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Cars.com, Inc. (CARS)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the CARS Third 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 November 18. A copy of the accompanying slides can also be found on the company's Investor Relations website.

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

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' third quarter 2021 conference call. With me this morning are Alex Vetter, CEO; and Sonia Jain, CFO. Alex will start by discussing acquisition of CreditIQ and our highlights from the quarter. Then Sonia will discuss our financial results in greater detail along with our fourth quarter expectations. We'll finish the call with Q&A.

Before I turn the call over to Alex, I'd like to draw your attention to our forward-looking statements and the description and definition of non-GAAP financial measures, which can be found in our presentation. We will be discussing certain non-GAAP financial measures today including adjusted EBITDA, adjusted EBITDA margin, adjusted operating expenses, and free cash flow. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure can be found in the financial tables included with our earnings press release and in the Appendix of the presentation.

For more information, please refer to the risk factors included in our SEC filings including those in our annual, quarterly and current reports, which are available on the Investor section of our IR 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 third quarter 2021 earnings call. We continue to focus on execution and delivered yet another quarter of strong growth in dealer customers, ARPD and revenue. Before we dive into the details of the quarter, I'm excited to talk about our strategic acquisition of CreditIQ, which strengthens our automotive technology platform and delivers value to dealers, lenders and consumers.

CreditIQ is the Cutting-Edge auto finance technology that will leverage the massive audience of high intent, in market car shoppers that visit the CARS platform and will enable us to generate incremental revenue from a new set of customers, lenders. The ability to complete more of a car purchase online will allow us to better monetize the 142 million visit to Cars.com and the additional 247 million visits across our DI dealer websites. This makes CARS more transactional for our dealer partners while giving us robust financing capabilities for dealer websites. This latest technology addition to our scalable platform represents our entry into the fast growing multi-billion dollar auto finance segment, which aligns with our vision of creating a frictionless omni-channel experience for buyers and sellers. We're excited to participate in this market with a powerful digital solution that better allows lenders to compete for car loans online, saving consumers' time and helping bring transactional capabilities to our dealer partners.

CreditIQ's robust API technology enables the near seamless integration into both our marketplace and dealer websites, connecting buyers and sellers using the dealers' existing lender network. As we roll out this dealer centric platform for our marketplace and the 5,200 websites we power, dealers will benefit from its advanced features for credit application management and contract ready digital retailing. In turn, dealers will be armed with pre-approved loans saving them valuable time in their finance office enabling them to drive greater dealership efficiencies and enhance customer experiences.

By using this technology, consumers can be preapproved online and secure financing from the comfort of their home alleviating a key pain point in their car shopping journey. This advanced digital financing technology creates an entirely new revenue stream for CARS as now lenders can begin to compete for valuable upstream opportunities, connecting with car buyers and getting them pre-approved prior to delivery or the dealership visit.

And by using the dealers' existing lender network, we enhance dealers' financing profit and strengthen their respective lender relationships. And finally, one of the direct benefits of this acquisition will be the improved sales attribution by helping dealers source more sales linked to CreditIQ technology we will further demonstrate Cars.com's overall sales effectiveness.

Just like CARS, CreditIQ has been focused on helping dealers be more efficient and profitable using technology. We're excited to combine forces and continue to enable dealers to generate more transactions online and enhance their digital strategy. CreditIQ opens up an exciting new TAM for us participating in the rapidly growing Fintech segment, which will create incremental long term value for shareholders.

While CreditIQ is new and exciting, I'm equally excited to talk about our strong Q3 results. We delivered revenue and adjusted EBITDA at the high end of our guidance. Performance was driven by growth in ARPD from the continued adoption of our industry leading digital solutions, new dealer growth and continued strong retention.

Revenue growth has continued unabated for more than a year and reflects the strength of our dealer revenue, which increased 12% year-over-year. Total revenue increased 8%, even as the industry wide chip shortage continued to impact our OEM revenue. Looking ahead, we expect continued strength in our dealer business, accelerated growth from our acquisitions, and we also anticipate a rebound in OEM revenue when the supply chain disruptions ease, production levels return, and new car launches normalize.

Consumer demand continues to outpace supply as lower OEM production has constrained new car sales and accelerated used car volume. In the certified pre-owned market year-to-date sales were the best on record and are expected to continue to grow as dealers seek to buy out leases early and certify a higher percentage of used car. Our value in this inventory constrained environment is second to none. Our strong brand and organic traffic provide exceptional value enabling dealers to market their actual online inventory directly and efficiently to consumers searching for an exact match.

For the quarter, as expected, average monthly unique visitors and visits were lower compared to the prior year. Recall, last quarter, we noted that it would be difficult to outpace the COVID-19 lockdown period, which elevated traffic levels due to stay-at-home orders and lifted online car shopping to record levels. We also noted that we will experience some temporary impacts from our technology transformation. When compared to 2019, a more typical operating environment, monthly average unique visitors increased 5%.

Lead generation also remains one of our strengths, although these were lower as compared to the prior year when compared to the more normalized 2019 operating environment, dealer leads were up double digits. Dealers appreciate CARS because we are a platform, not an aggregator. They appreciate our unique, high-quality traffic and leads, and love the volume of traffic we send directly to our dealer websites. This is a key differentiator between Cars.com versus aggregator marketplace. While aggregators force consumers to submit leads through their website, our platform successfully drives customers directly to our dealers. Through our platform, dealer customers receive twice as many website referrals as compared to others. This value is demonstrated by our record retention and continued growth in customers. We ended the quarter with 19,029 dealer customers, a 184 dealer count increase from last quarter and 899 higher than a year ago.

ARPD grew 7% for the quarter, driven by continued strong performance in FUEL, our targeted video solution that enables dealers or OEMs to connect with car shoppers in an efficient manner. Dealers using FUEL consistently experienced market share gains as they realized the strength of our first-party data to reach pure in-market car shoppers. FUEL revenue grew double-digits compared to last quarter. Looking ahead, we see continued opportunities for growth given the ongoing shift from linear TV to streaming platforms, empowering dealers and OEMs to connect with Cars.com shoppers across digital video platforms and devices.

This quarter, we were also proud that we launched the first of our Ford dealer websites, delivering steady growth in customers and increased adoption of our digital tools. By quarter-end, we're powering over 5,200 dealer websites. Looking ahead, we expect continued growth as we deliver on additional Ford dealer websites and we continue to grow the business with our existing OEM partners and others. We have ample opportunity to expand beyond the 5,200 website customers we have today in an industry with more than 40,000 dealerships.

Our focus on empowering dealers with innovative digital solutions is reflected in the growth of our differentiated solutions strategy. We successfully transformed the business moving from our legacy lead generation affiliate model into a platform with in-market car shoppers that empowers industry-leading digital solution. We are now enhancing that platform with financing capabilities that engage consumers, benefit dealers, and generate an entirely new customer revenue stream with scale potential. Our strategy continues to win industry adoption and advance in powerful new ways.

Now, I'll turn the call over to Sonia to discuss our detailed financial performance. Sonia?

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. Let me start by saying how excited I am about CreditIQ. Its addition to our platform will create a new diversified revenue stream, build incremental shareholder value, and help drive our already strong growth. In addition to sharing more detail on our acquisition of this cutting-edge automotive finance technology, I'm also pleased to share that we delivered yet another quarter of solid results. Both revenue and adjusted EBITDA were at the high end of our expectations, and our performance also yielded yet another quarter of robust cash flow generation.

Revenue for the third quarter totaled $156.6 million, up 8% year-over-year. Dealer revenue grew by 12%, or $15.4 million year-over-year. Performance was driven by a combination of dealer customer and ARPD growth across all products. We grew both marketplace and website customer, and ARPD growth was driven by FUEL and increased digital solutions penetration.

Dealer Inspire revenue grew 27% year-over-year. OEM and national revenue for the quarter was $15.3 million, 14% lower than the prior year. Results reflect the impact of the ongoing chip shortage and the resulting pullback in OEM advertising due to the delay in new model launches and lower inventory. One of the bright spots this quarter was certified pre-owned. This market has seen robust sales in this inventory constrained environment, and our CPO products have seen have seen strong OEM interest. As new car inventory levels began to normalize, we expect OEM advertising spend to pick up and continue to shift towards a more efficient and targeted digital advertising solutions that we offer.

Now, turning to expenses, our operating expenses for the third quarter were $144.5 million, compared to $125.3 million for the prior-year period. On an adjusted basis, operating expenses increased by $15.6 million, or 13% compared to the prior year. The increase is primarily due to last year's pullback in investment, given the uncertainty of the pandemic. The current period reflects more normalized marketing spend, as well as incremental investment to support growth in website customers and FUEL, as well as higher products and technology investments in our business.

Net income for the third quarter was $2.4 million, or $0.03 per diluted share. Adjusted EBITDA totaled $45.8 million or 29% of revenue compared to $49 million or 34% of revenues in the prior year period. Performance reflects our revenue mix, we have been temporarily impacted by OEM production challenges, as well as the return to more normalized levels of investment in the business.

And now turning to our key operating metrics. We have a foundation of these strong quarterly results. We have 19,029 dealer customers, an increase of 899 compared to the prior year and 184 higher compared to last quarter. This increase is primarily due to continued strong retention rates, as well as solid new sales which further demonstrate the value we provide dealers.

Website customers also continued to grow, reaching 5,200, an increase of more than 1,000 customers versus a year ago. Growth is reflective of OEM program acceptance and dealer adoption, due to our focus on both consumer and customer experience. As Alex mentioned, we launched the first of our Ford websites this quarter and anticipate continued growth driven by Ford, GM and other OEM business in the pipeline.

Generating unique, high quality traffic is something that we have consistently delivered to our dealer and OEM customers. During the third quarter of last year, we experienced record breaking traffic. The consumers migrated more of their car shopping journey online in the wake of COVID restrictions. This, coupled with certain short term impacts of our replatforming resulted in unique visitor and traffic that were down 4% and 10% year-over-year respectively. In contrast when looking at a more normalized period like Q3 2019 unique visitors were up 5% and traffic was down just 1%. And perhaps most importantly, our dealer lead performance has increased double-digit versus two years ago.

For the quarter ARPD increased 7% year-over-year to $2,332. Performance was driven by an increased penetration of FUEL and our digital solution. Our balance sheet and liquidity remains strong. Our cash balance at quarter-end was $51.5 million and coupled with our $230 million undrawn revolver resulting in total liquidity of $281.5 million.

We are in a strong financial position and have the flexibility to continue to strategically invest in the business, whether through acquisitions like CreditIQ or continued organic innovation to drive growth even as we continue to pay down debt and improve our net leverage position. As a reminder, we're acquiring CreditIQ advanced auto finance technology for $30 million at closing to be funded with cash on hand.

In addition, there is the potential for performance-based payout of up to $50 million over the next three years. With CreditIQ technology, we expect to increase our market share within this rapidly growing multi-billion dollar industry. This acquisition expands our end-to-end transaction capabilities across CARS platform, improve lead quality and attribution, and also create a new lender based revenue stream. We expect to make incremental investments as we integrate and scale the CreditIQ technology across our CARS platform with rollout to dealer customers expected to be done in the first quarter of 2022.

Net cash provided by operating activities for the first nine months of the year was $116.2 million, up 20% compared to $96.9 million last year. Free cash flow for the nine month period ending September 30th, 2021 totaled $98.3 million, up 17% from $84.3 million in the year prior. Performance was primarily driven by year-to-date growth in adjusted EBITDA.

And to put all of this in context of our cash generating efficiency, our LTM free cash flow yield is 14%. Our strong and consistent cash generation enables us to continue to delever the business, and we've made great progress in doing so. Net leverage is down to 2.3 times from 3.8 times just a year ago. During the quarter, we made $32.5 million in debt payments, and for the year we repaid $107.5 million, of which $100 million were voluntary prepayment resulting in total debt at quarter end of just $490 million.

Now, turning to our outlook, we're pleased with our solid results and anticipate continued momentum. We expect continued growth in dealer revenues even as we maintain a more conservative position on OEM and national revenue given our expectation that the industry-wide chip shortage will continue throughout the fourth quarter. As a result, we expect fourth quarter revenue to be between a $157.5 million and $159.5 million. This still represents a 3% to 4% year-over-year growth in this challenging fourth quarter environment. Given the timing of close, we do not anticipate CreditIQ to have a material impact on our fourth quarter results. We expect adjusted EBITDA margin for the fourth quarter to be between 28.5% and 30.5%.

In summary, we remain focused on execution and delivering a great value to consumers, customers and our shareholders. We have effectively delevered our balance sheet over the last several quarters and we are well positioned to continue to invest in the business to drive growth and further extend the reach of our platform.

And now Alex and I are happy to take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now proceed with the Q&A. [Operator Instructions] Our first question comes from Nick Jones from Citi. Nick, your line is now open.

Nicholas Jones
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the questions. Could you kind of talk a little bit more about the fintech acquisition and how we should think about the economic, how they will flow through to the P&L from here, and I guess really how big the opportunity is as you see it. And then the second question would just be as new cars supply remains constrained, how are you thinking about kind of the dealer mix? I mean, is there an opportunity to maybe regain some independent dealers as used cars remain in demand? Thanks.

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

A

Thanks, Nick. Well, first of all, the fintech opportunities in emerging market and a growing one at that and the TAM on it certainly is significant. And when you think about it, there's 40 million vehicles that are being financed every year, which predominantly are done by the larger franchise dealerships that are that are financing vehicles, which is the core of our customer mix. And so, I think what the opportunity is enabling those transactions not only for the users but the dealers and saving the dealers' time and money and helping preserve their profits by closing more of the transactions online. I think if you look at some of the public digital dealerships that are out there, they're certainly being successful, helping consumers get more of the process done online. And we're going to bring that same power to our 20,000 dealer network, which is extremely exciting. Certainly, you can imagine the possibilities also just enabling this on the 5,200 Dealer Inspire websites alone. Every dealership is wanting to advance their digital strategy. And now we've got an industry leading solution to enable it. I think, Sonia, anything else you add on that.

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

A

Yeah, no. I think it's a – as Alex mentioned, we think there's a huge opportunity out there. If you look at the number of vehicles sold by dealerships on an annual basis today, I think upwards of 60% of those end up being financed, not to mention what's happening in private party channels. And we think we have an incredible opportunity to play in this space.

I think from a timing perspective, and to your question around how this will flow through the P&L, as I mentioned in the outlook section, we except closing to happen over the course of the next couple of days. So, impacts to 2021 financials is obviously going to be quite muted. Our focus is really on getting to a rollout beginning in Q1 of next year, and we will be investing to ensure that that rollout moves smoothly, right. It's about dealer adoption number one and making sure we get that consumer experience nailed down really well so that we can accelerate the implementation of this technology across our network.

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

Yeah. And the second part, Nick, on dealer mix, we are seeing strong pickup in the dealer growth, right. We had a great quarter on dealer growth. It was more evenly balanced between the two. But the fact that independent dealers are realizing location-based marketplaces are the most efficient way to get word out on the cars that they have in stock. And then keep in mind over almost half of the leads that we're generating for dealers have a trade in opportunity included with it. And I think dealers are recognizing with Cars.com they're not only able to sell their vehicles more efficiently, but it's a reservoir of opportunities to restock their inventory. And I think that's been one of the reasons why our platform has performed really well in this supply constrained environment.

Nicholas Jones
Analyst, Citigroup Global Markets, Inc.
Q

Great. Thanks for taking the questions.

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

Thanks, Nick.

Operator: Thank you, Nick. Our next question comes from Dan Kurnos from Benchmark Company. Dan, the line is now open.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC
Q

Great, thanks. Good morning. Alex, just to follow up on that line of questioning, just to be clear, I mean, this is an LaaS-type product. Are you selling this from a subscription basis, or is this kind of like a product attach, or is it dependent on conversion, just to be clear on that? And does it also include things like digital deposits, [ph] the signature (00:24:34) capabilities you need to add to that stack, and then I'll follow up on that on FUEL.

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

So, to your first question, thanks for the question. It's both, actually. So primarily, we view this as a new lender-based revenue stream. It's not necessarily going to be subscription-based with the lenders, right? It's going to be based on the number of funded loans. So it is a transaction-based model. But again, given the sheer volume of consumers we have coming both to the Cars.com marketplace, as well as our Dealer Inspire websites, and bear in mind, we have an installed base of online shopper dealers as well, we think there's tremendous opportunity on the basis of this transaction-based revenue stream we're going to develop on its own.

In addition, yes, there is a Lending-as-a-Service opportunity here as well that the CreditIQ team has already been out there pursuing, where we would be able to effectively white label their solutions and API to other customers. And we think that is an exciting opportunity. In our view, this kind of solution is imperative for folks who want to have credibility in the automotive space to be using and leveraging. And while we're talking about it, I should mention, one of the key differentiators of this solution and one of the reasons we were so attracted to it was the dealer-centric model that it embraces. We are not forcing dealers to work with just the lenders in our network. We are an open – effectively an open platform. We will support dealers' preferred lenders as well. So the dealer doesn't have to make any changes on there, and it's actually going to be extremely seamless for them. And that is a key differentiator of what we're bringing to market versus what others are doing right now.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Got it. That's helpful, Sonia. Thank you for that color. And then obviously, kind of nice, again, because you have been talking about this for a while, pick up in ARPD. I mean, look, supply constraint issues notwithstanding, the dealers are just absolutely flush with cash right now. And so, better conversion prototype products would probably be well received in the market. Can you just talk about the conversations you're having with dealers around incremental attach rates, multi-product attach rates, and how you guys are thinking about either accelerating or enhancing kind of the pipeline over the next kind of digital product offering at this point with what might be on tap?

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

A

Sure, Dan. Well, first of all, we're pleased with the growth in ARPD, and then I also know that you know how our business works in that we charge based on the market and the dealership size of inventory. And so, with inventory levels depleting and us selling into smaller geographies, you would actually expect our ARPD to decline. But what you're seeing is the strength of our solutions strategy come through. We've had tremendous success with FUEL. We've had dealers recognize that this is the most efficient way to acquire trade-ins, and it's the most efficient way to advertise specific inventory that they've got versus general or mass market advertising.

And so dealerships are operating with record profits. But I would tell you, they're having a greater appreciation for the power of our platform strategy and its unique contribution to their success. You see this reflected in our not only strong retention rates, but our growth in dealer count and rising ARPD. And so, the conversations have been extremely healthy.

I think perhaps the biggest change I've noted in the past two quarters is how much dealers are leaning in to their website metrics, which also is where our value is shining through, particularly relative to other marketplaces who are really just aggregators and don't drive traffic directly to the dealership's website, which is increasingly becoming the focal point in dealerships. Dealerships now are obsessing over their website metrics more than their physical store metrics, because they now have better line of sight on what's converting sales. I think CreditIQ is just going to extend our lead as a platform that delivers traffic deeply into the dealer system, and we're excited to begin those discussions with dealers who the initial response I've gotten today has been extremely positive.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Got it. Super helpful. Thanks, Alex. Thanks, Sonia.

Operator: Thank you, Dan. Our next question comes from Naved Khan from Truist Securities. Naved, your line is now open.

Naved Khan
Analyst, Truist Securities, Inc.

Q

Yeah. Hi. Thanks a lot. Maybe just on FUEL, can you just talk about the geographical coverage, where are you with respect to that? And also maybe the customer count. And then another question on Ford rollout, how should we think about the timeline for that?

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

A

Yeah. So, on FUEL, FUEL is continuing to grow really rapidly, we experienced double-digit sequential growth this quarter. So, just quarter-over-quarter growth has been tremendous. And we're seeing really great take rates. We are currently – we currently have a presence in all of the top 40 DMAs, so dealers really are leaning into a solution. We haven't really been talking quite as much about dealer count specifically for this product. The interesting thing with it is that we're selling fuel on a zip code exclusive basis. And actually, what we're finding in many cases is that some of our early adopter dealers, on a sort of sequential basis or as their contract roll are looking to actually expand the number of zip codes that they're participating in. So, we really think the key here is to ensure that we're in the market for that matter, and that that is definitely, that is definitely taking shape as we speak.

In terms of Ford, the Ford rollout is a little bit different than the GM roll out in the sense that for GM viewers, they really haven't had a choice of providers before the DI got program acceptance there. And they created a window, a transition window, so to speak, where dealers kind of opted in to working with us. Ford is a little bit different, so Ford already had choice and we are simply coming in as additional choice and we think we offer excellent value. But there is no formal window in which dealer tap to opt in, so we expect to see the Ford website come in on a rolling basis. That being said, we had really strong outreach from Ford dealership when they first heard the news. And that's part of the pipeline that we are currently working through even as we continue to grow with grow the pipeline of Ford dealers. I think the best way to think about it is ultimately we do believe that we will get our fair share of Ford dealers. There are about 3,000 Ford dealers in the US today. And so, I would sort of leave it there, a very healthy response from our foreign partners.

Naved Khan
Analyst, Truist Securities, Inc.

Q

Great, thank you.

Operator: Thank you, Naved. Our next question comes from Gary Prestopino from Barrington Research. Gary, your line is now open.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Thank you. Good morning, everyone. Hey, Sonia, did you call out what the Dealer Inspire revenue increased in the quarter.

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

A

Year-over-year, Dealer Inspire revenue increased 27%.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. All right. Now I've got a number of questions revolving around this CreditIQ, I'm trying to understand it here. Does a dealer have to be a customer of yours via either your legacy market platform or website platform to use this product?

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

A

They'd have to be a participant with us either through our websites or through our marketplace.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

All right. So how many dealers does this company currently have right now on the platform?

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

A

It's a relatively small customer base, but it's a bigger lender network that they've built, including over 1,000 integrations with various systems, Gary, throughout the industry so that as we wire our traffic and value into this platform, it easily feeds directly into the dealers' systems of records. And that's one of the big benefits where other competitors are just flagging a filed and an email lead, we're actually converting the opportunity for the dealer directly into their systems, allowing them to improve their workflow, make this easier to manage and get further along in getting the loans fully approved.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

So, is CreditIQ integrated with the DealerTrack lender network, is that one of the ways...

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

A

Correct. And...

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Go ahead.

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

A

You've got it, Gary, and [ph] enroute 1 (00:34:18), right? So we fully integrate into the existing systems that dealers are using to process loans and that's going to greatly improve the quality of the experience for the user and certainly save the dealerships a ton of time.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. So this is basically kind of a pre-approval process before anybody walks into a dealership, right, if you're considering buying a car. So does this take any of the decisions on the part of the F&I guy, does it circumvent the gas F&I at the dealership? Or does the F&I guy some kind of role in this through this whole process.

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

A

Well, we're certainly we can with technology help enable faster decision making for the user experience and even helping the dealerships optimize towards profitability for them. And so, we can do this dynamically. So, yes, we are automating a lot of the things that today dealerships manually have to do. The great news about this is that it will allow the dealership to process more transactions with fewer resources. They can work with their existing lender network so it enhances their ability to run their finance teams more efficiently. And again, it delivers a better user experience because the dealership is accelerating the customer experience to either deliver the car to their home or to reduce the time that the customer has to spend in the physical store. And so, it's on our quest to help dealerships be more efficient. And at the same time, leveraging their existing workflow and systems, Gary, as you know changing dealer process takes time. The beauty of the CreditIQ platform is it taps into the dealers' existing workflow.

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

Right.

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

And perhaps I'm just going to add...

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

And so...

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

Sorry, Gary. I was just going to add...

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

Go ahead.

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

...there is a Lending-as-a-Service component to the CreditIQ business. So technically speaking, there could be some dealers who are not part of our network who are accessing CreditIQ's technology through the Lending-as-a-Service component of the business. But I mean, I think ultimately long term, the way we see it with our rollout, which we expect to start next year, the vast majority of dealers who are using it will be using it directly through us.

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

So, my last question, so it would be – so if I'm on your, one of your – if I find a car on your site, I go through the whole pre-approval process. It comes back to me. Does it tell me what rate I'm going to get on the loan?

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

Yes.

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

Okay. So, does that also include the ability – does that also include a dealer markup because usually they're going to markup the loan a little bit? Was that included in that whole bundled price?

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

A

Yes. It's the dealers out the door offered to the consumer.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you.

Operator: Thank you, Gary. Our next question comes from Marvin Fong from BTIG. Marvin, your line is now open.

Marvin Fong
Analyst, BTIG LLC

Q

Great. Thanks for taking my questions, a couple more on CreditIQ. Congratulations on that deal. So just thought I'd ask about the earn outs. If you could maybe help us understand what might be the triggers for those. And how many different payments there might be with that? And then just drilling down, I think you've said, there'll be some further investment to build out that product. So is there any meaningful EBITDA drag that's embedded for CreditIQ in your fourth quarter guidance? And then maybe help us think about it for next year, the potential EBITDA drag. And then I have one other follow-up on advertising.

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

A

Yeah, sure. Thanks for the question, Marvin. So, taking the first one on earn-outs, there are really two components to the earn-outs, they are performance-based. One is we are excited that CreditIQ comes to us with a solid network of lenders to begin with. It really does cover sort of the consumer credit spectrum from the outset. But we do believe that there is opportunity to expand that further. So we do have a set of milestones associated with bringing more lenders to the platform.

But I'd say the more sizable component of the earn-outs is really tied to EBITDA performance milestone. So those are the two primary drivers of the earn-outs. I view 2022 as a bit more of an investment period in the business as we invest a little bit and also look to scale across the dealer network and fine-tune the consumer experience. So I would think the earn-out payments are not necessarily going to be front-weighted into next year. That being said, if they end up being so, that would be excellent, right, in terms of how quickly we were able to get things up and running. I think you had a second...

Marvin Fong
Analyst, BTIG LLC

Q

Yeah. Just about any EBITDA impact, any in the fourth quarter and maybe thinking about it for next year.

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

A

Yeah. Not really any material EBITDA impact to the fourth quarter. I mean, when you think about it, at the time we close, it's really going to be somewhat de minimis from a timing perspective in terms of how long we've owned it in Q4. I do expect that we will invest against it in 2022, when we can provide more color on that when we do guidance next quarter. But I think when you look at our overall CapEx and how judicious we are, I think you can trust that we will be thoughtful in terms of what that incremental investment does end up looking like.

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

A

And, Marvin, the benefit of this opportunity is that it has tremendous synergy, right? Our go-to-market systems are built. We're enabling our existing dealer network and using both the consumer volume that already exists on Cars.com and on dealer websites to enable our success here. And so, there's just a tremendous amount of synergy with the deal that you're not going to have to model this with like ramping costs, like this is really taking advantage of our existing distribution strength.

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

A

100%.

Marvin Fong
Analyst, BTIG LLC

Q

Right. No, that's great. And then just a quick follow-up, I think, Sonia, you've mentioned advertising a little bit. Sounds like you continue to be cautious for good reason. But just in terms of the P&L, any additional color you can give on just maybe how advertising might – what your outlook for the fourth quarter is maybe relative to the third quarter, should we expect it to be flattish, maybe down a little bit more, or have we seen the bottom? Thanks.

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

A

Yeah. I think when you look at our marketing investment over the last couple quarters, it has been relatively tightly banded. It's always challenging to – let me put it this way. I think what you've seen from us the last couple quarters is kind of consistent with where I would think we would land in Q4. That being said, we are always looking for opportunity to be efficient when the opportunity presents itself and to take advantage and lean into the channels where we can provide the most value delivery to our dealers, because ultimately, that is what determines the marketing investment is the value delivery that we're sending to our dealer customers.

Marvin Fong
Analyst, BTIG LLC

Q

That's great. Thanks for that. On the revenue side, how do you think your OEM advertising might perform? Thanks.

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

A

I think we're actually pleased with some of the signals we're getting in Q4 from OEMs. It is a varied picture by OEM, and we flagged that we are seeing some great success with OEM certified pre-owned programs with limited new car inventories. They, too, are focused on how to get more sales of certified vehicles in their brands, which is one of our key strengths. I think with the traffic levels we're seeing and the strong performance of our organic audience, we feel good about next year, particularly as many OEMs are preparing to launch EV vehicles, which was another strength of ours.

We held a huge EV webinar last week. The amount of content consumers are searching on, which EV to buy, we know we're sailing towards an EV market share battle and consumers are going to do heavy amounts of online research comparing and contrasting the various merits of the different EV players, which again fits right into our original content strategy. And so I think we're feeling really good about what we're hearing in the 2022 upfronts despite some of the current fourth quarter softness that we're guiding against because we just want to be prudent in this year-end finish.

Marvin Fong
Analyst, BTIG LLC

Q

Great. Thanks so much. Appreciate it, guys. Thank you.

Operator: Thank you, Marvin. Our next question comes from Steve Dyer from Craig-Hallum. Steve, your line is now open.

Matthew David Wegner
Analyst, Craig-Hallum Capital Group LLC

Q

Good morning guys. This is Matt Wegner on for Steve. Thanks for taking our questions. A lot of mine have been answered already, but just curious in the quarter the mix of your net new dealers, I mean, was it primarily the core marketplace solutions? Was there more -- was it more weighted towards FUEL and online shopper and any new products? Just any color on that. Thanks.

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

A

Yeah. The growth has been in both, right, we had good growth in marketplace, we had good growth in website customers and the ads were relatively even between franchise and independent dealers. But again, 65% of our mix tends to skew towards the franchise dealer market. So, it was healthy across the board. Sonia, what else would you add?

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

A

Yeah. I would just add, you also mentioned FUEL in order to purchase FUEL from us, you actually have to be a marketplace customer. They are already embedded in the customer count. But I just reiterate what Alex said, which is we've seen good customer growth kind of across both marketplace and the solution side of the business. And it was a little bit more even this quarter relative to others in terms of the mix of franchise versus independence in terms of a net add perspective.

Matthew David Wegner
Analyst, Craig-Hallum Capital Group LLC

Q

Got it. Great. I'll pass it back in the queue. Thanks guys.

Operator: Thank you, Steve. [Operator Instructions] Okay. We have no further questions for today. I will hand back over to Alex for any closing remarks. Alex, over to you.

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

Thank you. Look, in conclusion, I just want to reiterate how pleased I am with our performance across the business and certainly the acquisition of CreditIQ. And hopefully, we see great continued success heading into next year as our progress as a differentiated platform for the industry is more essential than ever. Our platform strategy is working and we're excited to bring transactional capabilities to enhance that strategy on our path to category leadership. This concludes our call. Thank you.

Operator: Thank you for joining today's call. You may now disconnect.