping of our acquisitions. And that's part of the reason we've also talked about how we expect revenue growth to accelerate quarter-by-quarter over the course of the year. I hope that helps a little bit.

Ryan Sigdahl
Analyst, Craig-Hallum Capital Group LLC

Q

Thank you.

Operator: Our next question comes from Martin (sic) [Marvin] Fong of BTIG. Martin (sic) [Marvin], your line is now open. Please proceed.

Marvin Fong
Analyst, BTIG LLC

Q

Good morning. Thanks for taking my questions. I guess a few more on guidance and Accu-Trade. So, with Accu-Trade, could you also just put a finer point. So, on the private party transactions you're talking about, will there also be a backstop for that. I can appreciate that dealers would be able to – would have that backstop but would also apply to private party transactions you are talking about. And then just on the subscription model, how does the subscription revenue you generate scale and volumes? So in other words, if the dealer is doing a lot more volume through this Accu-Trade platform, do they pay more to you? Is it like a tier structuring thing? [ph] More on that (00:45:38) you could provide would be great. And then maybe just one for Sonia, just elaborate more on what you're saying with the 8% being the result of success in the acquisition. So, can we interpret to mean that sort of full year you think 6% would be a good number for the core business? Thanks.

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

A

Sure, Marvin. Great questions. So, our private seller solution is going to give consumers multiple choices for how they want to transact. And so we're going to enable a consumer, they want to list their car in our marketplace and see what they can fetch in the open market, we can enable that technology. And through Accu-Trade, we can tell them what we think the car is worth and provide them an immediate point of egress. If they want to advertise it longer and entertain opportunities from other private buyers, that will be their choice. Part of the guarantee is just saying that if you're unsuccessful in selling in the open market, just know that Cars.com will help you get out of this car immediately at this price point. So, it'll work either way, whether if a seller wants to go open market or through the dealer network.

I think as far as scaling the business, what's exciting to us is being a software enabler, we want to see that SaaS-like revenue accumulate through more dealer participation, and we've gotten tremendous initial response on the Accu-Trade Cars.com acquisition, because dealers are desperate to buy more cars directly from the general public and we have a steady stream of those sellers to provide.

I think dealers are being feed to death by a lot of participants in this category charging on a per transaction basis, and our software model is meant to be a much more efficient path for dealers to use our software solutions to generate volume and scale without the variable costs that come along with success. And so, I think dealers are going to flock to our model over the traditional ways that they're buying and wholesaling cars, and find it to be far more profitable for them than the existing status quo of this market.

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

And then, maybe a little bit to your question around the 6% to 8%. We do have an expectation for meaningful growth, organic growth in our business. I think the 6% to 8%, as I mentioned, on the high end of the range, that does reflect the inclusion of the acquisitions and what they bring to the table. It's going to be – in all transparency, these acquisitions, 2022 is an investment and integration year for these businesses. And so, they're going to be a relatively small contributor overall, but it's incremental revenue, which is why it impacts the guidance range. I think when you think about organic growth in the core, I think one of the factors that could move us higher in the range is going to be the timing of when inventory returns and we start seeing a bit of a pick-up in some of our OEM and national revenue.

Marvin Fong
Analyst, BTIG LLC
Q

[indiscernible] (00:48:56) I did have one other question I could sneak in here since you brought it up. I mean, what are your expectations for OEM and national? It seems that's a volatile [indiscernible] (00:49:04); maybe share your thoughts on that.

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

Yeah. No, we have taken a more conservative stance in our view on OEM and national and its contribution to the year, but more particularly to Q1, and that view is factored into the guidance range that we provided. I think also when we think about the full year, we have been seeing some improving trends, right, when it comes to inventory from November to December, December to January, just even when we look at the number of listings that we have on our own site.

That being said, the pickup is just a little bit more gradual than we had expected. So, we are expecting inventory to begin to recover on a more meaningful basis in the second half of the year, which is again one of the drivers for why we expect to see an acceleration in revenue growth as we go through the year. But transparently for Q1, we are – our guide does include sort of year-over-year pressure on OEM and national, and frankly, even some sequential pressure as you compare it to last quarter.

Marvin Fong
Analyst, BTIG LLC
Q

Okay. Awesome. Thank you so much. Appreciate it.

Operator: [Operator Instructions] Our next question comes from Doug Arthur of Huber Research. Doug, your line is now open. Please go ahead.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC
Q

Yes, thank you. I'm playing a little bit of catch up here. Sonia, just to be clear, in your answer to a prior question, if you look at the – I think you're – 807 net dealers added for the entire year, I believe. You're saying that the spread between DI and subscription, traditional subscription dealers is kind of even in that number. I mean, it's a combination of two? It's not DI weighted?

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

A

No, it's not DI weighted.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

And in terms of the traditional dealer customers, is some of that gaining back dealers lost during the pandemic or is it new or is it a combination of both?

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

A

That's a great question. What I would tell you is it's a combination of the two. We have, since the pandemic, seen a number of dealers who had dropped in that sort of Q2 2020 timeframe come back. But we've also seen an uptick in new dealers coming to us. And I think that in part is just a testament to the value delivery that we've been providing over the last several quarters. So, it's a mix of the two.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. And just on kind of – a house detail issue, you don't provide, I don't believe, adjusted earnings per share anymore. It looks to me based on whatever tax rate you want to assume for adjusted net income, that it came out around $0.43 a share, which is in line with expectations. Is that a fair run at it or is that a metric is not really you're looking at these days?

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

A

You know what, we don't really use that metric. I think we're far more focused on adjusted EBITDA. And frankly, part of the reason we're focused on that is just because of how great cash flow in this business is. And there's like that direct kind of flow through as you think about EBITDA and adjusted EBITDA to cash flow. But you're right, there were some one-time impacts in Q1. I think I mentioned, right, related to the CreditIQ acquisition, we did have a portion of the purchase price that went through the P&L and is as a result impacting GAAP EPS. And if you adjust that out, the story from an EPS perspective would be different.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. And then finally, on the $200 million share repurchase program, what kind of cadence should we expect there? Is that over a few years kind of as opportunities present themselves? Just trying to get a sense for the sort of urgency there.

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

A

I think that's right. It's a three-year program. We believe that there is long-term value in our business. And just to take a step back for a moment and talk a little bit about how we got here. Our capital allocation priorities have not changed at all, right. We are focused on investing in growth. And I think you've seen evidence of that with our recent acquisitions and the focus on the product roadmap. We also continue to be really focused on maintaining leverage in a comfortable place, which we've kind of outlined as that 2 to 2.5 times neighborhood. And what we find is even after all of this, we still generate a lot of free cash flow and we think there's a lot of value that's just embedded in our shares, which is why the share repurchase plan makes a lot of sense to us. We're not necessarily going to telegraph when we're going to be in the market, but we do intend to utilize this over the course of three years.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. Terrific. Thank you.

Operator: And there are no further questions. I'd now like to turn the call over to Alex Vetter, the CEO, for any closing remarks.

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

I just want to thank everybody for their engagement today.

Operator: This concludes today's call. Thank you for joining. You may now disconnect your lines.