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Cars.com, Inc. (CARS)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: [Abrupt Start] -- ladies and gentlemen and welcome to the Cars (sic) [Cars.com] (00:05) Second Quarter 2024 Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, August 8, 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. second 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 second quarter. Then, Sonia will discuss our financial results in greater detail along with our outlook. We'll finish the call with Q&A.

Before I turn the call over to Alex, I would 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 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 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 conference over to Alex.

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

Thanks, Katherine. And thanks to everyone for joining us on today's call. We extended our track record of delivering both revenue growth and strong profitability with our second quarter performance. Q2 revenue was up 6% year-over-year, boosting us to record year-to-date revenue in the first half of 2024. OEM and national performance was particularly robust, up 28% year-over-year. Dealer revenue also contributed to growth as we expanded dealer count while maintaining ARPD.

On profitability adjusted EBITDA was solidly within our expectations of 10% year-over-year from strong operating leverage. And free cash flow grew to $56 million for the first six months of 2024, which was the highest level in three years. Q2 was our 15th straight quarter of delivering year-over-year revenue growth, showcasing our ability to execute through challenging external conditions like the industry-wide CDK disruption that occurred in June and continued into the third quarter.

Recall, we have a high concentration of franchised dealerships who rely on CDK. With dealership operations interrupted, many of our sales conversations and product launches were paused. I'm proud of our team who creatively stepped up to support dealers, who's systems were down both in sending leads to dealers directly and updating inventory manually.

While we made strong efforts to support our retail partners, we also lost considerable sales momentum. Our priority in Q3 is to re-ramp those engagements, particularly for products like AccuTrade, which require a longer sale cycle and hands-on dealership engagement. This was a frustrating event for the industry and for us, but we believe it's ultimately a temporary impact as we continue to grow the business in 2024 and beyond.

More importantly, we delivered on our key growth drivers in the second quarter that advanced our platform strategy and laid a strong foundation for continued growth in the remainder of the year. We're transforming OEM relationships, we grew dealer customers and deepened product differentiation and strengthened our leading consumer marketplace.

First, our OEM business accelerated growing 28% year-over-year from increased demand from both new and existing partners. More than two-thirds of OEM customers increased their year-over-year spending on our product and services during Q2. They recognized we offer the best solutions to connect them to end market, high-intent shoppers, especially as competition for consumer awareness rises in tandem with vehicle supply. Our strong value delivery led to multi-week sellouts for the home page take of our product and tripling of sponsorship revenue year-over-year, among other positive results.

Furthermore, our consumer scale and brand attracted new EV entrants, INEOS and Rivian as new customers there in Q2. These wins and our past success with Tesla position as well as support EV tech leaders as they aggressively grow market share. And we believe there are still huge opportunities ahead to capture OEM growth for our marketplace and media as well as diversify our partnerships into products like AccuTrade. More on that in just a minute.

We also achieved sequential dealer customer growth despite June sales interruptions from the CDK incident. It's important to note that we also maintained ARPD, which was up modestly year-over-year. Our marketplace had a strong quarter with May being our best month for new franchise sales in the past year, and we continue to target more dealer customer growth in cross-selling our solutions. While AccuTrade's subscriber growth in Q2 did not meet our expectations, we have made substantial progress on several initiatives that maintain our confidence for continued growth. Strategic initiatives that are underway helped lift engagement and appraisal volume which we view as the number one predictor of customer satisfaction and ultimately retention.

For the month of June, new AccuTrade users who started in April generated on average 31% more appraisals per dealer, versus those who started in March due to enhancements in our onboarding process. And in total, dealers generated over 639,000 appraisals through AccuTrade with higher average appraisals per dealer in the second quarter.

Though it's still early, it's also encouraging to see that our efforts have yielded close to 100% retention for users who enrolled in AccuTrade in April and May. These trends, plus positive feedback from new customers, are strong signals that our AccuTrade subscriber base should expand over time.

What really underpins our confidence is the fact that AccuTrade continually outperforms competitors. Our data shows that AccuTrade appraisals are 34% more accurate than competitors, offering clear economic value for dealers and consumers. Recent third-party research further bolstered the merits of our products. We have also found that our AccuTrade users are our most engaged customers, with nearly half of them subscribing to three or more Cars Commerce product lines to leverage our platform synergies.

This combination of high product efficacy and enthusiastic adoption by our largest and most sophisticated users reinforces our competitive edge and provides us with actionable insights on how to drive broader AccuTrade adoption over time.

To that end, I'm pleased to announce that we have won several new OEM endorsements that we believe will be catalysts for future growth. Earlier this week, we announced that AccuTrade was certified by Stellantis Digital as a trade and appraisal solution for their US retailers. Jaguar and Land Rover also selected AccuTrade as their exclusive Trade & Appraisal solution for their new digital retail experience on jlr.com and dealer websites.

This makes the AccuTrade traded website application automatically available to all JLR dealers starting in September. As a reminder, this is part of our suite of native, modern retail applications that offers a seamless omni-channel experience for dealers and consumers.

The AccuTrade trade-in website application drives high-quality leads to dealers, and was recently redesigned to increase trade in lead volumes by 50%. We see potential for the trade-in website application, which grew 40% quarter over quarter to be a new and attractive entry point for AccuTrade adoption. Overall, these endorsements underscore the growing recognition that AccuTrade is a better model for sourcing vehicles than what is currently available via auctions, disjointed website solutions, or opaque trading methods.

In digital website experiences, we grew to nearly 7,520 customers in the second quarter from strong performance across Cars Commerce Website Solutions. In Canada, D2C just became the number one dealer website provider in the country, and that lead extends even further when we include the DI website growth that we've driven since late last year.

We are extremely pleased with the team's execution, not only in delivering strong synergies across our platform, but also in leveraging OEM endorsements, which are a key driver in growing our website customer base. And we have line of sight to additional OEM certifications in the back half of the year, which should add to our sales pipeline in Canada.

On the product side, we've also rolled out a new DI website redesign that has yielded double-digit gains in consumer traffic, engagement and conversion for pilot sites. We expect this innovation will continue to drive our website differentiation, customer satisfaction and subscriber growth.

Finally, our industry leading marketplace continues to scale while winning high consumer engagement. Q2 traffic was up year-over-year and we maintained our lead on organic traffic at approximately 60% of our total mix. We're reaching the highest intent and most active shoppers who drove repeat visitation roughly 7% higher year-over-year as we exited the quarter.

We also continue to invest in unique editorial content like our American Made Index that drives consumer interest and efficiently attracts new shoppers. As a result of continued product and content innovation, leads improved meaningfully over the course of the second quarter. Another proof point of improving value delivery for our dealers and OEMs.

Summing it up, we grew topline, bottom line, and cash flows all while staying nimble to better position ourselves for continued growth. We're committed to advancing our platform strategy through vectors like improving product adoption, expanding OEM partnerships, and capturing other enterprise opportunities as we further transform and enable the automotive retail experience.

I'll now turn the call over to Sonia to lead a discussion of our second quarter financial results and outlook. Sonia?

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. We delivered year-over-year revenue growth and margin expansion in the second quarter through disciplined execution of our platform strategy. Despite being slightly below our expectations, revenue of $179 million was up 6% year-over-year, reaching a new second quarter record. This includes the roughly 1% unexpected impact from discrete items related to legacy solutions contracts. Excluding that impact, revenue would have been roughly in line with the low end of our guidance range.

Dealer revenue grew 4% year-over-year to $160 million, driven by contribution from our D2C acquisition and increased adoption of our trade and appraisal and website products. OEM and national revenue was $16 million, up 28% compared to the prior year. This acceleration in growth reflects continuing OEM investments into marketing and advertising to influence and drive consumer awareness of their products amidst rising vehicle inventory levels.

For the second quarter, total operating expenses were $169 million compared to $156 million a year ago. Product and technology expenditure increased $3 million year-over-year as we added talent in support of our product roadmap, up level, key technical role and invested in back end systems. General and administrative expense was up $5 million year-over-year, mostly due to the inclusion of D2C operating costs, including $2.7 million in D2C earnout expense this quarter.

As a reminder, unlike the earnouts associated with our other acquisitions, D2C earnout redeems compensation expense under GAAP and therefore run through operating expenses. Second quarter adjusted operating expenses were $156 million, roughly 6% higher than the same period a year ago. Net income for the second quarter was $11 million or $0.17 per diluted share, and adjusted net income for the second quarter was $26 million or $0.38 per diluted share. Compared to $23 million, or $0.33 per diluted share, a year ago.

Adjusted EBITDA for the second quarter was $50 million, up $5 million or 10% year-over-year. And adjusted EBITDA margin of 28.2% was in line with our guidance range. Operating leverage increased over 100 basis points year-over-year from a combination of revenue growth and mix, as well as disciplined investments in the business.

Now, onto key metrics. Notwithstanding temporary disruptions to new sales and product launches from the CDK incident in June, we ended Q2 with 19,390 total customers, returning to sequential organic dealer customer growth. And notably our marketplace customers also grew during the quarter. Our July dealer customer count was impacted by the CDK incident.

However, we believe this to be temporary in nature. ARPD of $2,474 for the second quarter was up slightly year-over-year, driven by increased product penetration, partially offset by aforementioned discrete items and higher-than-expected growth from B2C customers, who on average, contribute lower revenue per dealer. We're pleased to see growing uptake of our marketplace and digital experience products, thanks to our cross-selling efforts.

For AccuTrade, which experienced some churn during the quarter, we're working diligently to drive subscriber growth. On our last call in May, we committed to accelerating the AccuTrade Connected learning curve to more quickly embed the technology into dealer operation. Onboarding and account support changes we made in the first half have yielded meaningfully higher product utilization by new users. While these types of operational changes require time and investment, we're optimistic that we can keep improving dealer satisfaction and retention.

And the multiplier effect of our platform is real. You can see that in AccuTrade data. AccuTrade customers are far more likely to use multiple Cars Commerce product with average revenue per dealer that's more than double that of non-AccuTrade customers. This data illustrates the power of cross-selling and of growing the AccuTrade base as part of our platform strategy.

Now shifting to our balance sheet. Net cash provided by operating activities totaled $69 million year-to-date. Free cash flow was $56 million year-to-date, roughly $11 million higher year-over-year. Free cash flow was driven primarily by improved adjusted EBITDA and lower cash taxes, partially offset by higher cash interest and increased CapEx.

During the second quarter, we made $20 million in earn-out payments primarily related to AccuTrade. We also repurchased 300,000 shares for $4.9 million, bringing first half repurchases to $14 million. In addition, we obtained $5 million of debt and reduced total debt outstanding to $475 million as of June 3, 2024.

Our total net leverage is now 2.1 times, down from 2.3 times last year and comfortably within our target range of 2 to 2.5 times. With total liquidity of $304 million as of June 30, 2024, we have ample resources to execute our growth strategy and pursue the best return on capital.

With $105 million remaining on our current share repurchase authorization and conviction around our growth strategy, we now intend to return approximately 50% of second half free cash flow to shareholders via share repurchases. Our strong free cash flow conversion enabled us to deploy our capital in a manner that drivers incremental shareholder value, whether it is share buyback, attractive acquisition or debt repayment.

I'll now conclude with our guidance. In the third quarter of 2024, we expect to deliver revenue in the range of $178 million to $181 million or year-over-year growth of 2% to 4%. Guidance reflects growth and dealer revenue from increasing product adoption, including D2C. OEM and national revenue is also expected to grow year-over-year, but down slightly sequentially when compared to strong performance in the second quarter.

Embedded in our guidance is also the impact of the CDK cyber incident, which widely disrupted our industry, our customers and our business in June and July, not only with our sales momentum at the end of June severely curtailed, but this continued into July, and has an accruing effect on third quarter revenue given the subscription nature of our business. We expect approximately 1% to 2% of CDK related revenue impact to our business in the third quarter, from a combination of lost sales and product launch delays.

In addition, we expect to deliver third quarter adjusted EBITDA margins between 26.5% and 28.5%, compared to 28.4% a year ago. This guidance reflects continued investments to support our growth initiatives and also takes into account our revenue outlook for the third quarter.

In light of our year-to-date performance and considering current business trends, we now expect fiscal year 2024 revenue growth of 4.5% to 5%. This range reflects positive product growth and contribution from our D2C acquisition. Our revised assumptions also include a slower rate of adoption for AccuTrade and locked in delayed sales due to the CDK disruption, which have a compounding effect on full-year subscription revenue.

And finally, we are reaffirming our outlook for full-year adjusted EBITDA margin between 28% to 30%. At the midpoint, this represents adjusted EBITDA growth of approximately 8% year-over-year. We are committed to driving cost discipline and operational efficiency and, even with lower revenue growth expectations, believe there is sufficient leverage in our model to improve adjusted EBITDA and deliver margin expansion.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] One moment, please, for your first question. Your first question comes from the line of Naved Khan from B. Riley Securities. Your line is now open.

Naved Khan
Analyst, B. Riley Securities, Inc.

Q

Great. Thank you and good morning, all. A couple of things for me. One, maybe, Sonia, for you. I think you mentioned 1% unexpected impact from legacy solutions contract. Can you just maybe explain that more a little bit in terms of how that kind of flows through the P&L and how it affected you?

And the other question I have is on AccuTrade. So you did talk about improved satisfaction with the product feature rollout. But if I just look at the count, count went down sequentially, and you kind of expect slower growth now because of I guess some lost [indiscernible] (21:46) – maybe just go through the dynamics of like what might have led to the higher churn and what has changed going forward. Thank you.

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

A

Good morning, Naved. Thanks for your question. I think your first one was on the discrete items that impacted us in Q2. That was really related to some legacy contracts associated with our website business. We can't get into the individual customer specifics, but we do believe they were onetime in nature and it was just a timing thing. They impacted top-line.

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

A

Yeah. On the AccuTrade front, certainly, I'm disappointed in our Q2 results there because we made a lot of positive changes with the product. In fact, our most avid users swear by the product. They love the product. Getting dealer adoption to change their operational process has proved to be more difficult. And when there's turnover at dealerships, we lose that [indiscernible] (22:47) inside the stores.

There is a shift that we're making on the product, which we signaled on the call, which is to follow our proven DI formula of seeking these OEM endorsements to land and expand accounts through that model, which we should bring in more dealers with manufacturer backing into the platform. It means we're going to get in at a lower price point, so you may not see the same revenue lift that we were anticipating this year selling the connected full AccuTrade product.

But we do think we can get solid dealer growth on website solutions and then move upsell – move to upsell them in the store, full-blown store solution over time. That's going to prolong the ramp here and move it more into 2025. But we still see solid product growth in the solution this year. It's just slower than I think we all would have liked.

Naved Khan
Analyst, B. Riley Securities, Inc.

Q

Understood. And Sonia, just going back to the legacy solutions contract. So, you quantified it for second quarter. Is it fair to assume there is a – an impact from the remainder of the year as well which is just part of the guidance today or is that -- is that something separate from that? Can you just maybe parse it out for me? Thanks.

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

So, the discrete items are really range bound into the second quarter. They obviously influence our full year results, but the impact is really confined to the second quarter.

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

Got it. Thank you, guys.

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

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

Hi. Good morning, everyone. I know this question was asked Alex, but with AccuTrade, could you maybe just again go over what – besides the impact of the CDK disruption, which definitely impacted your product uptake, what was going on there? Is it a function of that the dealers did not have the manpower to implement the product or they didn't have any incentive to implement the product? I guess, I'm trying to get a feel for what happened in the quarter and what you – what you've changed.

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

Yeah. Well, first answer, Gary, is I want to connect those two because while the CDK impact was unfortunate for our customer partners, it also had an indirect impact on our sales pipeline as well. Most of our AccuTrade success year-to-date has been with dealer groups, and so, a huge percentage of our sales pipeline was expecting those dealer groups to further deploy the solution to all of their stores. And that concentration of CDK dealers, they just put those sales motions on hold, right?

We had major dealer group deals that we thought would close in the quarter, and they got kicked out not only indefinitely, but we hope to reboot those in Q3, assuming dealership operations return it to normalcy, which they are. And so we feel good about that. But where we sit today, we just don't have verbal commitment that they're ready to proceed with expanding AccuTrade deployment throughout the rest of their platforms. And so I do want to connect those two things.

I do think, as we've signaled in prior calls, we've been really focused on dealer success and onboarding, and we had some big wins in the quarter, like if you look at the dealers that we sold in the prior three periods, their utilization of the product is up 30% over the original cohort we sold in the first quarter.

And so we're getting better at onboarding, we're getting better at targeting and we're getting better at dealer utilization. Those are all going to be tailwinds for the product, but it's clear to us that we're going to go slower, get it right and build allegiance to the platform in the dealer community so that they endorse the solution and get it expanded across their footprint of stores.

It's really just a slowdown in the – where we were at the beginning of this year. We had our assumption that this would scale much faster, and that's clearly not happening as we would have liked. But the fundamentals of the value prop are rock-solid, and the dealer excitement about the solution when they're using it, remains extremely strong.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

So you ended up with about 1,000 dealer customers on AccuTrade in Q1. Is it safe to assume that that number did increase a little bit in Q2, and was there any de-conversions?

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

A

It didn't grow in Q2, and that's the disappointment that we thought we would see better growth in that. Again, a lot of the deals that we had in our sales pipeline for Q2 were CDK dealers. And so those went from, like, 90% likely to zero in our sales forecasting weighting virtually overnight. And then that really put a damper on Q3 momentum, which obviously impacts full year.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. So you've changed the strategy, and you're going after – you're trying to get OEM endorsements. With those OEM endorsements, which is nice to see, you got Stellantis and Jaguar Land Rover. With those endorsements, are the deal – are the OEMs giving the dealers co-op support in terms of some kind of monetary figures given to them to adopt AccuTrade?

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

A

So a couple of things, Gary. First of all, I wouldn't say we're totally changing the strategy because our AccuTrade sales are still solid, and we're still getting dealers to adopt the full solution. I would classify this as saying we're showing agility with the strategy to pursue growth in new ways. And so the website solutions is something that we signaled last year that all OEMs are realizing that they need trade-in solutions to facilitate new car sales.

If you can't get a consumer out of their existing vehicle, it's hard to sell them a new car. And so all OEMs started talking to us about using AccuTrade technology not only on their Tier 1 website to talk to consumers directly, but deploying it across their dealer websites.

And so, yes, we got a couple of huge wins that we shifted to in the quarter to land some OEM endorsements that do include co-op dollars for the platform, and in some cases, they're paying for the dealer to have this widget on their website. The JLR deal, we're the exclusive trading provider for all JLR websites. And so we're going to begin that roll out in Q3 where we'll be replacing any legacy trade in technology on dealer websites and inserting AccuTrade.

We know that through that experience the dealers are going to be impressed with what they see in the product and we think that will open up upsell conversations to deploy the full AccuTrade technology in their physical stores and off our marketplace as well.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And just one more question on that with the certification, particularly you mentioned Jaguar Land Rover. You're going to be rolling that out. But the dealers aren't required like AccuTrade. Again, it's up to the individual dealers to decide, but the OEM can be very coercive in that regard. Is that right? Is that a correct assumption?

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

A

Yeah. I'll let JLR have to speak to how hard they're going to enforce it. But they've announced this as the exclusive technology that they want to see deployed across all JLR websites, whether we built them or not. And so we are providing this technology that will be private labeled on the dealer websites. JLR is beginning their rollout to their dealer network, and they're looking to create a consistent digital retail experience, which we are going to power not only for the corporate website, but again exclusively across all JLR websites.

So we do think it'll produce meaningful upsell opportunities. It certainly will mean lower revenue initially. But like we showed with dealer website adoption, when we landed these OEM endorsements, it led to faster overall sales growth for not just website but for media and for marketplace to those dealers because of the OEM backing.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And then I just have – just one more question and I'll get off. Is it fairly safe to assume that if we didn't have this issue with CDK, there would have been no step down in the revenue guidance for the back half of the year?

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

A

It's a good question, Gary. I mean, as Alex indicated, AccuTrade was a little softer than we expected it to be in Q2. We're really pleased with the OEM endorsements we have in that land-and-expand strategy that we're going to run with our website application to Connected. And we're also pleased with the promotions we put into market to drive dealer engagement. They just take time. So, that was certainly an additional component factored into the guide in addition to the disruption from CDK.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you.

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

A

Thank you.

Operator: Thank you. Thank you. Your next question comes from the line of Rajat Gupta from JPMorgan. Your line is now open.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Good morning. Thanks for taking the questions. Just another question on the second half guidance. Appreciate all the color on the third quarter, the impact from CDK, and the AccuTrade impact. But if I look at the fourth quarter guidance, implied fourth quarter guidance, the midpoint implies around 3% revenue growth. I mean, that would be slower than the third quarter if I excluded the CDK impacts. So, I'm curious like what's driving that deceleration? Why isn't there like offsets from the other areas of the core business, or is it like really AccuTrade driven?

And just relatedly, I was just curious if – how much was the AccuTrade contribution supposed to be in the initial 2024 guidance that you provided earlier in the year? If you could just tie those two, would be helpful, and I also have a quick follow-up. Thanks.

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

A

Thanks for the questions, Rajat. I am not 100% sure I'm getting the quite the same math as you are for slowing growth in Q4. We do expect to see some strong trajectory as we move through the balance of the second half. From some of our comments earlier, as you've probably gathered, we had strong aspirations for the AccuTrade ramp-up over the course of this year.

Last year, we were largely devoted to pricing and packaging efforts on our marketplace. And so, there have been some challenges. CDK certainly interrupted some of the efforts we had put in place in Q2 to try to drive dealer engagement. And that is a reason for the revision in part to our guidance range.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Understood. Okay. That's clear, we can -- we can check offline on the fourth quarter math. And just on the buyback comments on the second half, again, like, my math would imply something like $30 million – between $30 million to $40 million of potential share repurchases in the second half. Is that in the ballpark in terms of the assumptions we should be making?

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

A

That is in the ballpark. We agree on that math.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Okay, great. And this just last question, just on the competitive landscape, what's the latest that you're seeing from some of your public or private peers in terms of pricing or sales competitiveness? And what would you call out to be the main advantages in the current landscape for Cars Commerce? Thanks.

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

A

Yeah. I mean, look, it's – I'm following some of the public reporting that's coming out this week and trying to track the various puts and takes from various players. I think the high-level benefits that we offer that our competitors do not. Rajat, you know that the majority of our traffic is coming to us organically or directly.

And so, when customers invest with us, they're getting true incremental lift to their sales performance. Most of our peers rely on search engine marketing arbitrage, which directly competes with the dealer's other marketing budgets. That's number one.

I think, on the technology solutions side, I don't think we have a real peer because our website solutions are best in class, both domestically in the US and now in Canada, where we achieved number one status. And our

AccuTrade technology, while growing slower than we would like, is still contributing nicely to both our growth and our platform efficacy, which has strong flow through to the bottom line. And so, as we get dealers to adopt our technology, it's adding meaningful layers of ARPD that create a meaningful profit picture for the business that's going to generate a lot of free cash flow.

So, I think we're really well-positioned. We've got strong growth in both revenue and EBITDA this year in the second half, while it's a little bit lower than we would like. I think the fundamentals are strong here and we continue to execute.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Understood. Great. Thanks for the color, and good luck.

Operator: Thank you. Next question from the line of Marvin Fong from BTIG. Your line is now open.

Marvin Fong
Analyst, BTIG LLC

Q

But I guess just to put a finer point, so with AccuTrade, you know, do you have the visibility on how many actual transactions are occurring there? And should we -- should we view that as appraisals being a good proxy for that?

And then part B of that question is, you know, you obviously won those two great endorsements in the quarter with Stellantis and Jaguar. You know, what's the pipeline for more wins there you know get four direct couple of quarters ago? Is there an active – is there activity around, you know, other major nameplates? And then, I have a follow-up.

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

A

So great questions, Marvin. So first and foremost, we do see vehicle acquisitions on dealerships because we can see which cars are appraised and then we see them appear in their dealer inventory listed on our marketplace. And so we are starting to match that technology. And what we saw, you know, year-to-date is that dealerships are acquiring about 17 cars on average in June, which was down slightly from May, which was 18, which thinking about that -- that – that -- if you were to apply auction fees, again, 17 or 18 cars, the dealers are spending $2,000 to $3,000 to acquire a car via auction for one vehicle.

But with AccuTrade our software solutions, they can acquire 17 or 18, you know, for that same dollar amount. And so we know that the delta between sourcing inventory from your customer base versus the physical auction is a macro trend that you can absolute bet on. This is the winning approach and dealerships that are doing this successfully are reporting record profits.

And so, we know that we're on the right macro attack point in terms of the legacy model of wholesale versus the new way to retail. I think the second part of your question was really about, I think, the OEM endorsements and you'll see even in our social posts announcing the Stellantis deal, there's more dealer comments on these posts than anything we've ever talked about. There's general excitement coming from the dealer community that finally their car companies are backing dealer digital offerings.

Historically, OEMs have forced dealerships to update their physical showrooms and build modern coffee bars and physical structures. I think you're going to see continued capital allocation shifts by OEMs to help dealers do digital more. And we've built that infrastructure to both support Tier 1 and Tier 3 far more effectively than any of our peers.

Marvin Fong
Analyst, BTIG LLC

Q

Got you. And obviously, we talked a lot about the guidance. I actually would just like to kind of take a look at the second quarter numbers in terms of both dealer count and ARPD. So, does CDK impact those numbers at all? I mean, you mentioned the lost sales at one time, closing the quarter, as well as just the fact that it looks like AccuTrade had a bit more churn.

So, the fact that – or what looks like ARPD with a bit lower than at least I was modeling, how much of that was kind of due to CDK? How much was due to other items and then how much was due to just the AccuTrade shortfall? If you could maybe – just help us understand how the second quarter evolved because it did – I believe, come in below the low end of your guidance on the revenue line. Just some help there would be great.

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

A

Yeah. I'll start and then maybe Sonia, you could add some more detail. But first of all, we were really pleased to grow dealer count in the quarter, right? We would have certainly liked it to be higher, but the fundamental trend line started to shift and we started seeing higher new sales. We announced on the call that we've got strong traffic trends. Our lead and value delivery is also accelerating and so, very pleased that our dealer count grew in the quarter. And I think that can bode well.

Unfortunately, and by the way, the fact that we did that without seeing any depreciation ARPD shows that that is solid dealer growth, right? That we're getting both customer growth and we're holding, if not slightly growing, our average revenue per dealer. It's a very healthy metric. It did impacted negatively in that we anticipated more sales coming in honestly through AccuTrade in Q2. And in Q3, we just thought we'd have more momentum by now.

And I think we've talked about that enough here that I won't go into those details, but it would have actually grown ARPD better had we would have seen that sales lift. Looking ahead, obviously D2C has a lower price point than domestically what we sell our services. So even though we may get continued dealer growth that inorganically depresses ARPD a bit, and our solution strategy to sell dealer website solutions comes in at a lower starting point as well.

And so, ARPD may not grow as fast, but it's still very strong, growing steadily. And if we can get dealer growth and ARPD growth, that creates a really powerful financial picture. I don't know, Sonia, what else you'd add in terms of detail?

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

A

Yeah, maybe to just fill in a couple, a little bit more color. I think related to ARPD. Marvin, one of the impacts in Q2 is in fact, the discrete items that I was mentioning earlier. Those do run through ARPD since they were in our dealer revenue number and we're trying to be fairly consistent with our use of these kinds of metrics. So that's probably the single biggest reason that the ARPD came in a little bit lower than you modeled it.

Marvin Fong
Analyst, BTIG LLC

Q

So, just to be clear, in your guidance, when you provided it a couple of months ago, the discrete items was not contemplated?

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

A

Those are not contemplated. No, those were not expected.

Marvin Fong
Analyst, BTIG LLC

Q

Nor were they expected in the full year?

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

A

Nor were they expected in the full year.

Marvin Fong
Analyst, BTIG LLC

Q

Got you. Okay.

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

A

The other thing I'll mention, too, which may be hopeful about – the CDK disruption certainly had an impact on our business for Q2 in particular. It was less of a financial impact. You see it more in the operating metrics of the business, given the disruption to the sales cycle. So it interfered with, like, your Q2 exit rate going into Q3, but the financial impact is going to be weighted to the following quarter. So that's why we've been talking about it in the context of Q3 full-year guidance, if that's helpful.

Marvin Fong
Analyst, BTIG LLC

Q

Oh, yeah, that makes total sense. I thought maybe more on the dealer count instead of like a June 30 cutoff with that [indiscernible] (44:23), more of a CDK...

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

A

Yeah. So that's where you saw it.

Marvin Fong
Analyst, BTIG LLC

Q

Perfect. Right. Okay. I'll take the rest of my questions offline. Thank you.

Operator: Next question is from the line of Tom White from D.A. Davidson. Your line is now open.

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

Q

Great. Thanks. A couple, if I could. I guess just first on the national OEM line, Sonia, maybe you could just parse out a little bit for us kind of how the different, like, cohorts of advertisers in there performed, and I guess I'm sort of grouping it maybe like legacy kind of auto OEMs, non-auto national advertisers, and then maybe some new auto OEMs like the EV guys. Just curious like how sort of spend is trending for those groups? And can you confirm, did you say that that the line will be down quarter-over-quarter in the third quarter? And then I got a follow-up for Alex.

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

A

I'll just start on the -- on the mix. Most of our growth with OEMs, Tom, has come through the smaller upstart and or mid -- mid-tier OEMs. We still have the largest OEMs, have largely sat on the sidelines. The reason we're not baking those into our second half guide is that, you know, hunting those giants is hard to predict, right? If one of those giants were to step back in, it would change the game for us, you know, profoundly.

But it – we just don't feel confident baking that into our full year guide. So a lot of our OEM success year-to-date and as we look ahead, is coming from more of the disruptive EV players trying to take market share and more of your foreign and import automakers who are also trying to grow market share in the US, we don't have much growth from the large domestic OEMs that that have the biggest budgets, yet.

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

A

And then...

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

Q

Okay.

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

A

And then really specifically to your question on sequential growth in OEM from Q2 to Q3, we do expect it to be down slightly, but I wouldn't consider it to be like a hugely material downtick. It's still growing year-over-year. It's going to be somewhat consistent with what you saw us deliver in kind of the Q1 timeframe.

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

Q

Okay. That's helpful. Thanks. And then not to beat a dead horse on AccuTrade, but I guess I just want to make sure I understand, Alex, when you refer to this sort of this sort of this website, I think it's called website solutions. So, basically, what's happening is that for whatever reason, some dealers, maybe it's turnover at the dealership or just it's tough for dealers to kind of like really change the way they maybe handle trade-ins actually at the store.

So that instead of like you guys selling in the sort of handheld unit that plugs into the diagnostics and all that stuff, sort of now you're sort of aiming more to have actually just put some of the technology on the dealership websites to value trade-ins. And that's kind of the way to land the customer, and then hopefully over time, you think you can kind of get more of the on-premise, for lack of a better word, kind of technology going?

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

A

Yeah. I think – let me try to explain it this way to try to connect the dots. Our most successful AccuTrade dealerships use AccuTrade throughout their physical stores. They're appraising every vehicle that comes in for service. They're offering this as something they can do for customers in a matter of minutes. And they're acquiring, in some cases, hundreds of cars per month purely from their service lane. And they love the product and there's even opportunity for us to take pricing up that they use it so passionately.

I think the downside of that is it takes a lot of time to get dealerships to embrace that physical change of us both deploying people and resources into the dealership to conduct that on-premise training. And so, it's a slower sales ramp. It takes more time. It has a higher cost in our go-to-market. What we're finding in terms of what OEMs and dealers are willing to do is embrace online first as a way to get them started using our technology and then move towards upselling them towards the full physical store rollout.

I wouldn't recommend this strategy if all we had was to go convince dealers to sell AccuTrade on their website. But when you have the OEM setting up regional meetings with their dealer bodies and announcing their financial commitments to helping dealers do this more effectively, we think it can really boost our sales effort because they're now bringing the dealers to us, and then we're focused more on just installing the technology and training them on how to use it on their own website.

Those that find the success in doing that, we think will naturally gravitate to saying, how do we get more volume? Can we start sourcing from the Cars.com marketplace? Can we start to promote – we'll buy any car media with you? And can we source cars in our service lane? Will you train us how to do that?

We think this will be a better sales prospecting strategy and, again, slower revenue on the front end, but we think it'll create a lot bigger customer base using the technology and our tools.

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

Great. Thanks for the description.

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

Thanks for the question.

Operator: Thank you. Next question, from the line of Joe Spak from UBS. Your line is now open.

Joseph Spak
Analyst, UBS Securities LLC
Q

Thanks. Good morning. Just to the CDK outage again, I mean, as you just sort of describe it, this is really somewhat of a temporary impact from delayed adoption. I just want to confirm like there's – you're not really sort of seeing any – or maybe there was some cancellation in light of maybe some lower near-term profits or any reconsideration going on.

And then my understanding of CDK is mostly DMS, infrastructure, back-office financing, but they do have other products. I think they've got some digital retail trade valuation offering. So I'm wondering if you see any overlap there and there's actually maybe an opportunity here from some potential sort of dissatisfaction with that vendor.

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

A

So, the first part of your question, we do believe this has been more of a one-time impact. In a subscription model like ours, when you lose 30 or 60 selling days of new customer acquisition, it can have a prolonged impact on the cumulative effect of your subscription revenue number, which is, I think, what you see in our -- in our full-year second half guide. So, the impact is one time, but again, the subscription nature has a more prolonged impact, if you will.

I think you're right that this has been a real challenge, not just on CDK's DMS, but their digital retail solutions, CRM, their inventory management. And so, we do think there's opportunities for us to pick up market share where our cloud-based technology, we know we can provide a degree of enterprise level support and dealerships are looking to find more modern tools and technology that run their stores. So, I do think it has more upside potential on a go-forward basis. But the one time impact certainly muted some of our success in Q2 and Q3 as well.

Joseph Spak
Analyst, UBS Securities LLC

Q

Okay. Thank you. And just as a second question on the comment about 50% of second half free cash flow to buybacks. I mean, like rough math, that seems like a little bit over maybe 2% of the current market cap. And especially after the reaction this morning, clearly, you want to sort of send a strong signal and confidence of the business.

But can you just tell us a little bit more about sort of how you think about the use of cash for that versus maybe repaying more debt, which I think also would be fairly accretive or maybe even M&A. And maybe just to follow up on the last question, there's even an opportunity to acquire some assets that might help you more compete with an opening [ph] versus (53:21) CDK .

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

A

Yeah. No. Thanks for the question. I mean, one of the great strengths of our business is that we do generate a lot of free cash flow. Even after deploying 50% of free cash flow in the second half toward share repurchases, we still believe that we have ample flexibility to continue with other portions of our strategy when it comes to capital allocation so mainly debt pay down.

Yes, we agree with you, in today's interest rate environment, debt pay down is generally speaking, an accretive thing. And even that aside, we have the flexibility for M&A. So, I don't view it as a limiting thing. We have been balanced. We think it's prudent for us to lean in a little bit more here on the share repurchase front this quarter.

Joseph Spak
Analyst, UBS Securities LLC

Q

Thank you.

Operator: Next question from the line of Doug Arthur from Huber Research. Your line is now open.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC

Q

Yeah. I'll take the questions offline. Thanks.

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

A

Okay, Doug.

Operator: All right.

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

I think, operator – yeah?

Operator: Yes, there will be no question. Please go ahead, presenters.

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

Thank you. I want to thank everyone for tuning in today. And I hope that people realize that as we've demonstrated time and time again, including this quarter, we're growing consistently our revenue and our profitability, which is a real winning combination for long-term value creation. We've got a lot of powerful opportunities and our team is head down, executing on our platform strategy, growing the revenue and focusing on innovation. So we want to thank you for your time today, and we look forward to talking to more of you again shortly.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Goodbye.