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# Cars.com, Inc. (CARS)

## Q1 2024 Earnings Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, ladies and gentlemen. And welcome to the Cars (sic) [Cars.com] (00:00:09) Fourth Quarter 2024 Earnings Conference call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, May 9, 2024.

I would now like to turn the conference over to Katherine Chen, Vice President of IR. Please, go ahead.

## Katherine Chen
*Vice President,Investor Relations, Cars.com, Inc.*

Good morning, everyone, and thank you for joining us. It's my pleasure to welcome you to the Cars.com, Inc. first quarter 2024 conference call. With me this morning are Alex Vetter, CEO; and Sonia Jain, CFO. Alex will start by discussing the business highlights from our first quarter. Then, Sonia will discuss our financial results in greater detail along with our Q2 2024 outlook. We'll finish the call with Q&A.

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

Any forward-looking statements are subject to risks and uncertainties. For more information, please refer to the risk factors included in our SEC filings, including those in our most recently filed 10-K, which is available on the IR section of our website. We assume no obligation to update any forward-looking statements.

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

## Alex Vetter

*President, Chief Executive Officer & Director, Cars.com, Inc.*

Thank you, Katherine. We're excited to have you leading shareholder engagement and guiding our discussion of our platform strategy for the investment community. I'd also like to thank Robbin for her contributions to our Investor Relations program over the last three years. And I'd like to welcome everyone to our first quarter 2024 earnings call.

We're starting this year with strong growth across our suite of products that simplifies car buying and selling for consumers, dealers, and OEMs. First quarter revenue was up 8% year-over-year, and we're pleased with our double-digit growth in OEM and national sales. Average revenue per dealer grew 5% year-over-year, reflecting increased adoption and successful cross-selling of our solutions. And adjusted EBITDA margin of 29% reinforces the strength of our brand, the inherent profitability of our platform strategy, and our track record of driving disciplined growth.

Our Q1 performance was achieved through steady execution of our platform strategy and key growth drivers. Over the last several years, we've not only expanded our leading marketplace, but also thoughtfully added software and digital solutions that broaden our addressable market and provide us with multiple ways to deliver growth. This diversified approach powered first quarter results by transforming OEM relationships, cross-selling Cars Commerce platform solutions, and the strength of our engaged market leading audience. We leveraged this momentum to achieve our best quarterly top line growth in over two years, putting us on solid footing to deliver full year expectations. And we see the potential for even greater traction as macro tailwinds intersect with our value proposition to maximize advertising and operating efficiency that drive more vehicle sales.

Turning to our growth drivers. OEM and national revenue was up 13% year-over-year from strong upfront and incremental sales that benefited from our consistent investments in OEM-related products. In light of dynamics around recent supply normalization, we have seen renewed OEM interest in our market-leading solutions. Reaching high intent buyers is an imperative with new model launches growing in 2024 and new car inventory, up nearly 40%, according to our latest Industry Insights report. It's therefore, no surprise that our OEM partners are looking to us to help them connect more efficiently to in-market shoppers and showcase their cars.

Approximately two-thirds of OEM customers increase marketing and advertising investments in our products and solutions during the first quarter. These investments manifested across multiple aspects of our platform. For example, OEMs promoting new models via homepage takeovers helped Q1 sales for that product rebound to the highest level in four years. EV-only manufacturers also continue to be interested in directly listing vehicles on our Cars.com marketplace as a complement to their traditional media advertising and to show up directly in consumer search results.

Also, note that incremental spending commitments by OEMs, which are earmarked in response to real-time market conditions, were up nicely in Q1 and another signal of positive momentum for the business. We expect the same differentiation that is attracting renewed OEM investment in our solutions will also drive sustainable dealer customer growth over time. We ended Q1 with 19,381 dealer customers and remain confident that we can deliver dealer customer growth for the full year. Our new marketplace sales reached the highest level in three years, reaffirming our strong platform value. However, as anticipated, we also experienced modest sequential attrition related to temporary cuts by some dealers as they adjust the profitability pressures. Through proactive conversations with these and other accounts, we already saw our retention improve in April and we're focused on making further progress.

For both new and returning customers, we will continue to cross-sell Cars Commerce platform products as simplify retail operations while also growing ARPD. In Q1, we grew all of our industry-leading brands year-over-year. Dealers used Accu-Trade, Dealer Inspire and the Cars Commerce Media Network to efficiently acquire vehicles and market to high intent buyers. And those who adopted multiple products had inventory that turned over 20% faster on average, which can be especially impactful given rising inventory levels.

Accu-Trade connected customers grew to just under 1,000 accounts during the quarter, generating more than 622,000 appraisals. At Germain Toyota and Naples, Florida, leveraging Accu-Trade has helped the team buy and sell approximately 100 vehicles each month through their service drive. The success of our products has eliminated their need to go to auctions, saving them travel time, transportation costs and expensive auction fees, while also creating a great experience for their customers.

On the digital experience front, we grew 22% year-over-year to end the quarter, powering more than 7,400 websites across DI and D2C customers. D2C have expanded our website in Accu-Trade TAM into the Canadian market and our team is working hard to accelerate penetration of these valuable subscription products.

Moving to media products, VIN Performance Media is also off to a promising start, with early adopters seeing significant increases in leads, interaction and website transfers for their promoted inventory. Our proprietary machine learning model, when matched against our in-market audience, not only promotes the right VIN to the right shopper across media channels, but also powers in-demand features like targeting advertising to move aged inventory.

And finally, I'd like to highlight the Q1 performance of our number one most recognized marketplace brand, Cars.com, which consistently delivers a large and engaged in-market audience to dealers and OEMs. More than 28 million average monthly shoppers visited Cars.com during the first quarter to research and shop for the right vehicle. Consumers trust to rely on our unique resource they find on our marketplace, like our new affordability report, to steer them to the best vehicle for their budget and lifestyle. They also increasingly use tools like Your Garage and the New Car Hub, which continue to drive strong repeat traffic to our marketplace, keeping us connected to consumers through their car ownership journey. Building strong organic relationships with consumers has been an enduring hallmark of Cars.com for over 25 years, and we're committed to delivering more innovative content and technology to capture in-market audiences at scale.

In closing, focusing on our platform strategy help us advance our product road map, accelerate to high single-digit revenue growth, and meaningfully, improve profitability in the first quarter. Our strategy is working as intended propelling sustainable growth with a durable and well-rounded product portfolio that addresses our customers' most pressing needs. We have immense opportunities ahead, and we're excited to show you what we think this business can do as we simplify car buying and selling for everyone.

Now, Sonia will lead the discussion of our first quarter financial results. Sonia?

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

Thank you, Alex. We started the year on strong footing, delivering solid revenue growth and an adjusted EBITDA margin that exceeded our guidance range. Revenue was slightly above $180 million in the first quarter, an 8% increase over the prior year, and the best quarterly growth we've seen in over two years. Both dealer revenue and OEM and national revenue were up year-over-year across all product categories. Dealer revenue grew 8% year-over-year to $162 million, driven by contribution from repackaging, the acquisition and continued growth of D2C and continued product penetration. OEM and national revenue was $15 million, up 13% compared to the prior year. We benefited from additional OEM investments as they seek to raise consumer awareness amid rising inventory levels.

Now, turning to expenses. For the quarter, total operating expenses were $167 million, compared to $155 million a year ago. Product and technology expenditures increased $4 million year-over-year as we enhanced marketplace features, further augmented our product portfolio and invested in our back-end systems. As a reminder, unlike the earnouts associated with our other acquisitions, the D2C earnout runs primarily through G&A as it was deemed compensation expense under GAAP. And in the period, we expensed $2.8 million associated with the earnout. Adjusted operating expenses were $155 million, $9 million higher than the same period last year, primarily related to the aforementioned investments in technical talent and software to support our platform and product road map, and a $3 million increase in depreciation and amortization.

Net income for the first quarter was $0.8 million or $0.01 per diluted share, compared to $11.5 million or $0.17 per diluted share in the prior year. The change in net income is primarily attributable to earnouts associated with our acquisition. I'll also note in our comparison, net income in Q1 2023 was elevated due to the outsized change in the fair value contingent consideration of our acquisitions. Meanwhile, adjusted net income for the quarter was $28.7 million or $0.43 per diluted share, compared to $26.2 million or $0.39 per diluted share a year ago. Adjusted EBITDA for the first quarter was $53 million, while adjusted EBITDA margin of 29.2% exceeded our guidance range. We're pleased with our year-over-year margin expansion of 270 basis points, which resulted from the strong flow through of nearly two-thirds of our revenue growth to adjusted EBITDA.

Moving to key metrics for Q1. We ended the quarter with 19,381 total customers, down slightly quarter-over-quarter due to what we believe are temporary budget cuts by some dealers in response to declining profitability. Nevertheless, we expect to grow full year dealer count as we work to win back these customers and expand into new accounts based on our strong value proposition. Unit economics continued to strengthen as ARPD reached $2,505 for the first quarter, up 5% year-over-year from positive repackaging contribution and Accu-Trade growth, partially offset by lower APRD from D2C customers.

While Accu-Trade customer satisfaction scores are strong, it does take time for dealers to implement and ramp utilization of the tool across their dealership. We're actively exploring ways to accelerate this learning curve over the next several quarters and believe it is a significant opportunity for us in the near future. And we do expect to keep growing our ARPD over time as we cross-sell additional products into existing accounts, sign up new customers in higher tier marketplace packages, and improve overall retention through enhanced value delivery.

Now, turning to our balance sheet. Net cash provided by operating activities totaled $33 million year-to-date. Free cash flow remains strong at $27 million, roughly $5 million higher year-over-year, driven primarily by improved adjusted EBITDA and favorable working capital, partially offset by one-time cash costs and timing of interest expense. During the first quarter, we repurchased 500,000 shares for $9.5 million. We also repaid $10 million of debt and reduced total debt outstanding to $480 million as of March 31, 2024. This brings our total net leverage to 2.2 times, down from 2.3 times last year and comfortably within our target range of 2 to 2.5 times. All together, we have ample liquidity of $226 million, including $31 million of cash and cash equivalents, and $195 million of revolver capacity as of March 31, 2024.

As discussed in our earnings release, we also recently amended our existing credit facility in a leverage neutral transaction, replacing both our current term loan and revolving loan with a new $350 million revolver, maturing in May 2029. We borrowed $80 million on the new facility at closing, effectively extinguishing outstanding balances on the current term and revolving loan, eliminating the need for any required amortization ahead of the maturity date. This all-revolver structure bolsters our financial flexibility, adding $75 million of incremental liquidity and allows us to pursue the best return on capital, whether through organic growth or additive acquisitions, or separately, through returning capital to shareholders.

We enjoy strong free cash flow conversion and we'll look to deploy our capital in a manner that drives incremental shareholder value. Looking ahead, we will continue buybacks under our remaining share repurchase authorization of $110 million. And we will also remain committed to paying down our debt. In addition, we anticipate making additional earnout payments in Q2 related to certain acquisitions.

I'll now conclude with our guidance. In the second quarter of 2024, we expect to deliver revenue in the range of $181 million to $183 million or year-over-year growth of 7% to 9%. Guidance reflects continued strength in dealer revenue, driven by increased adoption of products like Dealer Inspire and Accu-Trade. OEM and national revenue growth is also expected to accelerate, benefiting from what we perceive as a more competitive sales environment that necessitates OEMs increasing their marketing and advertising directed to in-market shoppers.

As a reminder, our Q2 revenue guidance also benefits from last year's new packaging initiative, which began in March of 2023. We expect to deliver second quarter adjusted EBITDA margin between 27.5% and 29.5%, an expansion of 150 basis points year-over-year at the midpoint of the range. This guidance reflects additional investments to support our marketplace brands and product development initiatives, as well as timing shifts of certain investments from the first quarter to the second quarter. For the year, we are reaffirming our guidance ranges of 6% to 8% revenue growth as well as adjusted EBITDA margin between 28% to 30%. With a growing and differentiated product portfolio efficient marketplace flywheel, which feeds our platform strategy and asset light business model, we are poised to deliver on our goals and look forward to updating you on our progress throughout the year.

And with that, I'd like to open the call for Q&A. Operator?

# QUESTION AND ANSWER SECTION

**Operator**: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Rajat Gupta from JPMorgan. Your line is open.

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks for taking the question. I have one clarification on the second quarter guidance and then another broader question. So seasonally, if you look at second quarter versus the first quarter, EBITDA is always up. Typically, you've also guided to higher revenue sequentially. So, curious like why does the midpoint imply a step down in EBITDA? I know you mentioned some OpEx shift, some spending shift from 1Q, 2Q. Maybe if you could quantify how much was that and is there anything else to keep in mind when it comes to the seasonality this time around? And I have a follow-up. Thanks.

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

A

Hey. Thank you for the question. It's Sonia. No, you're right. Historically, Q1 has typically always been a quarter with a little bit higher investment, particularly given the timing of events, just given performance that we saw and timing of a couple investments, some of the investment we were originally planning for Q1 shifted into Q2. Nothing material in terms of how that would change our outlook for a full year. We still believe we're very much on target. And if you kind of take the two quarters together and you can see that we're pacing really well against that target, it's literally just a little bit of a shift in a couple of areas.

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*

Q

Got it. Got it. When you say, you mean like combined first half OpEx was tracking in line with what you had initially anticipated?

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

A

It's correct.

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*

Q

Is that the right way to think about? Okay.

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

A

That's the right way to think about it.

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*

Q

Got it.

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

A

Take it as first half versus individual quarters.

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*

Q

Understood. That's helpful. And then, just further on, you provided some helpful guidance around like dealer count trajectory for the full year. Wondering if you could tie that with expectations for ARPD as well? And where do we stand from a product detachment perspective? What incremental initiatives are in the pipeline to improve the monetization? So, our sense is that as some of the dealers come back to the platform, that should be further accretive to ARPD or are you having to like work with them on pricing to get that retention back in any way? So, just curious, like how should we commingle those two, as we think about the count and ARPD through the course of the year. Thanks.

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

A

Sure. Great question. Well, first of all, I'll address the last part of your question, which is we don't think price is the lever we need to pull to win dealer adoption, meaning that we're not going backwards in terms of our pricing to win dealers back. In fact, we're seeing dealers that cancelled last year due to our pricing action are now engaging with us again. In fact, inbound dealer inquiries to the company, meaning dealers raising their hand contacting us are up 20% year-to-date. So, we're seeing dealers realize that our value is fantastic and they need help moving inventory.

I think a lot of the other initiatives that are going to continue to drive ARPD growth are things like integrating Accu-Trade and CreditIQ in the dealer websites. We think we can help dealers reduce third-party expenses by giving them both trade in and online financing tools that can sit natively on their website and be integrated and then protect the dealers' data, which is a big initiative for us to help dealers control their own first-party data and information. And then, we're testing also things like an independent dealer offering for smaller dealers, an entry point for them to be on our marketplace or with our website solutions. And that will like it pulls down ARPD, because we're going to be selling smaller dealerships with smaller inventory size. But that's not going to take away from the value upside we see with larger franchise dealers and growing -- growing spending there. Cross-sell remains a big priority for the business.

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*

Q

So, we can expect like ARPD to -- as you said, within the 1Q is the low point for ARPD as well as dealer count or is there...

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

A

Yeah. I think...

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*

Q

...is that more like you said. Yeah.

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

Our plan calls for us to grow both, right. We want to reliably grow dealer count and we want to make incremental gains on ARPD. So that's -- we're seeking to do both.

**Rajat Gupta**
*Analyst, JPMorgan Securities LLC*
Q

Got it. Great. Thanks. Thanks for this clarification. And I'll get back in the queue.

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

Thank you.

**Operator**: Your next question comes from the line of Tom White from Davidson. Your line is open.

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

Great. Thanks for taking my question. Good morning. Alex, I was hoping you could just share a bit more color on what you're hearing from local dealers, as it relates to their priorities for marketing investments this year and maybe for the next couple of years. On one hand, rising inventories would suggest that the dealers need to find incremental sources of demand. But I guess, on the other hand, a lot of the dealers we talked to we're talking about prioritizing their own direct digital spend like search and social.

We've heard dealers say that sort of thing for years and you guys have been able to grow dealer count and your peers have been able to grow kind of paying dealer count despite that kind of chatter from dealers. But just curious if you can comment on -- are you seeing any kind of significant change on the part of local dealers to engage with platforms like yours, particularly as they're undergoing kind of a broader digital transformation of their operations, kind of more generally. And then I have a quick follow-up.

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

Sure, Tom. Great question. First of all, as you know, I mean there isn't a retailer out there, not just auto, but any retail category that wouldn't want 100% of their traffic just to come straight through their own front door, and not have to rely on channels to generate growth. That said, as much as I understand why people want that, the consumer need for independent third-party research is a non-negotiable for the consumer. The consumer is -- has proven over 25 years that they reliably are seeking out trusted independent objective metadata and advice before they enter the retail auto market. And so, regardless of the industry desire to put more investment to get traffic to come directly to them, we see through data that our third-party research marketplace platform is extremely durable.

I think second to that point, because we power over 7,000 dealer websites, we see the disproportionate amount of money that dealers are spending on other channels to generate traffic and leads. And without exception, the Cars.com marketplace is the most efficient traffic that they're buying that converts at a much higher rate than all their other traffic sources combined. And so, the bigger macro trend we see is that dealer profitability challenges are waning, meaning the dealers are experiencing with rising inventory levels and pricing coming down on cars, their overall profitability is challenged. And when you interrogate their marketing mix, it universally supports dealers need to be featured on these marketplaces because it's far more cost effective to generate sales.

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

Q

Great. That's interesting [indiscernible] (00:26:12)

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

A

Does this answer your question, Tom?

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

Q

Yeah, it did. Thanks. Just a quick follow-up, if I could, on OEM and national. You guys had some encouraging things to say there, I guess, in the prepared remarks about interactions with OEMs and the impact of rising inventories and I guess growth accelerated in the quarter and it looks like it's going to accelerate a bit in the second, but I don't know. I guess, do you guys have confidence that this line item can return to kind of pre-pandemic levels of revenue kind of in any reasonable timeframe here? Or is there any risk that OEMs have kind of maybe moved their focus when it comes to brand spend to kind of like the latest shiny object, be it social or connected TV or TikTok, just trying to understand like the long-term kind of...

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

A

Sure.

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

Q

...trajectory for this line. Yeah.

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

A

Tom, ironically, it's a little bit of the same answer in that manufacturer marketing and advertising spend is largely agency led. And agencies and OEMs, again, want all car buyers to go directly to their brands and buy a car without any outside influence. And we do not believe that that is realistic, nor is it map at all to the consumer behavior that overwhelmingly shows that research online is fundamental to the car shopping journey and you're not going to bypass that channel. And so, as OEMs become more confident that they've got to be in front of shoppers while they shop, where they shop, we do think OEM can return to pre-pandemic levels.

I think your question on timing is probably the more difficult one to answer in terms of, we were pleased with OEM results in Q1. We saw not only strong upfront, but we saw an increase in scattered dollars as well, which is more reactive to market conditions. And so, we're really pleased with the progress in the quarter and even the continued momentum in Q2. But it's also been hard to predict the OEM channel reliably over the last few years, so we think we're on a very healthy growth rate right now.

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

Q

Great. Thanks, Alex. Appreciate it.

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

A

Thank you, Tom.

**Operator**: Your next question comes from the line of Naved Khan from B. Riley Securities. Your line is open.

**Naved Khan**
*Analyst, B. Riley Securities, Inc.*

Q

Yeah. Hi. Great. Thanks. So, a couple of questions from me, maybe just to put a finer point on this dealer counts. It's good to hear that you expect the count to be up as you exit the year. But if I have to think about the trajectory, do you think that the count might start growing in the back half versus the first half, meaning second quarter? How should I think about that trajectory? So that's one.

And then, the other question is on Accu-Trade, actually. I think I've seen the fastest there are sequential addition in the last quarter versus in the -- any of the last previous three quarters. I'm wondering what kind of is driving that acceleration? Is it just some seasonality, maybe the NADA Show or something else? Or are you just kind of seeing increasing traction with Accu-Trade?

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

A

Well, maybe we can start -- thanks for the questions, Naved. Maybe we can start with your first one on dealer count. I think in our prepared remarks, we talked a little bit about how we saw really strong new sales in Q1, some of the strongest we've seen in the last couple of years. I think we're also pleased to see retention starting to improve. So, for the month of April, in particular, marketplace was up from our dealer count perspective, which we think are promising green shoots as we think about the rest of the year and give us a lot of confidence in being able to deliver that full year dealer customer growth that we were referring to. So, that -- hopefully that helps give a little bit of context on what we're seeing right now.

I think in terms of Accu-Trade, last year, we spent quite a bit of time focused on our Marketplace Repackaging, expanding dealers access to the platform by adding more to our marketplace packages. That's behind us. That's allowed for a lot more focus and intentionality when it comes to the cross-sell. So I think you see some of that come through. And I think Accu-Trade was really one of our hits at NADA this year. So we're excited about the potential in front of us with that business that's hugely accretive to EBITDA and ARPD, and I think also provides dealers with a lot of value relative to other platforms out there.

I don't know, Alex, if you want to...

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

A

Yeah, I would say we're pleased with the progress there. As you recall, we signaled in Q4 that we were going to focus much more this year on making sure current dealers are successful. So, more of cycle time was spent in the first quarter helping the dealers that bought Accu-Trade, use it, and be successful with it than there was really focused on growth. So, the fact that our sales motions have been focused on dealer engagement and we're getting steady growth. As soon as we nail the onboarding and utilization experience, we should be able to scale this business to very healthy rates in the future.

**Naved Khan**
*Analyst, B. Riley Securities, Inc.*

Q

Awesome. Thank you, guys.

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

A

Thank you.

**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, Alex, Sonia, Katherine. Several questions here. First of all, Alex, in terms of what happened with the dealers in Q1 where you had some attrition there, were -- was that attrition mainly related to, say, one to two-point dealerships that were not in major metropolitan areas and independents as well? I'm just curious as to see where that attrition is coming from.

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

A

Yeah, the segmentation wasn't vivid in any shape or size, Gary. Like, I wouldn't say that the churn we experienced was dealer-specific, either geo or size of store. And we really felt it was more reactionary pressure to macro cutbacks of the whole expense base, meaning, our sales force was hit with a lot of just – we're canceling everything right now to reassess. What's been good is that now that we're getting face-to-face time with those customers to show them the metrics that they're walking away from, like website traffic, phone calls or even leads to their CRM, dealers are starting to realize that this is oxygen for their business. And so, we did have a nice start to Q2 in dealer count, but most of the cancels in Q1 we think were just knee-jerk reactions that weren't specific to us, but more wanting to take out significant cost.

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

Q

Okay. And then, in terms of Accu-Trade, when you say generated, as you said 622,000 appraisals in the quarter, is that correct?

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

A

Correct.

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

Q

How many of those appraisals in general turn into an actual transaction or do all of them?

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

A

Well, they don't all turn into transactions, Gary. I can assure you that because dealers are giving customers offers in their cars. And so, a much smaller percentage of those actually convert to inventory. But it allows the consumer to know that this dealer is somebody they can trust. And if they do and when they do want to sell that car, the dealer is willing to give them a data-driven value that's market driven. So, there's still value in even just conducting the appraisal and providing the consumer utility.

Importantly, what we are starting to build is intelligence that allows us to see the inventory that's appraised and where else in the dealer network that vehicle appears. So, if the dealer who appraised the car doesn't buy the car, we can start to show that dealer who did and then what retail price point they're now retailing that vehicle back in the open marketplace. So, our use of data here is improving every day to help dealers understand opportunities, won and lost. And -- but ultimately, dealers are showing that they're buying far more cars using Accu-Trade than anything else that they've done or used in the past.

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

Q

It's still a big number, I mean, you're talking about 1,000 dealerships at the end of the quarter, right? So, that's 622 appraisals a quarter for dealer. That's still pretty big.

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

A

Right. And that includes -- so, we've got dealers who haven't really appraised many vehicles at volume. And so, our internal KPI is that we know if we can get a dealer to appraise their first 100 vehicles, their degree of satisfaction and success with the platform is dramatically higher and the retention is secure. So, that's what we're focused on that first 100 days and that first 100 appraisals.

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

Q

And then, can you put into specs or stats or anything about VIN Performance Media, which -- and I think you mentioned, it had a solid quarter thorough growth. Are there any statistics you can share with us there?

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

A

It's still fairly early innings. We're seeing, generally speaking, a lot more consumer engagement from -- with dealers who use VIN Performance Media. And that typically manifests itself across search interaction with vehicle detail pages, transfers to the dealer's website. And we see them showing up in their leads at a greater -- at a greater rate. But we'll probably come back as VIN Performance Media continues to grow and adoption continues to increase. We can come back with some more concrete information.

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

Q

Okay. That's good. And then the Marketplace Repackaging Initiative. At the end of the year, you had about 70% of the dealers had opted for upper tier packages. Has that changed to -- did that change precipitously by the end of this quarter?

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

A

No material change in the mix.

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

Q

Okay. And then, lastly, CreditIQ. How is that? You had about 11,000 dealers at the end of 2023. Has that increased at all?

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

A

I don't have the number off of hand, modestly because of softness in dealer count, which has been a key opportunity to grow dealers. The big focus there now is rolling out that technology on dealer websites, Gary, which will increase the volume. And what's been exciting about that is now lenders are wanting to talk to us more about things we can do directly for them now that they know we're able to put their offers not only on our marketplace, but in front of shoppers on dealer websites. And so now that the distributional strength of our platform is better understood by lenders, the level of conversations we're having with lenders about doing more is also increasing with their understanding of our broader capabilities. So, stay tuned on that front. We hope to have some exciting developments there.

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

Q

Okay. Thank you.

**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. Good morning. Thank you. Sonia, can you unpack the 8% growth in the dealer business line in Q1? How much was, if you generally speaking, was from D2C, which I think you closed in November? And how much -- what was the growth rate at DI?

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

A

Yeah. So, I think we talked a little bit about D2C's impact at the time we bought them. So they're particularly in the beginning of this year before we lap the acquisition, they're going to be contributing a couple of points of our year-over-year revenue growth. We're moving a little bit away from our traditional Dealer Inspire year-over-year growth metric. Part of the reason for that is we are now a lot more focused on selling at a platform level as opposed to individual product, sort of, individual branded level. But I think if you went back and you try to do with an apples to apples comparison on that, you would find that the year-over-year growth is fairly consistent with what we've seen in prior years, which is basically a double digit growth rate.

So, generally one of the takeaways should be for Q1 and Q1 revenue growth is we saw improvement across all areas of the business, marketplace, the solution side of our business, and the media side of our business.

**Douglas Middleton Arthur**
*Analyst, Huber Research Partners LLC*

Q

Okay. Great. Thank you.

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

**Marvin Fong**
*Analyst, BTIG LLC*
Q

Great. Good morning. Thanks for squeezing me in here. Sorry I hopped on the call a little bit late, but I did see -- so, APRD was down sequentially and I understand that we only had a partial quarter of D2C contribution left in the fourth quarter. But could you just help us understand like would ARPD have been up sequentially if we exclude D2C? That's my first question.

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

No. It's a great question, Marvin. D2C is a little bit of a -- while it's a great revenue growth and it's margin accretive, it is a little bit of a drag on ARPD. They don't -- it's a business that really isn't selling websites and website upsells and increasingly now also our Accu-Trade product in Canada. If we pulled D2C out of the mix for Q1, we probably would have been flat to slightly up sequentially on ARPD.

**Marvin Fong**
*Analyst, BTIG LLC*
Q

Great. That's super helpful. And then just a question on Accu-Trade. I mean, I think when we kind of talked about the nice [indiscernible] (00:41:51) you guys got a flow direct, you'd said, it take a couple of quarters to kind of get that offset up. So, should we expect sort of the timing of that to sort of start hitting soon? And should we kind of think about the adoption and the dealer count for Accu-Trade kind of being a nice little bump? Or do you kind of expect to kind of see the same level of increases that we have been seeing? Thanks.

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

Thanks for the question, Marvin. We have actually started to see the pickup with Ford dealers specifically, about 20% of our new sales were coming in are Ford dealers, which is disproportionate to the number of Ford stores in the total TAM. So, we're seeing the first signs of that acceleration happen due to the OEM endorsement. And we expect that to build not only with Ford dealers, but hopefully other OEM endorsements as well.

**Marvin Fong**
*Analyst, BTIG LLC*
Q

Great. And if I could just maybe slip in one more here, really great to see the strength in advertising or OEM and national, and appreciate what you kind of said about the commitment to them. I know you guys did a great campaign with Tesla recently. I mean, how much of this is probably tied to EVs, there is obviously a sales issue there, an inventory churn issue, or would you attribute it more to just the kind of broad-based demand from that customer base? Thanks.

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

Specifically on the EV issue, we think it's a consumer education challenge, which is why digital platforms like Cars.com we think are perfect for Elon and Tesla, as well as other OEMs, right? The consumers have a lot of questions prior to purchase and they need information, which we have. And so, where we've added things like driving range and battery life to our content around EVs so that consumers can see what each model can reliably generate in terms of time to recharge and distance and to reduce range anxiety. So, we think the problem with

EVs is largely educational. We think car companies need to invest in platforms that provide that independent third-party objectivity to help them develop confidence to go to the physical store and drive the product. So that's number one.

I think number two, in general, we're pleased with the OEM progress. We're far from declaring victory. We think this opportunity is tremendous because the amount of time consumers are spending on our platform, comparing makes and models, the OEMs that tap into that experience and talk to shoppers while they're in the act of shopping are going to take outsized share because they're tapping into retail demand.

**Katherine Chen**
*Vice President,Investor Relations, Cars.com, Inc.*

A

Operator, do we have any more questions on the line?

**Operator**: There are no further questions at this time. I will turn the call over back to you, Katherine Chen.

## Katherine Chen
*Vice President,Investor Relations, Cars.com, Inc.*

Great. Thank you. Thanks, everyone. On a final note, I encourage you to read our inaugural Corporate Social Responsibility and Community Action Report, which is an illustration of who we are at our core. It's located on our Investor Relations website. We're also continuing our investor engagement and we'll host meetings at the following May conferences. First, the Needham Technology, Media, & Consumer Conference on May 14; the Barrington Virtual Spring Investment Conference on May 16; the JPMorgan Global Technology, Media & Communications Conference on May 21; and finally, the B. Riley Institutional Investor Conference on May 22.

Thanks for joining the call and we look forward to seeing many of you soon.

**Operator**: Ladies and gentlemen, thank you for participating. You may now disconnect.