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Cars.com, Inc. (CARS)

Q1 2020 Earnings Call

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CORPORATE PARTICIPANTS

Kamal Hamid
Director of Investor Relations, Cars.com, Inc.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

OTHER PARTICIPANTS

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

Marvin Fong
Analyst, BTIG LLC

Lee Krowl
Analyst, B. Riley FBR, Inc.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Nicholas Jones
Analyst, Citigroup Global Markets, Inc.

Daniel Powell
Analyst, Goldman Sachs & Co. LLC

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Cars.com First Quarter 2020 Earnings Conference Call. Hosting the call this morning is Alex Vetter, Chief Executive Officer; and Jandy Tomy, Interim Chief Financial Officer. This call is being recorded and a live webcast can be found at investor.cars.com. A replay of the webcast will be available at this website until May 20, 2020. A copy of the accompanying slides can be found on the Cars.com IR website. Following today's presentation, there will be a question-and-answer session with Alex and Jandy.

I'd now like to turn the call over to Kamal Hamid, Director of Investor Relations. Thank you. Please go ahead, sir.

Kamal Hamid
Director of Investor Relations, Cars.com, Inc.

Good morning, everyone, and welcome to our first quarter 2020 conference call and my first call as CARS' new Director of Investor Relations. 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 our 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 net income 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 this presentation. For more information, please refer to the risk factors included in our SEC filings including those in our annual, quarterly and

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current reports. Cars.com assumes no obligation to update any forward-looking statements or information as of their respective dates.

At this time, I would like to turn the call over to Alex.

T. Alex Vetter

Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

Thank you, Kamal. It's great to have you on board. Good morning, everyone, and welcome to our conference call for the first quarter of 2020. On this morning's call, I'll briefly discuss our first quarter business highlights, the actions we've taken to manage our business to the impact of COVID-19 and the support we've provided our dealer customers to help them weather this unprecedented storm. I'll then hand the call over to Jandy, who will discuss our financial results and provide deeper insight into our liquidity and the strength of our cash flow that will support us through this period.

Before I continue, I would be remiss if I didn't mention how proud I am of our employees for their impressive response to the COVID-19 pandemic, as we shifted to a remote work environment and without missing a beat, we were able to maintain productivity and provide proactive and strong support for our dealer customers at a time when they needed us most. Our employees are operating at the highest levels of dedication, professionalism and agility. I'm also cognizant of how difficult the time is this for our industry overall and I appreciate those of you in the investment community who are also participating in our earnings call today. Thank you all for your continued support, as we work through this time together and I wish all of you good health.

Operating in the pandemic period is foremost on all of our mind, in order to understand how you're going to navigate through this period and beyond, let's address the building blocks we have put in place over the last several quarters that have contributed to the revenue and adjusted EBITDA performance that exceeded expectations in the first quarter and that will sustain us during the second quarter and beyond. Despite the challenges of recent events, we built on our momentum in Q4 to deliver solid first quarter revenue and adjusted EBITDA through double-digit traffic increases that led to another quarter of dealer growth, solid OEM advertising revenue and a continuation of double-digit website solutions growth. This serves as evidence that our business strategy had strong momentum pre-COVID-19 and we'll continue to deliver benefits to customers and consumers in the near-term and when we emerge from this crisis.

Delivering high quality traffic is a cornerstone of our strategy. January was the highest traffic month ever, with visits of 56.9 million. Total visits in the quarter were up 20% year-over-year, while monthly unique visitors were up 11%. Organic traffic which consists of direct, SEO and traffic from our app represented approximately two-thirds of our total traffic, even as we gained efficiencies in paid channels. Mobile traffic represented 76% of total traffic, up from 71% in the prior year.

Our track record of sustaining and building organic traffic is a result of our dominant brand position and unmatched editorial content, particularly the editorial reviews that are so critical to virtual car buying. Unlike many of our peers, we aren't solely dependent on variable marketing expenses to build traffic. These advantages continue to help build strong organic value and strengthen our competitive position within the industry.

Building on the positive dealer count trend we delivered in the fourth quarter of last year, we added 104 dealers in the first quarter, despite an almost complete cessation of new sales during the last two weeks of March, bringing our total dealer count to 18,938. We believe that our continued success in growing our dealer count is due to three primary factors. First, dealers appreciate the ROI from our organic audience in good times and bad, which delivers higher quality leads that result in higher gross profit per vehicle.

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Second, dealers also recognize our differentiated solutions strategy. In March, they saw first-hand our ability to rapidly innovate and equip our customers with digital solutions to enable them to better target in-market car shoppers on a diverse set of platforms. And third, the quality of our sales and service professionals who understand dealers' business needs and the competitive pressures they face. Our teams are armed with digital tools to help dealers leverage technology to grow their business. We are benefiting from last year's sales force reorganization, as our sales and service teams are better armed and able to strategically identify dealer opportunities and deliver vastly improved customer service. This has resulted in lower churn rate and increased new dealer sales.

Turning to national, we experienced a difficult OEM advertising environment for the first nine months of 2019, but signs of stabilization became evident in the fourth quarter. National advertising continued to stabilize in the first quarter of 2020 and I believe that our strong growth in traffic and our position as the fastest growing new car marketplace has increased the advertising opportunities for OEMs.

Our strength in editorial content is also a key differentiator for Cars. For example in 2020, we've named the Ram 1500 pickup truck as the Luxury Car of the Year in our annual Best of Awards and Ram proudly featured the award in the recent national advertising campaign. Innovation like this will continue to enhance our national advertising revenue and our teams continue to provide the content shoppers need more of in this environment such as virtual test drives. Technology and innovation are key differentiators and we will discuss our continued strong Dealer Inspire solutions performance later in the call.

Let me sum up the first quarter by saying that prior to the impact of COVID-19, we were well on our way delivering on expectations for a robust growth in the second half of the year and exiting the year with strong revenue and adjusted EBITDA growth rate as we discussed on our last earnings call. In mid-March, the world changed as COVID restrictions were imposed across the country significantly impacting our customers, auto sales and our company. We immediately pivoted our focus and took decisive actions to help our dealer and OEM customers engage with car shoppers in the current environment.

In mid-March, many large urban markets shut down all businesses that were then defined as non-essential including dealerships. Cars sales dropped 40% in the month of March and our internal data indicated that dealers were experiencing an unprecedented drop in foot traffic, 80% in Michigan for instance. We spoke of thousands of our dealers in a very short period of time and promptly created an informed set of solutions, designed to help them adapt to the digitally driven sales environment and in some cases, continue to operate entirely virtual.

We then put together a program to provide relief for our dealers throughout the second quarter by issuing significant discount to the marketplace subscription. We not only provided financial relief to our customers, but more importantly, we equipped them with a wider set of digital solutions that are more relevant to a dramatic shift to in-home shopping as users spend even more time considering car purchases online. First, in March, after many in-depth conversations with our dealer partners to understand their needs, we announced immediate financial relief in the form of discounts. Dealers made it clear that they were concerned about the potential impact across the second quarter and not just the month of April. And accordingly, we provided invoice credit of 50% for the month of April and 30% for both May and June.

Next, knowing that dealers needed governmental permission to operate, we also quickly initiated state and federal dealer advocacy campaigns and lobbying efforts. In less than 48 hours, we generated nearly 5,000 petitions from auto dealers to the Department of Homeland Security as part of our successful effort to persuade the DHS and several local jurisdictions to add automobile sales and leasing to the list of essential services. Third, we worked all

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out to further enable our dealer customers to sell cars under the new rules such as by appointment only or via home delivery and virtual test drives by leveraging our agility and digital product expertise to help dealers and OEMs continue to reach car shoppers, as users are clearly changing their buying behavior.

In addition to our existing range of offerings, we also launched a collection of value-added merchandising and digital retail solution, including Home Delivery and Virtual Appointment badging. We also made our AI powered chat-bot and online shopper available on a trial basis in order to facilitate more online conversations in the absence of in-person dealer visits. Dealers are also leaning in to our exciting new FUEL In-Market Video platform that allows them to more cost effectively target in-market buyers who are engaging with online content and streaming platforms now more than ever.

After establishing our dealer relief program and providing them with digital tools, we then looked internally taking swift and decisive action to reduce our cost structure. Our discount program will result in significant decline in revenue and cash flow and as a result, we took a number of operational actions with the goal of offsetting at least 50% of the revenue impact. We recalibrated our business to align with the COVID-19 environment and to enable us to exit the crisis from a position of strength however long this period might last.

Despite the challenges of this surreal environment, because of the strength of our brand, the effectiveness of our strategy, and the subscription nature of our business, we are cash-generative and we have substantial liquidity and a supportive bank group. We made the prudent decision to drawdown $165 million on our revolving credit facility to increase our liquidity and flexibility. We also commenced collaborative discussions with our lenders about whether our credit agreement and covenants should be modified, given the uncertainty of the current environment.

Later on today's call, Jandy will provide additional color on the impact of the expense reductions we've taken and the actions we're taking to ensure continued financial flexibility and liquidity. While the impact of COVID-19 is severe, we know that the past and recent digital solutions we have brought to market are part of the anecdote for the industry. We worked in partnership with dealers to initiate efforts to get car sales classified as essential services, selling safely through digital platforms. While dealers are looking to quickly cut operating costs and may eliminate untargeted advertising and marketing programs, they should not turn away from online marketplaces where in-market consumers are shopping for cars.

Dealer websites are also essential. Dealers will continue to make investments to leverage important tools to power their business especially virtual car buying. This is an underlying reason our Dealer Inspire solutions continue to grow at double-digit rates. And this remains a unique and strong competitive differentiator for CARS. To that point, GM has confirmed that the rollout of over 800 contractor websites will begin as planned in June and are all currently scheduled to be launched by the end of the year.

As a result, the subscription revenue for this program will build throughout the second half of 2020 as discussed on our last earnings call. We are also starting 2020 with our new in-market video platform, FUEL. We had a record sales launch in NADA in February and continued to gain momentum. With marketing budgets under pressure, dealers need cost efficient advertising, focus now more than ever in places where buyers are engaging. We of course have a wealth of car shopper category data and by using this data to target in market shoppers, FUEL has a much higher ROI than traditional television. We are seeing solid pickup in interest in FUEL and it is particularly relevant during the COVID crisis.

In this uncertain environment, it's too early to quantify the impact of COVID-19 and what it means for the rest of the year. Currently, car buyers are engaging online, and many are completing transactions having cars delivered

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directly to their homes. Those car buyers have shown great interest in handling price negotiation and financing online. And there is evidence that COVID-19 has created a new category of car buyers concerned with the more sanitary environment for those who historically relied on ride sharing services and public transportation. Car solutions give our dealer customers the ability to connect digitally with these car buyers. To that end, I want you to hear directly from one of our dealers in New York City, arguably the most difficult operating market in the US today. To hear how he is relying on our solutions to sell cars during this extraordinary time.

[Video Presentation] (14:58-16:01)

Now, let me give you some more details on what we're seeing as we start the second quarter. Total visits for April were down 9% compared to the prior year. However, in the last week of April and the first few days of May, total traffic is growing again, up year-over-year. In addition to increased activity on Cars.com, other positive signs include an increase in walk-in traffic at dealerships and deeper funnel shopping behavior on dealer websites. However, these positive trends will not be enough to stave off the financial hardships dealers currently face and that will significantly impact the second quarter and beyond. We believe that the package we've put in place for our dealer customers including the broader set of digital solutions coupled with a full quarter of pricing discounts and strong organic traffic will help them sell cars online and rebuild their businesses in the current market condition.

Over the last 20 years, one thing I have learned is never to underestimate the resiliency of local dealership operators. Local businesses are the backbone of our economy and I've seen it first-hand the tenacity of dealers to survive and thrive in tough economic condition. It is no surprise that many are moving quickly on leveraging digital solutions to sell cars virtually and we've heard from many dealers who have had success in selling, including a used car store in Syracuse, New York who sold over 200 cars in April despite having a closed physical location.

We would like to believe that the projections for our second half of the year recovery are accurate, but we aren't counting on it. Therefore, we have organized ourselves to react as the situation evolves over time. We are focusing on the things we can control namely our strong customer service and solutions offerings to dealers, highly disciplined expense controls and our continued focus on free cash flow and balance sheet flexibility. We will continue to work with our customers and the industry to get through this time together.

Now, I'd like to turn the call over to Jandy to discuss our financial results for the first quarter and future cash flow implications and preparedness. Jandy?

Jandy Tomy

Interim Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. Revenue for the first quarter of 2020 was $148.1 million compared to $154.2 million in the prior-year period. This decrease was primarily due to fewer dealer customers and lower ARPD at the beginning of this year than at the outset of the prior year. Year-over-year national advertising revenue declined 4%, representing a relative stabilization of the business, driven in part by OEM's 2020 upfront commitment being in line with the prior year.

Now, let me move into a discussion of our operating expenses in the quarter. In the first quarter of 2020, we recorded at non-cash goodwill and intangible asset impairment charge of $905.9 million, based on the determination that there was a triggering event primarily caused by the COVID-19 pandemic and related restrictions. The impairment charge does not affect our liquidity cash flow from operating activities or compliance with the financial covenants set forth in our credit agreement. The cash benefit from the deductible goodwill for tax purposes remains intact.

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Total operating expenses for the first quarter of 2020 were $1.1 billion, or $147.3 million excluding the impairment charge, compared to $158.3 million for the prior year period. This decrease was primarily due to lower non-recurring expenses as well as lower marketing costs due to planned reduction, increased efficiencies and alignment of our marketing spend with shopper demand, resulting from the COVID-19 pandemic and related restriction. These reductions were offset in part by an increase in affiliate revenue share expense due to the lack of a benefit from the amortization of the unfavorable contract liability which ended September 30, 2019. We continue to deliver strong traffic and high quality lead to our dealer and OEM customers due to greater efficiencies in performance marketing and better SEM pricing environment due to a market wide pullback.

GAAP net loss for the first quarter of 2020 was $787.4 million, or $11.76 per diluted share compared to GAAP net loss of $9 million, or $0.13 per diluted share in the first quarter of 2019. Adjusted net income for the first quarter of 2020 was $21.8 million, or $0.32 per diluted share compared to $20.7 million, or $0.31 per diluted share in the first quarter of 2019. Adjusted EBITDA for the first quarter of 2020 was $35.2 million, or 24% of revenue compared to $38.6 million, or 25% of revenue for the prior year period.

For the first quarter, average monthly unique visitors grew 11% year-over-year and total traffic grew 20% year-over-year. This growth was supported both by product innovation and by our investments and increasing efficiencies in SEO, brand awareness and paid channels. Mobile traffic grew 29% year-over-year and accounted for 76% of total traffic compared to 71% in the prior year. Dealer customers were 18,938 as of March 31, 2020, an increase of 1% compared to 18,834 as of December 31, 2019, primarily due to growth in digital solutions customers partially offset by a decrease in the rate of sales in the second half of March. ARPD was $2,092 in the first quarter of 2020, down 6% year-over-year, primarily due to upsell cancellations and discounts given in the second half of March 2020 as the result of COVID-19.

Net cash provided by operating activities for the first quarter of 2020 was $28.9 million compared to $38.4 million in the prior year. Free cash flow for the first quarter of 2020 was $23.1 million compared to $35 million in the same period last year. Cash flow was impacted in both periods by payments associated with the early conversion of affiliate markets. Cash and cash equivalents was $187.3 million and debt outstanding was $799.7 million as of March 31, 2020. During the three months period, we paid down $13.4 million of indebtedness and borrowed $165 million on our revolving credit facility to increase liquidity and financial flexibility due to the uncertainty around the COVID-19 pandemic.

Net leverage at March 31, 2020 was 4.1 times calculated in accordance with our credit agreement. Without the $125 million cash cap imposed by our credit agreement, our net leverage was 3.7 times. As Alex said, we are having collaborative discussions with our lenders about whether our credit agreement should be modified and we will communicate and update in due course. Our liquidity remains strong. At the end of April, we had approximately $190 million in cash on hand, up slightly from the end of the first quarter. Our business has a strong cash flow profile, which we believe is the highest in our competitive set. Our business is asset-light, requires minimal capital expenditures, and working capital needs are relatively neutral. This results in a consistent high conversion of adjusted EBITDA into free cash flow.

Our continual focus on cost efficiencies and maximizing cash flow is the discipline under which we operated as we entered into this COVID-19 induced crisis. As Alex mentioned, we took prompt aggressive actions to reduce our expenses targeting to offset at least 50% of the anticipated revenue losses resulting from the COVID-19 related restriction. We realigned the operational platform to respond to market conditions and enhance our liquidity during this period. The actions we took include across the board reduction in cash compensation for all employees including the management team and board members, a cessation of non-critical spending, a delay in

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the implementation date for the technology transformation and an alignment of our variable marketing spend with shopper demand.

We also made the difficult decision to furlough 250 employees and have subsequently exited 170 of those furloughed employees. These actions reflect our need to substantially reduce expenses, while preserving our ability to emerge with the capabilities to continue to execute our digital solution strategy to transform our industry now and on the other side of this crisis. These decisions were difficult, but also the right one, given the economic impact and uncertain duration of this pandemic.

I'd now like to give you an update on the current trends we're seeing in our business. As Alex mentioned earlier, traffic had been negatively impacted in the second half of March and into the month of April. And recently in the last week of April and so far in May, traffic has started to stabilize and return to growth. Dealer cancellation rates in Q2 have been higher than what we experienced in the first quarter. Our relief efforts have enabled us to avoid the loss of hundreds of dealers who had given us their 30-day cancel notice. Also, as you might imagine, our new sales now are much lower than our first quarter monthly average.

Now, let me turn to our outlook. As Alex mentioned, prior to the impacts of COVID-19, we believed that we were in a position to deliver a robust second half of the year and to exit the year with revenue and adjusted EBITDA growth. The effects of the COVID-19 pandemic have and are expected to continue to negatively impact results of operations and cash flow. However, the extent of the impact will vary depending on the duration and severity of the restrictions and the economic consequences. And accordingly on March 23, we suspended our 2020 guidance. Nevertheless, our strong brand, our high concentration of organic value, our differentiated solutions and most importantly, our cash flow profile and strong liquidity positions us well to weather the storm.

With that, let me turn the call back to Alex.

T. Alex Vetter

Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

Thank you, Jandy. As we all work through this surreal time together, we are controlling what we can control and are actively monitoring state-by-state trend so we can react swiftly to market changes. Because of the strengths we have developed that are evident over the last several months, I'm confident that CARS will continue to lead the digital transformation of our industry. Our increasingly validated solution strategy, solid and sustainable audience, and the deep relationships with our customers will ensure we emerge in the other side of this in a stronger competitive position.

And with that, I'd like to open the call to your questions. Operator?

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QUESTION AND ANSWER SECTION

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

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

Q

Great, thanks for taking my questions guys, and I hope everyone is staying healthy and sane. Maybe just a quick follow-up on the dealer – on the cancellation comments. It sounds like on the traffic side of things, things sort of have improved here over the early parts of the second quarter. Any insight you guys can give us into either how those cancellations trends maybe have evolved over the course of April and into May or maybe just your kind of outlook into how cancellations might trend.

I know there's a lot of uncertainty out there, but it seems like some states are sort of opening up a little bit. You've also got some dealers who might be benefiting from stimulus money and those checks coming in. So, I'm just kind of curious how you're sort of thinking about cancellations? And then, I just have a quick follow-up on digital retailing.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Thank you, Tom. The cancellation rate – well, first of all, I think the actions we took on the expense side assumed a difficult quarter ahead for sure. I am relatively pleased on what we saw in April and that our cancellation rate more persisted I think where we saw challenges is the slowdown in new dealer sales. I think that really was more pronounced and increasingly as more and more dealers are trying to figure out how to operate virtually and digitally, I think this played exactly into our strength.

And so, we're taking a very cautious outlook though. I think May, as you know, dealers have to give us 30-days notice, so we've got elevated cancellations in May. But as we engage with dealers and are able to show them the strength of our organic traffic, our value delivery and certainly our lead volumes, I think we've shown a pretty good batting average in terms of helping dealers realize that this is really the last cut you would want to make and we're vital and essential for your business.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

That's right. The only thing I would add just to follow-on and reiterate what Alex said is the relief program that we put out really helped us go after those dealers that had submitted their 30-day cancel notice and saved them. So although certainly April cancellation rates were higher than what we experienced in Q1, like Alex said, it was much better than we had feared. Really just helping underscore the fact that the relief program is working.

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

Q

Got it. Perfect, that's helpful. Thank you. And then just on digital retailing, it seems like you guys are getting a lot more interest from dealers who are having to kind of adjust to the new way to sort of sell cars. It sounds like some of these tools and stuff you guys are kind of giving away for right now, but, Alex, I'd just be curious to hear how you think about – how this virus might kind of alter the trajectory of your digital retailing solutions business. Could

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this be kind of a catalyst to broader interest and adoption by dealers and how do you guys kind of – and how you are differentiated from some of the other kind of digital retailing solutions out there for dealers?

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Tom, I think one of the silver linings, which there are many, if you look hard enough, is that this is speeding the digital evolution of our industry. And we're not just engaging now at the store level with the digital marketing leaders, but now the owner-operators are leaning into digital discussions and are open to understanding how these tools work and how they can sell remotely. And so, you certainly see this evident in our strong Dealer Inspire growth. And yes, we are offering trials for our digital chat tools and our digital retail tools because we see that when dealers use these tools not only does it strengthen their overall business, but then their appreciation for our marketplace also grows. And so we think that during this crisis anything we can do to help dealers transact more digitally will only improve their understanding of our value. So that is one of the measures we're taking. And I'm certainly pleased with the number of both webinars and video calls we're having with owners, who I think are really wanting to better learn this at a much faster rate than ever before.

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

Q

Great. And really nice quarter guys, thanks.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Thank you, Tom.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Thanks, Tom.

Operator: Your next question comes from the line of Marvin Fong from BTIG. Your line is open.

Marvin Fong
Analyst, BTIG LLC

Q

Good morning and thanks for taking my questions. I'm glad to hear that everyone's safe and hope that stays the case. I just had a couple of questions on marketing spend, considering that it sounds like traffic is still quite healthy and leads are also doing well among the marketplaces. I was just curious how you're going to balance the fact that that remains pretty strong relatively speaking, but at the same time we do need to realize – no efficiencies there that can offset the macro pressure, just how do you kind of balance the fact that online activity is pretty strong, but that you're going to have to be more efficient on that?

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

I think this is a question that that puts a smile on my face in that we've been very pleased with the efficiencies that we were generating pre-COVID and then because of the consumer restrictions, in terms of virtual shopping is organically on the rise, beyond the efficiencies we were already generating. And so that's been one of the bright spots as well is that we're able to generate significant value on a much more efficient basis. And also, remind, Marvin, that we have a higher concentration of new car traffic than most of our competitive set and as OEMs are

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introducing 0% incentives and offers, we're seeing really strong engagement and lift in the new cars side of the business. Our new car traffic and leads are continuing to accelerate. And I think that is more than likely to continue as the manufacturers look to stimulate consumer demand.

Marvin Fong
Analyst, BTIG LLC

Q

Great. Thanks, Alex. And just to follow-up on ARPD since you gave us great color on the paying dealer count trends. Just how should we think about ARPD, excluding the discounts I think we have a good grasp of what those are? But just on the underlying trends with upsell cancellations and whatnot just – so we can expect ARPD to continue to be pressured versus – on top of the pressure we saw in 1Q? Thanks.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Yeah. Hi, Marvin. Yes, it's definitely, I mean, Q2 obviously with the discount program and the relief program that we have in place, ARPD will clearly be far lower. At this stage, there's a lot of dealers out there looking to just save cash, right, save money and can cut costs. So it's a little bit hard to predict exactly how that plays out throughout the rest of the year. But I guess the short answer is, I would expect there to be continued pressure from the downgrades. But we are very focused on supporting our dealers, keeping the dealers in the dealer base and helping them weather the storm into the second half of the year.

Marvin Fong
Analyst, BTIG LLC

Q

Great. Thanks Jandy and thanks Alex. Appreciate the color.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Thank you, Marvin.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Thanks, Marvin.

Operator: Your next question comes from the line of Lee Krowl from B. Riley FBR. Your line is open.

Lee Krowl
Analyst, B. Riley FBR, Inc.

Q

Hey guys. Thanks for taking my question. Congrats on a very solid quarter and echo my thoughts on everyone staying safe.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Thanks, Lee.

Lee Krowl
Analyst, B. Riley FBR, Inc.

Q

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Quick question on the discounts that you guys have implemented in place, appreciating the fact that there's a very wide set of scenarios in front of you. Do any of the scenarios included an extension of those discounts beyond June?

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.
A

So at this point, it's very much, let's take it – take a kind of one week, one month, one quarter at a time. We are all hopeful. I think probably everyone listening into the call, we are working our way out of this pandemic and nobody knows the answer, right. We obviously committed to supporting our dealers through the whole of Q2 immediately, understanding quickly that this wasn't going to pass as quickly. So I think at this stage, it's too hard to say exactly what the world looks like, but we are certainly hopeful that as all these geographies start to open up more and more that our dealers continue to realize that they can operate and continue to sell virtually through this last – couple of months they've been seeing some successes and continuing to kind of change the way that they operate.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.
A

Yeah. I would add to that. The discounts are only one part of our formula. Obviously the step up we've provided in both product value, tools, solutions and even our advocacy efforts, I think dealers know that we're on side with them through this beyond just the financial. And I think that's where we're stepping up in a big way. I think, I know we've got physical distance between us, but we have not backed off the social distance at all and our communication with them is up, the consumer trends are up and dealers are recognizing that we are well timed for this crisis to be there to get them through.

Lee Krowl
Analyst, B. Riley FBR, Inc.
Q

Got it. And then you guys provided a helpful update on kind of the quarter-to-date trends with traffic and kind of consumer interaction. Perhaps could you provide kind of a quarter-to-date update on the national business. Fully appreciating kind of the initiatives you outlined on OEM incentive and offers?

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.
A

Yeah. Let me start by saying – going into the crisis, we had assumed a much more difficult outlook on national because of what we've seen here in the past. But I think one of the things that emerged – in the first three to four weeks of the crisis is that with the cessation of all live sports and events, which typically manufacturers earmark as much as 30% of their budgets towards, they had their reallocation done to them, without their input. And so they really went into this crisis already having their cut made. And so, now with digital being really the only way to compete, we've been pleased with where manufacturers have gone with that. I think our outlook, we still remain extremely cautious and again, took appropriate actions assuming a much more dire case. But I think the national business has weathered this really well and has shown some continued stabilization which we're pleased and certainly the traffic trends only help that as well.

Lee Krowl
Analyst, B. Riley FBR, Inc.
Q

Got it. Thanks for taking my questions, guys.

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Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Thanks, Lee.

Operator: Your next question comes from the line of Gary Prestopino, from Barrington Research. Your line is open.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Hey, good morning all.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Hi Gary.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Hey Jandy, what was the average revenue per dealer with Dealer Inspire or I'm sorry, the average revenue per dealer you reported has Dealer Inspire, right, in it?

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

That's right. That's right, now that we have a comparable in the last year period that's the way that we'll be disclosing ARPD going forward as all of our products included in ARPD.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. So it's an apples-to-apples comparison is what we're seeing here, right?

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Exactly. That's exactly right.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. All right. And then Alex, this whole idea of that – you saved a bunch of dealers from cancelling – with some of these incentives you've given them. That's great. But I guess, what I would ask is that, did the dealers react similarly during the 2008 2009 crisis in terms of – because they saw sales coming down pretty dramatically on new car sales. And were you at the time – you weren't public but did you have the same kind of thing happening within your dealer base where the dealers were trying to aggressively cancel?

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Gary, you're bringing back memories there. I've seen the movie before to some degree in that, I actually led the sales efforts through the 2008, 2009 recessionary time. We actually grew our revenue 3% in that period. And that

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said, it was a different world back then. I think the big difference today is that there is much more digital sophistication as an industry than there was then. And I certainly think that the kneejerk reaction by dealers feels very much the same, which is batten down the hatches, cut everything. You know we're prepared for the worst.

But now the green shoots are happening, I'm watching dealerships aggressively try to bring back people that they furloughed. Our phones are engaged right now – with them on this front. As I mentioned in the call, we had a dealer who physically shut their entire store, but still managed to sell over 200 used cars on a skeleton crew, 100% of them digitally. So I think that the reaction we certainly felt it immediately, what's interesting is that part of our success in 2008, 2009 was federal aid and the Cash for Clunkers program that really roared the business back during that crisis and I know those conversations are out happening today and that's too soon to call. But that certainly could be an additional boost to consumer confidence and certainly dealer confidence as well.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. Were you seeing the attempted cancellations, were they coming from two point or less dealerships or some of your larger dealerships or was it just all across the board?

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

It was across the board.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And then lastly, with FUEL, can you give us some idea of since NADA, what kind of uptake you're seeing or level of interest you're seeing in that product?

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Yeah, thanks for asking, Gary. I mean, that was one of the brightest spots of our Q1 that really didn't get a chance to be felt in the financials yet because NADA was later. But FUEL is extremely well timed right now. Dealers, I do not think are going to try to roar back into television. It's a very expensive cost per sale. We're now using the power of video to help them market directly to people that are actually in the market to buy. And so we are seeing increased engagement by dealers particularly the larger dealerships that have the digital sophistication and understand the economic advantage to FUEL. And so I would just tell you that's been a bright spot during the last 45 days as the adoption rate of FUEL has increased.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay, thanks.

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

Nicholas Jones
Analyst, Citigroup Global Markets, Inc.

Q

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Great. Thank you. Two kind of broader questions, I guess first, in your conversations with dealers, what are you hearing, these are SMBs, there's varying levels of sophistication. So are we going to see fewer dealers out the other side of this. And I guess what does that do to kind of the wallet share Cars.com is exposed to?

And then my second question is on what you're seeing in regions like Georgia where social distancing measures are loosening, are you learning anything early there as far as engagement and what dealers are looking to try to do? Thanks.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Look I think it's a great question, that's exactly how I think we're operating, is on a geographic basis there are vastly different rules of engagement and signals of success. And so we're tracking the traffic trends and the dealer sales trends on a geographic basis more than ever now. And we are seeing visible signs of pickup in those states with loosening restrictions.

I think, similarly on the dealer side, I think it's a tale of two cities there as well in that, as you read the dealer blogs in the online forums, it's very clear to me that there are dealers who have not embraced technology or more specifically have not embraced marketplaces and they are experiencing a significant decline in their volumes. And then conversely those that I know that are all in in digital and are using these tools in our marketplace are weathering the storm quite well.

I think ultimately what you're going to find through this is that the dealers who haven't adopted a digital first strategy, you will see fewer dealerships on the other side of this pandemic, but those that realize that they can acquire sales more cost effectively if they leverage these marketplaces and technologies, I think they're going to find that they can operate their business on the other side of this pandemic on a much more reduced infrastructure and cost base and those will be the ones that will experience the bright side of this pandemic.

Nicholas Jones
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Daniel Powell from Goldman Sachs. Your line is open.

Daniel Powell
Analyst, Goldman Sachs & Co. LLC

Q

Great, thanks for taking the questions. Just two quick ones from me, around the dealer cancellations and upsell cancellations, just curious if there's any detail you can provide around the mix of that. I guess, our assumption would be, you're probably seeing higher rate of cancellations in the longer tail or your smaller dealers. And you might be seeing more upsell cancellations from larger dealers than outright cancellations. So if there's any, any kind of details around on that mix would be helpful?

And then second question, you talked about being the fastest growing new car marketplace. Obviously incentives and things playing in on the new car side, but just curious what you're seeing from a traffic perspective, are you seeing more consumers landing on used vehicle pages, are you seeing any sort of trade down dynamic in this backdrop? Thanks.

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Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

From the cancellation rate question and downgrades, I guess, it's a little bit of a mix. So, on the one hand the larger dealers have more upgrades. So, if they're looking to save cost, there's room in there for them to save costs by doing some downgrading. On the other hand, the larger dealers have more flexibility perhaps in spending some more and weathering the storm or signing up for FUEL just as some examples. So I don't have an exact breakout for you, but those are just some of the factors that go into it.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

And certainly part of our ARP (sic) [ARPD] drop was the discounts and the COVID impact. But I think on the second part, the trends have shifted, new car has rebounded much faster, both in traffic and leads. In fact, our new car leads were [ph] facing up almost 16% (49:00) just in the last seven days. So we're seeing this velocity happen on the new car side. But I will tell you, used car traffic and volume dipped aggressively, but now it is roaring back. It's on about a seven day lag behind the new car side, but used car now is rolling back fast. And what we're seeing obviously is that there is some depreciation in the used car values. We've seen prices dip. But now volume is accelerating again. I think you can trace that to some of the geographic markets as well that are opening back up, but used cars clearly are on the rebound right now.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

The other thing I'll just add real quick, Daniel, is the idea of the relief program that we put into place was to keep dealers at their current package level. Right. So not only prevent them and save them from cancelling, but also keep them in at their current packages and simply provide them that expense in cash relief by giving them half-off in April and then 30% off in May and June to offset and combat some of those downgrades that we had been seeing.

Daniel Powell
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. That's helpful, makes sense. Stay healthy.

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Thank you and you too.

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

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Yeah. Thanks. The furlough of 250 people and I guess with the goal of 170 permanent reductions, can you just remind me what your total head count is right now or was?

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Yeah. Was just under 1,600 people at the end of March.

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Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

At the end of – is that before this or after?

Jandy Tomy
Interim Chief Financial Officer, Cars.com, Inc.

A

Before. That's right. That's before.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Okay. And then Alex, I mean, in terms of the GM contract with Dealer Inspire, it looks like you know, despite all the dislocation at dealers the things are unfolding pretty much as expected. Can you sort of build that in a little bit.

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Sure, I mean, it was good news to hear that they confirmed their desire to stay on schedule and arguably to make sure that they don't fall behind it. So that was reassuring and great validation of us being in a much more digitally driven industry as a result of COVID. So, our teams have already been ramped up. If you recall, Doug we had to take down our EBITDA in the first half of this year to accelerate hiring to be able to build all those websites and get those launched. So we've already built the cost base to produce and deploy all these websites, but the billing and the revenue recognition didn't happen until the second half of this year based on their release schedule. And that's why, going into this year, we had a tale of two halves in our revenue and EBITDA picture that looked worse than the first half as we built up the volume and then recognize the revenue in the second half. So that's a big win. Again those 800 dealer websites have already been contracted and sold. So it really is about building them and deploying them. And that's going to be a nice pick up to the business in the second half.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

And when is the next window of opportunity to get into more dealers at least with GM, and don't they have these sort of windows of opportunity, correct?

T. Alex Vetter
Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

A

Well, I think what's been interesting about that, yes they do. And the actual date hasn't been released, but there is a plan to open up a second wave. I think that will come, commensurate with our successful deployment of many of the first groupings of these 800 dealer sites and GM feeling more confident that we're deploying them to the standards that they want, which I have no fears about. And I think more manufacturers have started to lean into this and saying what else can you do for us digitally as a result of this pandemic beyond advertising and marketing. And I think that's where we're just different from a lot of our peer groups. We've got our social media platform and Dealer Rater. We've got our Dealer Inspire set of tools and then we've also got FUEL. And so there are just more things that we can do for manufacturers and their dealer bodies than most of our peer group. And I think that diversification of our strategy is why we're confident we're in a good position here.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Great. Thank you.

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Operator: There are no further questions at this time. I'll turn the call back to Alex Vetter for closing comments.

T. Alex Vetter

Co-Founder, President, Chief Executive Officer & Director, Cars.com, Inc.

We appreciate the sentiment of everybody here in terms of the well-wishes and safety and we extend that right back to you. And thank you for your time today.

Operator: That concludes today's conference call. You may now disconnect.

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