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Cars.com, Inc. (CARS)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the CARS First 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 May 20th. 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' first quarter 2021 conference call and my first call as CARS' director of investor relations. With me this morning are Alex Vetter, CEO, and Sonia Jain, CFO. Alex will start by discussing our highlights from the quarter and providing an update on our expectations for 2021. Then Sonia will discuss our financial results in greater detail along with our second 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 measures to the most directly comparable GAAP measures 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 filing including those in our annual, quarterly and current reports which are available on the Investor section of our website. We assume no obligation to update any forward-looking statements or information of the respective date.

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

T. Alex Vetter

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

Thank you, Robbin. We're very excited to have you join the team to share with the investment community the details of our strategy, our growing momentum, and the large opportunity ahead of us. Welcome. And welcome to our first quarter call everyone. I'm pleased to share our performance this quarter and the acceleration we've made on our path towards market leadership.

Our momentum continues, driven by dealer customer growth and ongoing product adoption resulting in revenue growth. COVID has encouraged more dealers to embrace digital solutions. And they are now increasingly comfortable operating in both physical and digital environments. Not only are they meeting the shoppers' expectations in terms of when, where and how they want to shop, but they are also achieving great efficiencies by embracing our market leading digital solutions. These trends are driving our highest customer growth since we became a public company. And the momentum continues across all lines of our business.

We delivered solid year-over-year revenue growth for the quarter, driven by continued growth in ARPD. Dealer customers increased sequentially for the third straight quarter following Q2 of 2020 when dealers were obviously impacted by the COVID pandemic. We have now grown our dealer customer base in five of the last six quarters. We grew our revenue and our adjusted EBITDA year-over-year. And we expanded our margins, while making disciplined investments to drive future growth. Our investments focused on ever-increasing traffic quality, and our value delivery is increasingly evident to dealers.

COVID has made dealers realize that they can't focus solely on the physical showroom. And we are now seeing dealers look for more data and insights around the quality of their digital traffic. Our Unique Visitors were up 4% year-over-year this quarter. With our continued focus on driving quality traffic and improved attribution, we are seeing the strongest retention rates and growth in dealer customers, a sign that dealers increasingly appreciate the value we are delivering. Cars.com continues to generate traffic far more efficiently than our competitors. Our brand strength developed over the last 23 years and our product quality are consistently rewarded with organic traffic. In fact, our first quarter SEO traffic was record breaking, reaching an all-time high, driven by our continued focus and investment and unique content and product experience. This organic advantage enables us to generate more ROI from product innovations and customer technology solutions, creating a virtuous cycle of helping dealerships operate more efficiently. Increasing ROI from high-quality organic traffic has proven to be highly sustainable and we continue to generate the majority of our traffic from organic sources. This is a direct result of our brand strength, the most popular mobile app, incredibly strong editorial content, and now over 10 million ratings and reviews, A first in our industry and for our company.

Powered by DealerRater, Cars.com has the leading car dealer review platform within our competitive set, an important distinction as reviews are critical to the car shopping journey. In fact, one in three shoppers won't make a purchase without reading a review because they trust unbiased advice from others like them, especially for a large considered purchase like a car. Importantly, the pandemic environment spurred faster growth of our reviews with 38% of consumers reporting that they read more reviews because of COVID-19.

Additionally, the number of car shoppers leaving reviews about local dealers is on the rise. March 2021 marked our highest review volume of dealer reviews ever, with more than 100,000 new reviews in a single month. The Cars.com audience represents high-quality, ready-to-buy shoppers. In a recent CARS study, consumers who shop on Cars.com and visited a dealer website are two times more likely to buy a car than shoppers who only visited the dealer's website. These shoppers are more deeply engaged and look at 19 more total vehicle detail

pages on the dealer's website than a shopper who goes directly to the dealer website. In short, access to the Cars.com audience helps dealers and OEMs sell more cars faster.

As dealers are now more focused on digital metrics, the strength and quality of our traffic reinforces our platform strength and clarifies attribution. There is no doubt that this has contributed to a record retention rates. And we don't take our organic traffic record retention rates and superior brand strength for granted. In March, we launched our new It's Matchical campaign, focusing on the lasting connection between consumers and their cars which cars have been creating for nearly a quarter of a century. The campaign builds on our car chemistry position and highlights the art and science behind every car match made on Cars.com.

This campaign elevates our value proposition by highlighting the breadth and freshness of our inventory, intelligent pricing tools, reviews, editorial content and the overall car shopping experience, all of which attract consumers organically to our marketplace. We launched this multimedia campaign in March with high impact placements throughout the NCAA basketball tournament.

We continue to support our strong value delivery by increasing investments in brand advertising and high value lead generation rather than simply on traffic. With the strength of our value delivery this quarter, we were able to keep our marketing expense lower than planned, demonstrating our flexibility to drive strong results through strategic investments.

We are confident that our emphasis on branding and lead generation is a high ROI investment for us as our dealer customer additions and retention rates remain strong. Our pure in-market audience towers our marketplace and underpins our dealer and ARPD growth. Our products and solutions are designed for an increasingly digital world and show sustainable success supporting the growth of our network of dealer customers to 18,823, an increase of 451 dealers over Q4 of last year.

The strength of our industry-leading digital solutions is evidenced by our record low cancellation rates and highest quarterly growth since 2017. ARPD has also grown for three consecutive quarters, driven by the success of FUEL, our Dealer Inspire products and the Cars.com marketplace. Our website customers continue to grow, reaching 4,700 at quarter end. To-date, our team has launched approximately three quarters of the presold GM dealer website and the momentum continues. We are proud to announce a similar program with FordDirect, giving us the opportunity to sell our website products to over 3,000 Ford dealerships in the US. Similar to GM, This partnership is semi-exclusive. We are one of a few approved partners in the FordDirect program.

Another one of our fastest growing products, FUEL, continues to set the standard for digital video success across the automotive industry. And because of the current inventory situation, dealers are now leveraging FUEL to source vehicles and manage inventory shortages by advertising for trade-ins and instant offers, further solidifying FUEL as an important part of their marketing mix. One such FUEL customer is J.D. Dantzier, General Manager of Manly Honda in Santa Rosa, California. They added vehicle acquisition messaging to their video campaign, and within a few months of starting FUEL, soared to number one in the local market for the first time.

JD says and I quote "FUEL has propelled us into the number one position in our market for the first time and I am able to brand a message that buyers not just passive listeners or viewers but buyers hear. It's those Cars.com in-market customers I am able to target and message with FUEL". As evidenced by JD's testimonial, FUEL continues to deliver value as dealers seek to connect and influence our targeted in-market car shopping audience.

Moving on, our OEM and national revenue came in better than anticipated given the uncertainty around global supply chain disruptions including chip shortages, we will continue to maintain a more conservative outlook for national advertising. Keep in mind that new car inventory shortages are helping local dealers maximize pricing and gross profits on both new and used car sales as supply is tight and demand is high. And the impact on individual OEMs will vary. Not all OEMs will be impacted at the same magnitude by these shortages.

Looking at the wider automotive industry trends, we are seeing a significant increase in first time buyers and urban buyers entering the auto market and they're entering the auto market with an abbreviated purchase timeline. Demand for the latest technology in enhanced safety features is driving price increases for both new and used vehicles. These are durable trends that we believe will help ensure a strong retail environment in 2021.

New car shortages and rising consumer demand are leading to strong used car sales. And although we expect new car inventories to fall further with near-term production declines due to ongoing semiconductor shortages, this tightening assists dealers and OEMs to hold firm on price and is helping dealers maximize gross profit. March SAAR was 17.75 million, the best month since October of 2017 and the strongest Q1 for retail auto sales in a decade.

Consumer confidence is also rising. And March was the highest since the pandemic a year ago, supported by the new round of stimulus checks and accelerated vaccine rollout which is another signal for continued strength in 2021. And April is trending even higher. April SAAR came in at a record breaking \$18.5 million, the highest ever recorded for April.

Retail sales specifically are up 21% versus April 2019 and up 111% over last year. We remain confident in our growth outlook for CARS in 2021 and beyond. This growth will be even more pronounced in Q2 because of the COVID relief we provided last year. And the momentum we have from growing both dealers and ARPD. Sonia will provide more detail on our financial expectations shortly.

We anticipate that our investments in product innovation and marketing will continue to fuel the momentum in a favorable top line trends as we enter the second half of the year. A strong board is also important to our continued success.

To that end, we recently announced the addition of Jenell Ross to our board of directors. She brings valuable customer-centric insight to our board through her 28 years of leadership and experience as a dealer owner operator. Jenell is the nation's only second generation African-American female auto dealer and was recently named to the Automotive News 100 Leading Women in the North American Auto Industry. While other technology companies are seeking to disrupt the local dealer model, we're an enabler of dealer success and we are thrilled to have Jenell on our board.

In summary, I want to reiterate how pleased I am with the continued momentum and the strong operating and financial results that our team delivered. But now, I'm going to turn the call over to Sonia.

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. Before I dive into our results, I'd like to call your attention to the fact that we have renamed our revenue categories to better align with our customer type. You may recall that the last of our affiliate contracts ended in 2019, and the wholesale retail distinction is no longer relevant since wholesale revenue will no longer be part of our prior-period comparison. Beginning with Q1, we have renamed what was our direct revenue to dealer

revenue, and our national advertising revenue to OEM and national revenue. No reclassifications were made between revenue categories. This is simply a name change.

Now moving on to our results, we continued our momentum from the last several quarters and again delivered solid financial results this quarter. Top line revenue and adjusted EBITDA growth were strong, and we nearly doubled free cash flow year-over-year.

Revenue for the first quarter was \$153 million, up 4% year-over-year, driven by increased ARPD from digital solutions sales and underpinned by strong operating performance. Our momentum continues with strong sequential growth in dealer customers, and year-over-year Dealer Inspire revenue grew 25%.

While dealers are benefiting from tighter inventory, it has not necessarily been the same for OEM. OEM and national revenue in the first quarter was \$18 million, down \$1.3 million or 7% year-over-year. Although OEM and national revenue showed signs of stabilization over the past few quarters, recent supply chain disruptions have resulted in reduced advertising spend.

While our advertising products are best-in-class and provide OEMs with access to a pure end market car-buying audience, continued disruptions in the new car supply chain may constrain our ability to grow advertising and marketing sales to OEMs in the near term.

Now, let's review expenses. Our operating expenses for the first quarter were \$136.7 million, compared to \$1.1 billion for the prior-year period or \$147.3 million excluding a non-cash goodwill and intangible asset impairment charge of \$905.9 million triggered by the COVID-19 pandemic. Expenses were down primarily due to the end of our affiliate revenue share expense in the second quarter of 2020, coupled with a reduction in depreciation and amortization.

In addition, we continue to benefit from cost reductions made and efficiencies identified and implemented in 2020 which provide us the opportunity to make targeted investments and still generate strong adjusted EBITDA growth. Our brand drives a high concentration of organic traffic and is one of our greatest strengths. We generated 74% of our traffic through organic channels this quarter. And our brand is a key driver of this organic strength. As Alex mentioned, we invested in brand advertising in the first quarter to support this high-value channel. Despite the strategic shift, we were able to maintain flat year-over-year marketing expense.

In total, we spent less than what we had planned on marketing this quarter as we were able to rely on the strength of record SEO traffic for continued delivery of our high-value audience and ROI to our dealers. Recognition of our value proposition is increasingly evident in strong dealer customer growth and retention rate as well as continued improvement in dealer sentiment scores. We will continue to be prudent with our marketing investment, monitoring and opportunistically allocating channel spend while balancing our total level of investment based on overall value delivery.

Net income for the first quarter of 2021 was \$5.3 million or \$0.08 per diluted share and adjusted EBITDA was \$48.1 million or 31% of revenue compared to \$35.2 million or 24% of revenue for the prior year period.

I'll now move on to our key operating metrics that are the foundation of these solid quarterly results. We had 18,823 dealer customers at quarter-end, an increase of 2.5% compared to 18,372 dealer customers as of year-end 2020. This increase is primarily due to continued strength in retention rates coupled with solid new sales. As Alex mentioned, this represents the highest growth in dealer customers since becoming a standalone public company four years ago.

Website customers also continued to grow, reaching 4,700 at the end of the quarter. We continue to roll out the previously sold GM website, and today, approximately three quarters of the GM sites were live. We are very excited to further strengthen our pipeline with the recently announced partnership with FordDirect, getting 3,000 Ford dealers the opportunity to subscribe to our award winning websites and technology platform.

In the first quarter, we had 26 million average monthly unique visitors and 156.6 million visits. We grew our shopper audience with unique visitors up 4% year-over-year, while traffic was down just 1%. Growth in unique visitors was due in part to the recent rebound in consumer confidence and our record level of SEO visit. In addition, the new round of stimulus checks and continued progress with the vaccine rollout have accelerated interest in car purchases.

We believe consumer demand for vehicle ownership will remain strong. A recent Cars.com survey indicated significant pent-up consumer demand for car ownership. Of the 57% of Americans planning to take a trip, up from pre-pandemic levels, 70% of those are opting to drive to their destination. The strength of consumer demand is also evident in the April SAAR numbers that Alex mentioned earlier and we expect this trend to continue.

ARPD increased 8% year-over-year, driven by growth in our digital solution. FUEL which launched just a year ago has been highly accretive to ARPD. We also see continued strong growth in our website solution and these customers are increasingly overlapping with our marketplace customers, which is driving ARPD even higher. ARPD revenue and profitability will continue to grow as we increase penetration of our digital solutions. Therefore, cross-selling opportunities are at the top of our priority list as we grow our dealer base.

Our balance sheet and liquidity remained strong, supported by our recurring revenue model, which drives significant free cash flow generation and gives us the financial flexibility to thoughtfully invest in the business and our brand. We will continue to invest in the business to drive product penetration, innovation and revenue growth.

Net cash provided by operating activities for the quarter was \$50.4 million, up 74% compared to \$28.9 million in the prior-year period. Free cash flow in the first quarter was \$44.1 million, up 91% from \$23.1 million in the year prior. This significant improvement in free cash flow was driven by growth in adjusted EBITDA and a \$9 million tax refunds received in the first quarter.

Keep in mind our quarterly cash flows will be impacted by the \$12.8 million of semiannual interest payments on our bonds which is due May 1 and November 1. Our strong free cash flow generation enabled us to pay down \$52.5 million in debt during the quarter including \$50 million in voluntary prepayment. As a result, our total debt outstanding was reduced to \$545 million as of March 31, bringing our total net leverage down to just 2.9 times, down from 3.4 times net leverage at the end of 2020.

Now turning to our outlook, we are pleased with our current performance and momentum and remain confident in our growth outlook for 2021. For the second quarter of 2021, we expect revenue to be between \$152 million and \$154 million, which reflects continued momentum in our solutions business and strength in our core marketplace business.

Our guidance range also reflects some potential risks outside of our control, specifically related to ongoing supply chain disruption. We expect to see strong year-over-year growth in adjusted EBITDA for the second quarter with adjusted EBITDA margins between 28% and 30%. We expect to deliver these strong margins, while increasing investments to support continued growth in the business, including investments to accelerate product innovation

and marketing to support our brand and quality traffic acquisition. When our value delivery is strong, we will pull back on planned marketing spend much as we did this past quarter.

In summary, our focus on execution and high ROI investment coupled with the growing adoption of our fleet of market-leading digital solutions will continue to drive our financial performance and further strengthen our competitive position. We are well positioned for growth in 2021 and beyond.

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

T. Alex Vetter

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

Thank you, Sonia. Our outlook for the industry remains great. Strong consumer demand, continued dealer health and our differentiated solutions strategy position as well to continue driving growth throughout 2021 and beyond. Operator, we're now ready to begin the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question today comes from the line of Marvin Fong with BTIG. Please proceed with your question.

Marvin Fong

Analyst, BTIG LLC

Q

Good morning. Thanks for taking my question. First of all just on the FordDirect win, congratulations on that. Just wondering if you could help us understand the dynamics on that [ph] you're one of five (00:24:04). How does this line up with the GM precedent? How many incumbents were there prior? And then also if you can just give us an idea of when potentially dealers can start opting in to work with Dealer Inspire? What will be the cadence for that rollout? That'd be great. Thanks, and then I'll have a follow-up.

T. Alex Vetter

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

A

Sure Marvin. Thanks for the question. The Ford and GM deal are similar in approximate size of the opportunity. GM's got about 1,000 more dealers in their network than Ford. But I think there are some fundamental differences. Number one, recall that GM was an exclusive provider with one website company prior to opening it up and Ford has always provided choice. So, we're not going against an entrenched customer base that's all consolidated with one provider. So, Ford's got five providers now that they've opened up two, where GM went from one to three. And so, there are some fundamental differences in the opportunity based on existing providers.

As far as timing goes, when the announcement was made, obviously it began the excitement within Ford and within Dealer Inspire and dealers contacting us about our solutions, vis-à-vis their existing providers. So slightly smaller opportunity, but yet our pipeline has begun just a few weeks ago.

Marvin Fong

Analyst, BTIG LLC

Q

Terrific. Thanks. And then my follow up. I believe your leverage target was 3 times. It looks like you guys have hit that on a net leverage basis. So, I'm just curious now how you're thinking about the use of cash. You guys have

done well with your recent acquisitions. You haven't done anything in a while. I'm curious your thoughts on maybe doing some inorganic growth and leveraging M&A and just in general how you plan to deploy free cash flow going forward while debt pay down continue to be the priority. Thanks.

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

A

Yeah. I would say we're really excited that we were able to bring leverage down below the 3 times level. That being said, I don't think our capital allocation priorities have materially changed. We remain focused on driving growth in the business both organically and also inorganic opportunities could be of interest to us as well as continuing to pay down debt which we think just gives us far more strategic flexibility as we think about driving growth in the future.

Marvin Fong

Analyst, BTIG LLC

Q

That's great. Thanks, Sonia and Alex. Congratulations on the great quarter. Thanks.

T. Alex Vetter

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

A

Thank you. Thank you, Marvin.

Operator: Your next question today comes from the line of Dan Kurnos with the Benchmark Company. Please proceed with your question.

Daniel L. Kurnos

Analyst, The Benchmark Company, LLC

Q

Great. Thanks. Good morning. Alex, was the pretty strong dealer customer [ph] add (00:27:15) number in Q1 kind of [indiscernible] (00:27:17) on the DI and the website customers. So, always tough to kind of parcel underlying organic versus DI [indiscernible] (00:27:27). But maybe if you can just help us think about as we go forward here, obviously we're all very well aware of the inventory constraints. I don't know if you have thoughts on consumer demand, pull forward especially with the massive amount of stimulus that's in the market. But you seem to still be having pretty good traction. You talked about dealer retention. So, I don't know if we should be expecting similar size of step up, I guess your guidance would really imply that anyway. Just how do you think about sort of the legacy or underlying core marketplace and dealer count growth going forward given the marketplace dynamics?

T. Alex Vetter

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

A

Okay. Thanks, Dan. Well, look, we're really pleased that we had record sales in Q1. It's just that year started strong. And by the way continues the momentum. We're growing our dealer count well in Q4 of 2019 and grew it again in Q1 before COVID. So, we were on a growth trajectory before COVID. Certainly, the whole world changed in Q2 of last year. But we're right back on that growth agenda. And again, experienced record sales in Q1.

I think we are not expecting to set another record in Q2. But that said, we're finding really strong persistent work on the retention front. Our dealer base is sticky and strong and that's accentuated by our solutions revenue mix. I think where we see opportunity continues to be on the ARPD side even though there are inventory shortages, our digital solution strategy continues to grow at a strong rate. And we're pleased that dealerships with fewer visits to

their physical showroom are shifting more to invest in digital technologies and tools, which has been a growth factor for us for quite some time and as part of our differentiated strategy.

I think on the traffic side, we definitely believe we pulled forward some traffic. I know February was muted a bit by snowstorms across the US, which led to some of the softening in the Q1 trends but we are seeing persistent consumer demand. We believe that, that is going to lead us to a robust retail market for much of 2021.

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

A

I think maybe it's worth adding to that, I think, COVID has also brought a lot of new consumers into the market for purchase of a car, whether it's because they're nervous about mass transit options or some of the shifts in terms of people moving from urban to suburban areas are also driving increased attractiveness of car ownership.

T. Alex Vetter

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

A

That's a great point. We're seeing growth in sales rates in markets like San Francisco and New York. Cities that used to not really think highly of car ownership and we're seeing great retail sales volumes in those markets. Great point.

Daniel L. Kurnos

Analyst, The Benchmark Company, LLC

Q

Got it. That's helpful. And Alex you always talk about it the strength you're seeing with FUEL. I mean, just to kind of [ph] go off with (00:30:30) your comment a second ago about ARPD growth. Obviously that's, I would think, a pretty good contributor, I don't know. You probably don't want to break it out. But how rapidly is that scaling in terms of where it's being offered [ph] uptake attach (00:30:45) rate anything you can kind of give us there I think would be very helpful.

T. Alex Vetter

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

A

Well, I think what's exciting about FUEL, Dan, is that it's leading to some of the strong gains you're seeing in ARPD and yet that product platform has only penetrated less than 15% of the US. So, we've seen strong initial adoption by the most digitally progressive dealers across the country, but we've got a long way to go to fully penetrate FUEL across the US. So, I feel like we're still in the very early innings of our introduction of FUEL which is why we're still in education mode, helping dealerships understand the efficiency of narrowcasting your message only to in-market shoppers and that being far more efficient than a lot of the mass marketing that dealers still spend on today.

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

A

And I think to sort of build on the ARPD growth, FUEL has certainly been really beneficial to us as we look year-over-year. But we've increasingly particularly as DI has continued to grow, look at the cross-selling opportunities between our solutions customers and our marketplace customers [ph] as we (00:31:52) penetrate our base more deeply with our suite of products. We're also seeing really nice growth in ARPD from that.

Daniel L. Kurnos

Analyst, The Benchmark Company, LLC

Q

Got it. Thanks for the additional color there Sonia [indiscernible] (00:32:03) makes sense not trying to short sell the [ph] cost out (00:32:05) just trying to understand the big driver, so – but anyway thanks for all the color, guys. I really appreciate it and nice start for the year.

T. Alex Vetter

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

A

Thanks, Dan.

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

Nicholas Jones

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the questions, two for me. First you mentioned strong SEO help reduce the planned marketing investments. Can you talk about the sustainability of [ph] this (00:32:32) strength, is it growing versus the competition? Do you expect this to kind of persist throughout the year? And then I'll have the second question.

T. Alex Vetter

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

A

Sure, Nick. Our SEO strength certainly has been persistent over the past three years. There's been no platform growing its share of organic traffic more consistently and repeatedly quarter-to-quarter than CARS. And so, we think key to that is our differentiated content strategy while other marketplaces just harvest listings. We're the largest producer of original programming. Whether that's our expert reviews or our dealer review platform, we're generating tons of unique content that can only be found on CARS. And Google is certainly rewarding that authority.

And so yes, we do think it's been proven to be very durable and consistent. As we spend consistently less on marketing than our peer group but yet are generating outsized traffic than they are because we spend more in sales. They spend more on marketing but yet we're growing faster driven by SEO strength.

Nicholas Jones

Analyst, Citigroup Global Markets, Inc.

Q

Great. Great. That's helpful. And then maybe just looking at opportunities in the landscape, maybe I'll call it [ph] auto tech (00:33:50). You have FUEL, Dealer Inspire, one of your big competitors got into kind of the auction environment. Do you see opportunities out there as dealers get – I've got – I think they're zeroing in on finding inventory more creatively or more aggressively? Are there other areas to get involved with maybe more transactional as opposed to maybe more lead gen or web presence type services? Thanks.

T. Alex Vetter

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

A

Sure. Well, look, we still have a lot of runway to go with our existing organic solutions, right. We're still under 5,000 dealers on web sites and a much bigger universe. We still haven't even really begun to focus on the independent dealer segment with website solutions. And FUEL as I mentioned before, early, early innings. So, we've got a lot of upside and growth to have on our existing solutions.

I think there has been a lot more investment in [ph] auto tech (00:34:49) in the past year driven by COVID and what's exciting about that is all of these technologies really need distribution. And whether that distribution is to a

large consumer install base on our marketplace platform or through our robust sales network that's established with over 19,000 dealers we can bring solutions to market. And so, we are contacted frequently by a lot of the innovations in the category who's got great technology but really need distribution. And so, we will continue to look for solving problems in either consumer market or the dealer market if there's pain points there, but we can deploy technology to drive out cost from the industry or to make the process better. We're active in looking at those opportunities.

Nicholas Jones

Analyst, Citigroup Global Markets, Inc.

Great. Thanks, Alex.

Q

T. Alex Vetter

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

Thanks, Nick.

A

Operator: [Operator Instructions] Your next question comes from the line of Steve Dyer. Please proceed with your question.

Ryan Sigdahl

Analyst, Craig-Hallum Capital Group LLC

Good morning. Ryan on for Steve. Curious on the dealer growth, the customer pickup there. How much of that was reactivation of suspended dealers versus new dealer growth?

Q

T. Alex Vetter

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

Well, look, everybody lost a lot of dealers during the pandemic, Ryan, and so we're almost back to our pre-COVID level. So, a good healthy percentage of that is dealers coming back. We saw particular and noted strength in franchise dealers engaging in the platform. And so, we're right back almost to our pre-COVID levels, and we were growing dealer account, again, pre-COVID. So, I don't have the exact percentage of new sales that were former dealers, but we're definitely bringing back a lot of the accounts that we lost during the pandemic.

A

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

We are. And the great thing is we're actually bringing back a lot of new accounts. It's a mix of new and folks who suspended during the COVID period, but I think it's, call it, roughly 50/50 between the two buckets.

A

Ryan Sigdahl

Analyst, Craig-Hallum Capital Group LLC

And then just a follow-up on that. How much is left in kind of the pipeline of suspended accounts that haven't necessarily made a decision whether to drop or to reactivate?

Q

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

I don't know that that's necessarily the right way for us to look at it, right? What we're trying to do is go out there and create like a healthy dealer base that is interested in not just our marketplace solutions but our entire suite of

A

products which include DI and FUEL. So, we're evaluating the opportunity that way as opposed to specifically suspended dealers.

T. Alex Vetter

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

A

Right. We have no dealers that we are grandfathering in or have anybody. We [ph] ended that (00:37:41) in Q3 of last year where we basically said either you resign or we'll cancel you outright. So, we've got no dealers on a suspended status from last year.

Ryan Sigdahl

Analyst, Craig-Hallum Capital Group LLC

Q

And then just on Q2, I get the OEM revenue down and the challenging new vehicle just from the supply side, et cetera. But I guess it sounds like FUEL is on fire. It sounds like DI is doing well. You have this new Ford. GM's ramping. I guess, all of the good stuff that you talk about with the business, it feels like that should be able to offset. But, I guess, is the OEM channel really that challenged that it's more than offsetting all of those things relative to Q1?

T. Alex Vetter

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

A

Well, look, we are being cautious because the chip shortage is a macro factor that's evolving by the day. So again, our low end of the guidance range is partially driven by that, like, there's just a lot of uncertainty there. I would say we're seeing really strong robust trends on the demand side and on the dealer side which are all going to be growth. But on a subscription basis, the great success we had in Q2 only contributes so much to the Q2 picture. It definitely accelerates and continues throughout the year. But there's so much uncertainty around the OEM front. We did provide a more cautious outlook because of the uncertainty there.

Ryan Sigdahl

Analyst, Craig-Hallum Capital Group LLC

Q

So, I guess, are you assuming potentially dealer churn because of that environment? Or do you think dealer growth can continue? And this is primarily in ARPD, I guess, headwind.

T. Alex Vetter

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

A

Yeah. We're [indiscernible] (00:39:22) ARPD headwind that's been strong and growing and dealer count has been solid as well. In fact, we grew dealer count in April. So we're seeing the growth trends on dealer continue. I think where we've applied some conservatism is just on the national uncertainty and outlook there, which is – doesn't impact ARPD, but rather a national revenue bucket.

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

A

Yeah. No, that's right. I think when we look at the business in terms of dealer revenue, we do see a lot of momentum there between our solutions business, right. The DI grew 25% year-over-year just in Q1. And in marketplace, we continue to see really strong retention rates. And there is strength in our – in sort of the franchise base of dealers that we have an orientation toward. So, what you see in the guidance range, we've put forward on the revenue front is some level of conservatism which we thought was prudent just given the uncertainty around the inventory supply chain. It's a little bit out of our control and OEM revenue has always been – that OEM and

national revenue line has always been slightly more volatile since it's not a traditional subscription business that we have on the dealer revenue side.

Ryan Sigdahl

Analyst, Craig-Hallum Capital Group LLC

Q

Yeah. Yeah. Makes sense. On – you talked about – or I guess it's the online shopper, there's a lot of push towards end-to-end online solutions for dealers. Have you seen any cannibalization of your marketplace subscriptions with customers that are doing more with DI?

T. Alex Vetter

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

A

No, it's just the opposite. In fact, as dealers are embracing digital retail, increasingly what we're hearing from dealers is wanting to augment their website volume with users from our marketplace and we're seeing this through the DI connected platform right now. If a user comes to the dealer's website through Cars.com, they're converting it two times the rate of all their other traffic sources combined. And so, that's been one of the exciting things around COVID is that with showrooms empty, dealers are studying these digital metrics with a much finer toothcomb and seeing the qualitative aspects of our audience. And so, we now have more inbound demand for dealers wanting to source end market audiences because they see that it converts higher.

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

A

Yeah. And just to build on Alex's comment, I mean if we look at our shared customers who are using both the Dealer Inspire products as well as marketplace, that's actually grown substantially year-over-year. It's up, I want to say over 20%. So, we are seeing more uptake as opposed to [indiscernible] (00:42:03).

Ryan Sigdahl

Analyst, Craig-Hallum Capital Group LLC

Q

Great. I'll hop back in the queue. Good luck, guys.

T. Alex Vetter

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

A

Thank you, Ryan.

Operator: And there are no further questions in queue at this time. I'll turn the call back to Alex Vetter.

T. Alex Vetter

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

We want to thank everybody for your interest in CARS today. Sonia and I are going to be presenting at the JPMorgan Technology Media and Communications Conference on May 24. And there'll be information posted on the details of that event on the IR section of our website. This concludes our call. Thank you very much.

Operator: And this concludes today's conference call. Thank you for your participation, you may now disconnect.

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