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Cars.com, Inc. (CARS)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the CARS Second Quarter 2021 Earnings Conference Call. This call is being recorded and a live webcast can be found at investor.cars.com. A replay of the webcast will be available until August 19. A copy of the accompanying slides can also be found on the company's Investor Relations website.

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

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

Good morning, everyone, and thank you for joining us. It's my pleasure to welcome you to the CARS' second quarter 2021 conference call. With me this morning are Alex Vetter, CEO; and Sonia Jain, CFO. Alex will start by discussing our highlights from the quarter, then Sonia will discuss our financial results in greater detail along with our third 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 and free cash flow. Reconciliations of these non-GAAP measure 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 News Investor section of our website where you will find updated content with a refreshed interface that's more engaging. 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 second quarter 2021 earnings call. Let me start by saying how pleased I am with our continued momentum. We delivered another quarter of strong results and profitable growth through our focus on value delivery, innovation and expansion of our digital solution. Our steady execution has resulted in strong year-over-year revenue growth underpinned by increased dealer customers, elevated ARPD and double-digit traffic growth. The results are a testament to the value we bring to the industry and the dedication of our team.

Dealers are increasingly investing in our digital solutions as consumers continue to embrace online car shopping. This accelerated shift towards a digital-first environment plays to our core strength and value driving digital solution. We grew dealer customers for the fourth consecutive quarter and ended with 18,845 dealer customers. As expected, our new sales cycle was slower, however, even in the current inventory constrained environment, dealers know that their cars still need to be found.

Cars.com is the perfect platform for matching buyers and sellers and the proof is in our record retention rates which are continuing into Q3. Together, growth in dealer count and ARPD translated into yet another consecutive quarter of revenue growth. Our focused execution resulted in revenue and adjusted EBITDA coming in ahead of our expectation.

Core to our success is the Cars.com market-leading brand. We provide customers with reliable access to a highly qualified pure in-market audience. Importantly, the majority of our audience comes to us organically. It's a quality audience that can't be easily replicated or acquired through paid marketing tactics. And our traffic continued to scale towards market leadership. We are the fastest growing marketplace in the category and drive high value traffic to thousands of dealers including digital dealers who rely on Cars.com for sourcing sales.

Just as our marketplace is important to local and digital dealers, it is also vitally important to the consumer purchase journey. Approximately 90% of car shoppers consider third-party marketplaces to be the most useful site during their car search, enabling them to shop across mades, models, read reviews and research one of life's biggest purchases.

[ph] Yet the (00:04:45) automotive industry spends more than $5 billion on far less efficient paid search. In fact, an independent study exposing the inefficiencies of Google SEM was recently published by Brian Pasch, a leading automotive industry marketing consultant and dealer influencer. He found that automotive marketplaces deliver a lower cost per sale compared to Google SEM, which cost 5 to 10 times more than many dealers realize to generate sales.

Brian said when comparing engagement from Cars.com referral traffic to Google SEM, Cars.com shoppers are 3 times more engaged and twice as likely to convert into a sale. There is a massive opportunity for dealers in our industry to shift some of that inefficient SEM spend towards more information-rich, third-party marketplaces to offer an audience with higher purchase intent.

This is no surprise to us. Our unique ability to efficiently drive high-quality in-market traffic across both new and used car segments resulted in strong year-over-year audience growth. We generate traffic far more efficiently than our competitors. Most of our traffic is owned and not rented, meaning over 70% comes to us organically. SEO traffic was particularly strong this quarter and was up 6% year-over-year. Our organic strength is attributed to our strong brand, our number one rated mobile app, the quality of our consumer experience and our industry-leading editorial content which is an important differentiator for us.

Editorial content is also an efficient way to engage with consumers earlier in their car shopping journey. A quarter of consumers who reach our website via our editorial content, immediately move deeper into our marketplace and begin their car search. In June, we strengthened our catalog of content with the release of our 2021 American Made Index, which highlights the most American made vehicles. This content resonates with shoppers, sellers and our OEM partners who frequently highlight and tout their placement in our index. Our annual AMI campaign is always well-received. And this year, it again delivered more than 500 media stories that promote the Cars.com content and brand.

Our pure in-market audience supports sustainable dealer value and customer growth. And for dealers, we are the most efficient solution. Dealer customers advertise their specific inventory on their lots, and we connect them with customers seeking an exact match. All of their advertising models drive traffic broadly, but don't match supply with demand. And we now have grown our dealer customers for four consecutive quarters, reaching 18,845 at quarter end. This represents an increase of 812 dealers year-over-year and a 22-dealer increase over Q1.

ARPD also grew for the fourth consecutive quarter, adjusting for last year's COVID related invoice credits, growth in ARPD was largely driven by FUEL and our website solutions. FUEL allows dealers to reach our in-market audience with a range of messages across streaming video platforms. In fact during the quarter, many dealers began to run vehicle acquisition campaigns to strengthen their ability to buy cars directly from the public. FUEL revenue grew double digit sequentially and this revenue is generated by leveraging our existing audience, making it highly accretive to the bottom line. FUEL continues to gain traction across our dealer network as they realize the power of our pure in-market audience.

Dealers are also adopting our innovative digital solutions to have more touch points with consumers along their car buying journey. By quarter-end, we powered a total of 5,000 dealer website and have become the leading provider of new entries in GM's Dealer Choice program. We expect continued growth in Dealer Inspire as we deliver our other business in the pipeline which now includes the launch of FordDirect website.

As we expected, OEM and National performance for the quarter was muted by the continuing supply chain disruptions and ship shortages. But our results were better than initially expected. Nevertheless, as long as production remains limited, we'll maintain a conservative view for OEM and National advertising.

One of the notable achievements of the quarter was the successful launch of the new Cars.com cloud-based platform. Migrating the market-based platform to cloud-based technology reduces our reliance on physical digital centers and minimizes our environmental footprint. This platform also is a fresh and modern design with page load times up to 80% faster, enhancing our user experience and bolstering our leading SEO authority. We've also optimized the speed at which we update dealer inventory. But most importantly, the new platform unlocks our ability to innovate faster, driving efficiency across our brands and more quickly bringing new industry leading solutions to market.

Turning to broader industry trends, retail sales for the first half of 2021 were the best on record in the past decade, as vehicle demand continues to outpace supply. Dealers are reporting record profits on fewer sales as they leverage marketplaces and digital solutions to connect with shoppers more efficiently. Strong consumer demand and continued dealer profitability ensure that CARS is well-positioned for the second half of the year.

Now, I'll turn the call over to Sonia to discuss in detail our financial results.

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

Thank you, Alex. I'm pleased with our continued momentum. We delivered solid financial results. Top-line revenue and adjusted EBITDA growth were strong and both exceeded our expectations as well as guidance. Our performance also yielded yet another quarter of robust cash flow.

Revenue for the second quarter totaled $156 million, up 52% year-over-year and up 1.5% from the prior quarter. Absent the estimated $38.2 million in invoice credits provided to our dealer customers in the second quarter of last year, revenue still grew an impressive 11% year-over-year. Dealer revenue grew by 64% or $54 million year-over-year. Performance was driven by continued growth in dealer customers and ARPD for both marketplace and dealer and buyer, increased product penetration and the lapping of last year's pandemic-related invoice credits.

And Dealer Inspire revenue grew 49% year-over-year, driven by continued growth in websites, lapping of last year's COVID impact as well as marked improvement in digital advertising after last year's COVID-related pullback. OEM and National revenue for the second quarter was $16 million, up 2% year-over-year. The business was down sequentially but did perform better than expected despite the continued disruption in the new car supply chain which led to a pullback in OEM advertising.

Moving on to expenses. Our operating expenses for the second quarter were $139.9 million compared to $119.2 million for the prior year period. The second quarter of last year reflects our material cost reductions in the face of an uncertain COVID-19 environment. We reduced expenses and investments across all lines of our business.

Compared to the first quarter of 2021, operating expenses increased 2.3%. This is primarily due to investments in product and technology to support growth as well as our new cloud-based platform. For the quarter, our marketing spend was less than planned. We continually evaluate our marketing spend and seek opportunities for efficiency and lean into the channels that provide the highest return. This quarter we reaped the benefits of our strong brand, consumer demand, and SEO traffic to more efficiently deliver a high quality audience and ROI to our dealer customers.

Net income for the second quarter was $6 million or $0.08 per diluted share. Adjusted EBITDA was $48.5 million or 31% of revenue compared to $23.2 million or 23% of revenue for the prior year period. We continue to look for ways to drive efficiencies in the business to improve adjusted EBITDA and adjusted EBITDA margin.

Now, turning to our key operating metrics that are the foundation of these solid quarterly results. Our brand consistently drives a high concentration of organic traffic and is one of our greatest strengths. As Alex mentioned, we generated over 70% of our traffic through organic channels this quarter.

Consumer interest in car buying remains strong, and they are using our marketplace to find the right vehicle at the right dealership. In the second quarter, we had 26.4 million average monthly unique visitors and 158.4 million visits. This represents 16% and 10% year-over-year growth in our audience metrics, respectively. And notably, we attract the highest volume of audience who intend to purchase a car in the next six months.

We ended the quarter with 18,845 dealer customers, an increase of 22 dealer customers on a sequential basis and an increase of 812 dealer customers year-over-year. As anticipated, new customer additions were slower this quarter, largely as a result of inventory shortages. However, our customer retention rate remain at record level and the trend is continuing into the third quarter.

Website customers grew to 5,000. Our focus has been on securing OEM program acceptance and delivering great solutions to dealers and their customers. We've been extremely successful in achieving these goals and growing Dealer Inspire since we bought it over three years ago. And while the comps get harder every quarter, we expect continued growth. We will launch the remaining GM website, build on our FordDirect relationship, deliver on other OEM business in the pipeline and continue to cross sell to our marketplace customers. And we also intend to capitalize on the opportunity to grow ARPD longer term through upsells and new products.

For the quarter, even after adjusting for pandemic-related invoice credits, ARPD still increased 10% year-over-year. This increase was driven by increased penetration of our products across our customer base, specifically with regard to fuel and website solutions.

Our balance sheet and liquidity remains strong. Our cash balance at quarter-end was $52 million and combined with our $230 million undrawn revolver resulted in total liquidity of $282 million. Net cash provided by operating activities for the first six months of the year was $79.6 million, up 38% compared to $57.6 million in the prior-year period. Free cash flow for the six-month period ending June 30, 2021 was $66.5 million, up 36% from $48.9 million in the year prior. To put this in context, our LTM free cash flow yield was 17%.

Our strong and consistent cash generation have also allowed us to continue to de-lever the business. Net leverage is down to 2.4 times from 4.1 times just a year ago. Our total debt at quarter-end was $522.5 million, reflecting $75 million in debt paydowns in the first half of the year, of which $70 million were voluntary prepayments. And in July, we made an additional $15 million voluntary prepayment. Overall, we have the financial flexibility to strategically invest in the business and brand to drive product penetration, innovation and growth.

Now, turning to our outlook. We expect third quarter revenues to be between $155 million and $157 million, which represents 7% to 9% year-over-year growth. As mentioned, we are seeking a conservative stand on OEM and National revenue based on our expectation that the current trend of supply chain disruption will continue into the third quarter. Second quarter OEM and National revenue performed better than expected but was down sequentially and we expect this trend will continue in Q3.

That said, dealer revenue continues to grow. Despite a lengthening of the new sales cycle, our dealer customers have responded to our strong value delivery with continued record high retention rate. And we're seeing momentum in our website solutions and FUEL products that are furthering our growth expectations.

We expect third quarter adjusted EBITDA margins between 27.5% and 29.5%. As mentioned, our margin guidance includes reduced expectations around OEM and National revenue, one of our highest margin product lines, as well as increased investments in the business, particularly around marketing and technology to drive growth.

In summary, we remain committed to delivering value to our customers and driving innovation through solid execution as we have clearly demonstrated. We are in a strong operational and financial position, enabling us to strategically invest in organic innovation, pay down debt and pursue bolt-on acquisitions.

And with that, I'd like to turn the call back to Alex.

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

Thank you, Sonia. I am proud of our consistent and continued execution. In addition to driving measurable results for the business, it's also in our DNA to support local businesses and communities across the country. In June, Cars.com celebrated our 23rd anniversary by coming together to clean up underrepresented neighborhoods in our hometown of Chicago. Our commitment extends far beyond our hometown that every day we're working in local communities giving back to the cities we serve. I'm proud that we continue to take action.

In closing, as we enter the second half of the year, I'm confident we will continue to innovate, execute and drive profitable growth while bringing sustainable value to our company, industry, communities and the environment.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Tom White with D.A. Davidson.

Tom White Q
Analyst, D.A. Davidson & Co.

Great. Good morning, guys. Thanks for taking my question and congrats on a nice quarter. One on dealer count. Was hoping maybe you can give us a sense of maybe what the cadence of dealer retention and I guess particularly new sales kind of looks like over the course of the quarter and maybe entering the third quarter here. Just curious whether there's any reason to think that maybe the new sales might be perking up a bit if shortages are starting to be reduced at all. And then could you just clarify, did I hear you correctly that you said dealer count was up for both core marketplace and for Dealer Inspire? And then I've got a follow-up on FUEL.

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

Yeah. So, I'll start it off. Thanks for the question. So, when you think about dealer count, one of the massive benefits we saw in Q2 was the continuation of the really strong retention rates that we've been talking about over the last several quarters. That certainly makes our job far easier when it comes to growing dealer counts. And we see that trend frankly continuing into Q3 with the visibility that we do have. And the new sales cycle understandably was a little bit slower this quarter. So, I think as we look at Q3, with inventory shortages expected to continue, we are expecting to see some improvement in dealer account but more along the lines of what we saw in Q2. I don't know, Alex, if you want to add to that.

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

And the follow-on question was marketplace did grow as the Dealer Inspire, so we are seeing growth across our portfolio of solutions.

Tom White Q
Analyst, D.A. Davidson & Co.

Okay, great. Thanks for that. And then just a follow-up on FUEL, obviously, it seems like that product is catching fire here a bit. Can you maybe talk a little bit about the driver of that? It sounds like the dealers are doing kind of more like proactive inventory acquisition type messaging. Was it a factor? Also, I was hoping maybe you could comment on kind of the pricing power there? I think it was like a minimum $5,000 per month to qualify for that product. So, what direction you think kind of pricing can go here over the next 12, 18 months?

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

So, look, I think FUEL really represents the industry's awareness that they should capitalize on an in-market audience. Only a small percentage of the population is actively entering the auto cycle. And I think progressive dealers are realizing that that's the time to strike regardless of what side of the market you're attacking, which is buy new, we'll buy your car, and so dealers are saying, I can run a number of messages to people entering the auto cycle and that was a big pickup we saw in Q2.

I'm really proud of the team because we're educating the industry being first to market on how to leverage these disruptive video platforms and migrate dollars out of traditional television into digital video, but we're getting the job done there. I think on the spending level, obviously you have to be on the marketplace to enroll for FUEL. So, the anchor product is still our marketplace. FUEL is an addition on top of that. I think our average revenue per dealer for the geographic exclusivity is hovering north of $8,000 per month. So, it's a substantial premium to the marketplace. But then again it gives dealers unlimited opportunity to communicate the why buy or why work with me message.

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

Yes, and I think they need to add a little bit more there to your question on pricing a little bit. The product is a premium product in terms of where its sits within our portfolio. It's multiples of the average ARPD. And I think our focus right now is really on helping dealers understand, continue to understand the value we bring in terms of the in-market audience, a targeted OTP platform that we're distributing on and really driving units and adoption and then pricing is always a lever we can come back to you given the exclusivity of the product and the value of our audience.

Tom White
Analyst, D.A. Davidson & Co.
Q

Great, guys. Thank you.

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

Thanks, Tom.

Operator: Your next question comes from the line of Matt Wegner with Craig-Hallum Capital.

Matthew David Wegner
Analyst, Craig-Hallum Capital Group LLC
Q

Hey, guys. This is Matt Wegner on for Steve Dyer. Thank you for taking our questions. Just a couple for me. One is on FUEL. Do you have an update on where your dealer penetration rate is at on that. I think in Q3 you've mentioned it was around 200. I'm just wondering where that's at today?

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

A

Yeah. I mean we look at this more on a geographic penetration and we're still only sold through about 10% a little bit higher of our zip codes nationally. And so, you can have a dealer by far bigger slosh of geography or you can have the opposite. So, we're looking at it on a percentage of the country's sell-through rate. And again, we're in early innings of FUEL.

I think when I look at the potential audience, I think this platform can be around a 2,000 to 3,000 dealer subscription volume at those premium price points. I think it will just take some time for dealers to realize that there's a much more profitable way to sell cars. As you know, dealers are reporting record profits, so there's a little bit of a hesitancy to invest more. But the progressive dealers are the ones that are disproportionately growing their sales rate faster. And so, it will take us some time. But there's a lot of room – headroom to go on FUEL.

Matthew David Wegner
Analyst, Craig-Hallum Capital Group LLC

Q

Got you. Makes sense. And then just looking at kind of ARPD on a maybe year-over-year basis when excluding the concessions in Q2, did I guess the marketplace ARPD grow, if the growth is kind of being fueled by FUEL and the websites?

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

A

So, we actually saw improvements across all of the business, but I think most notable drivers of the year-over-year ARPD growth after you adjust for those invoice credits are going to be FUEL, continued growth at DI, where we're seeing more of our DI customers are also on marketplace, which is highly accretive to ARPD and then some improvements in also the core marketplace ARPD product. So, benefits across all the product.

Matthew David Wegner
Analyst, Craig-Hallum Capital Group LLC

Q

Got it. Very helpful. That's all from me, guys. Thanks.

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

A

Thank you.

Operator: Your next question comes from the line of Nick Jones with Citi.

Nicholas Jones
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the questions. I guess, first, on record profits. Can you touch on how much of that is kind of using tools like Cars.com and driving efficiency in marketing and maybe users staying online versus cars just costing more. I think it's only recently that we've seen kind of used car pricing start to come back down to earth.

And then the second question, on the cloud-based Web platform that was launched, enabling faster innovation, how should we think about that in terms of the velocity at which like new products will come out and how that might contribute to top line growth? Thanks.

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

A

Sure, Nick. Well, look, there are many contributing factors to record dealer profitability but we see very vividly those dealers that are digital first and embracing digital platforms are outperforming their peers. And I continue to believe the very long view that the Cars.com audience is undervalued. If you look at even just our lead gen business in its standalone form, we see vividly that almost 50% of the people contacting dealers have a trade-in, yet most dealer systems don't attribute any value to the inventory turn that selling a car to a Cars.com shopper represents in acquiring a new car or frankly the finance or the F&I revenues that are associated with that sale. The dealers tracking of our value is very rudimentary and progressive dealers actually see front end, back end, and the secondary opportunities to convert and buy more vehicles through our audience.

So, I think we're on an adoption cycle here that's accelerating because of COVID. I think the more dealer 20 groups are talking about how they're using technology to acquire inventory and to sell inventory at a fraction of the cost of even some of the other digital platforms like we talked about on the call with SEM. In many cases, those marketing tactics are trying to interrupt users while they're doing other tasks versus our audience who's actively engaged and raising their hand. So, I think we're on the right side of history here and we'll continue to win dealer adoption to our model being far more profitable than the aggressive tactics of the past.

I think your second question was really about the beta platform and I'll tell you what I'm most pleased about. Not only the way our teams are working together, but the pace of improvements that have come post the flip to the cloud-based platform. There's daily updates now where in our legacy systems it took weeks, if not months, to make changes. We're seeing daily product improvements responding nimbly to user feedback. And we're doing that with a much smaller staff.

And so, I think if you talk to our technologists, or our product people here, it's like we've given them power tools where before, look, there aren't many 20-year-old dot-coms. And we had an infrastructure that was complicated and dated. And so, now I think we feel far more competitive in our ability to bring new solutions to market and the pace of innovation is data that show that we're well on our way.

Nicholas Jones
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Marvin Fong with BTIG.

Marvin Fong
Analyst, BTIG LLC

Q

Great. Thank you for taking my questions. Congratulations on the quarter. I thought I would lean with a conceptual question, high level question about digital retailing. You guys are obviously doing an excellent job with dealer retention. We've seen some digital retailing solutions roll out from other platforms, and I know you guys are working on that diligently. Just curious what's your view on how these products might enhance dealer retention? In your conversations with dealers, are they clamoring for these solutions? Because it's clear that they're very happy with what you guys are providing in terms of the retention rate. So, maybe you could just give us some insight there.

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

A

Sure, Marvin. Well, two answers to that. Number one, I couldn't be happier for the progress that we're making with digital retail through Dealer Inspire and enabling dealer websites to be best-in-class. You see this with GM's recognition and our participation through that program now for direct dealers and dealers are realizing that they've got to invest more in their digital store front as opposed to what's gotten most of the investment over the last two decades, which is their physical store. And so, I'm very pleased that dealers are investing more to be digital-first and our online shopper platforms are best-in-class.

However, even if a dealer is using a different tool, I think what we're seeing and makes me excited is that the desire to get more people through the funnel. And that's where our Cars.com marketplace relevancy is best. We're generating two times more volume of users into the dealers' websites than we are generating e-mail leads, which is our legacy monetization model. So, as the industry shifts more towards digital retail, there is an inherent desire to get as many people through that funnel. That's why even companies, the biggest digital dealerships in the world still subscribe to Cars.com is they see very vividly this is what's converting in their own digital retail system.

And so, I think it bolsters our marketplace opportunity. We're only at 18,000 dealerships and a much larger universe closer to 40,000 dealers that are going to want more users to come through their digital retail

tool. But at the same time, we're very bullish in our solutions strategy as more dealers will invest to move towards a more digital-first format.

Marvin Fong
Analyst, BTIG LLC

Q

Terrific. And a follow-up, if I may, on advertising. I think if my math is right, it was only down a few percent year-over-year, yet new car inventories are down 60% or more. Just thought I'd ask if you could give us a framework how to think about how your revenue, are you able to generate compared to sort of the state of inventory? You're obviously doing much better than the actual number of cars in the lot. And maybe if you could just kind of update us on how conversations are going with OEMs right now. Thanks.

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

A

Yeah. Look, I think I'm glad you noted it. It's a relatively small revenue bucket vis-à-vis our dealer revenue. But you capture I think what we hoped others did which is the bounce we saw in National and OEM. I mean it was frankly a much better quarter than we had expected. And I think part and parcel of that is similar to what we just talked about with dealers. There's a heavy push to get more in-market shoppers through other people's stores and OEMs are starting to rethink their strategy about being interruptive and trying to get people to click on an old school banner ad versus reaching people while they're in the act of actually shopping. And we're seeing a notable shift by OEMs understanding that in-market audiences are end of the day the only audiences they really need to convert. There's only 5 million vehicle sales every month and we've got over 20 million people actively shopping. So, I think that was a notable shift in OEM thinking.

I think as now OEMs are talking about both easy and opportunities to grow their share of sales with the supply coming back, we're having much deeper conversations about native opportunities within this Cars.com experience that complement the dealership offering as opposed to trying to compete on which side they go to.

And so, you'll have to stay tuned there, but I'm really excited about the shifting conversations that the OEMs are leading.

Marvin Fong
Analyst, BTIG LLC

Q

Sure. Thanks so much, Alex.

Operator: Your next question comes from Doug Arthur with Huber Research.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Yeah. Thanks. Sonia, the EBITDA margin guide for the third quarter is certainly on a conservative side. And you talked about investment in technology and marketing. What are some of the puts and takes there? Obviously, the marketing spend in Q2 was not as high as you anticipated. So, I'm wondering if you're being overly conservative here.

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

A

Yeah. Doug, thanks for the question. So, on the adjusted EBITDA margin guide, I think it's really two things. So, one of the components driving it is state-of-the-art expectations for OEM and National for Q3 which is really driven by the continued production challenges that OEMs are seeing. So, we are expecting to see a sequential decline there really solely due to the production challenges they're facing. As Alex mentioned, we're having great dialogue with them and they appreciate the value of our audience and products [indiscernible] (00:37:11) when comes to their production.

And the reason I mention that is that is a very high margin component of our business and it does have EBITDA flow-through impact when you just think about our overall revenue mix. And then yes, we are expecting to see incrementally more investment in marketing this quarter. We did have the benefit last quarter of seeing really good strength in some of our organic channels which allowed us to pull back a little bit. But as I may have mentioned in one of our earlier calls, one of the things we are trying to do this year is invest a little bit more into our brand, and that's one of the things that's going to be coming in Q3.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

So, sequentially, marketing spend which was down in Q2, you would expect to be kind of up in Q3 at a fairly [indiscernible] (00:38:09)

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

A

Yeah. We are expecting to see an increase in marketing spend on a sequential basis from Q2 to Q3. Not quite where it was in Q1 but certainly higher than Q2.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. All right. Thank you.

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

A

Thank you, Doug.

Operator: [Operator Instructions] Currently, there are no further questions. I would now turn the call over to Alex Vetter for any closing remarks.

Alex Vetter

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

Well, look, I want to thank everyone for their interest in CARS. I'll just call out that Sonia and I will present at the JPMorgan Automotive Conference next week, August 11. Information on how to listen to the presentation along with other events will be posted on the new IR section of our website. And that concludes our call. Thank you very much.

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