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Cars.com, Inc. (CARS)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. And welcome to the CARS Third Quarter 2024 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]

I will now turn the call 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. [indiscernible] (00:00:54) to the Cars.com Inc. third 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 third 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'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 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 call over to Alex.

Alex Vetter

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

Thank you, Katherine. We drove solid third quarter results that were powered by product innovation and improved performance across our platform. Revenue grew 3% year-over-year, our 16th consecutive quarter of growth, setting a new record for Q3 revenue. Product adoption expanded in all of our solutions, and most notably, AccuTrade returned to positive quarter-over-quarter subscriber growth. OEM revenue grew 17% year-over-year to exceed $17 million, a new three-year high based on broad demand from our partners. We also delivered adjusted EBITDA margin of 28.5% at the top of our guidance range.

The product-led growth that we saw in Q3 reinforces our platform strategy, helping dealers streamline their operations to accelerate the automotive retail flywheel. Starting with inventory in the lot, our latest customer data reinforces industry insights that sourcing vehicles via AccuTrade delivers higher quality vehicles supply. Acquiring cars from customers is far more profitable than wholesale auctions, and it brings in popular late model used inventory, further generating high consumer engagement across our marketplace, dealer websites and media solutions.

Nowhere is our data advantage more clear than on the Cars.com marketplace, where we found that our leads and connections typically influence around 30% of dealer unit sales. In a recent analysis of a sample of franchised dealers, our marketplace simulated over $3 billion in their gross automotive sales this quarter alone. As we invest to strengthen the attribution between our platform and vehicle sales, our market position will only improve.

Our overall product performance helped us maintain healthy monetization in Q3. Average revenue per dealer grew slightly quarter-over-quarter, as we focused on cross-selling our platform to enable dealers to operate with greater efficiency and profitability. We're pleased to be moving past the third party DMS outage in Q3 that had temporary muted our dealer growth. And we're off to a positive start in Q4 as we grew marketplace dealers in October.

Now, I'd like to unpack our product-led growth and traction from the third quarter, starting with AccuTrade. First, AccuTrade positions us at the center of dealership operations, helping our customers acquire the right cars at the right price to maximize profitability. Industry data suggests that gross profits can be as 4 times higher when a transaction involves a trade-in, creating a strong incentive for dealers to source from customers. AccuTrade makes this process simple and seamless by displacing both traditional profit-eroding wholesale auctions and labor-intensive legacy inspection models. We see this change in dealer behavior reflected in AccuTrade appraisal volume, which rose to 671,000 appraisals in Q3, up a healthy 5% quarter-over-quarter.

Furthermore, these appraisals are converting into real inventory at a faster rate, as dealers acquired on average nearly 40% more vehicles per month via AccuTrade compared to a year ago. Take Ed Martin Toyota, located in Noblesville, Indiana, who committed to appraising vehicles directly in the service lane using AccuTrade. After only 60 days, they acquired and sold dozens of vehicles that delivered, on average, 87% more profit per sale. AccuTrade is changing the game. The more dealers appraise cars, the more retail opportunities they'll enjoy.

Based on our strong value delivery, AccuTrade Connected expanded to approximately 950 dealers in Q3 and returned a quarter-over-quarter growth. Notably, nearly 50% of the new dealers onboarded in Q3 were affiliated with OEMs who have endorsed AccuTrade as an on-program solution. Recall that last quarter, we also unveiled an exclusive agreement with Jaguar Land Rover to power dealer websites with the AccuTrade web application, which we began enrollments in late Q3. We'll keep prioritizing the strategic playbook of leveraging OEM endorsement to stimulate dealer sales and awareness, and we're in active talks to win more partnerships in 2025.

Next, a growing number of dealers adopted our digital website experience and media solutions to showcase their inventory to the right buyers and improve inventory turn time. We powered over 7,650 dealer websites during the third quarter, up nearly 150 customers sequentially with particularly impressive expansion in Canada. Cars Commerce became the number one franchise dealer website provider in Canada in July as we distanced ourselves from competitors with better product performance and premium features.

For example, a significant upgrade to our core platform infrastructure has resulted in double-digit increases to site speed, ensuring a smoother and more delightful consumer experience. We also deployed new AI translation capability for over 100 languages, specifically engineered for dynamic automotive website content like vehicle descriptions, specs and features.

Within media solutions, our VIN Performance Media product has almost quadrupled its subscriber base since its Q1 launch, exceeding $3 million in annualized revenue in Q3. Customers using VPM have seen up to double-digit improvements in inventory turn rate compared to non-users. One case study showed the average days lifted for older inventory dropped by 28%, driving incremental revenue and reducing flooring costs to benefit dealers' bottom line. These compelling results spotlight how our proprietary data and differentiated insights power our customers' marketing to drive profitability and the retail flywheel. Reception of VPM has been very positive, and we see a long runway for media solutions growth in the coming quarters.

Turning to the core of our platform. Our scaled marketplace continues to lead the industry on consumer awareness, engagement and trust. We drove organic traffic to 62% of our total traffic mix in Q3, reinforcing our strong position as the number one most recognized automotive marketplace. Our audience quality is unmatched, with around 84% of our visitors on our site intending to buy a vehicle within six months. Naturally, our lead conversion continues to be extremely strong, especially as we put more tools in the hands of consumers.

New Car Hub, which reduces the complexity of new car shopping, consistently sees lead conversion that is 7 times higher compared to overall traffic. Overall engagement continues to improve with repeat visitation up 4% and leads per visit growing 7% quarter-over-quarter. On top of these product improvements, when you consider that overall lead conversion from Cars.com is already 70% better than search engine traffic, it's clear that our audience is deeply in-market and ready to buy.

Building on this strong marketplace performance, we are constantly innovating to support consumers throughout their car ownership journey. Continued optimization of our personalization algorithm has increased the number of relevant vehicles shown to consumers to encourage cross-shopping between new and used cars. And we also continue to grow consumer mindshare through in-demand channels like social video, where we've already added 50% more content year-to-date. These investments power our extremely efficient organic audience growth, and we have plans to further leverage our content, data and insights to deepen our consumer differentiation.

Finally, OEM revenue remained an important growth driver in Q3, up a strong 17% year-over-year, reflecting broad demand across our marketplace. We saw robust sell-through of our products with over half of our OEM partners raising their spending year-over-year in recognition of our strong audience and value delivery. Q3 set an all-time record for incremental wins and is an encouraging signal of growing sales momentum.

With inventory levels projected to rise further in 2025 and 73% of visitors undecided on make and model when they arrive on Cars.com, we appreciate the need for a balance of new and used inventory on our marketplace. Based on the strong consumer interest in New Car Hub, that I mentioned earlier, we're offering OEMs more opportunities to engage with consumers through customization and integrated editorial content as part of our 2025 roadmap. We'll continue to prioritize product development that ensures we deliver both quality and scale to benefit all marketplace participants and create long-term value for the industry.

While I know we're operating in a dynamic environment and we'll continue monitoring trends that impact dealer and OEM spending, we're encouraged by the positive momentum in our business and our growing pace of product innovation. Regardless of industry cycle, we remain extremely confident in our ability to drive consistent profitable growth and are focused on executing our platform strategy as we strive to grow product adoption and increase monetization.

Now, Sonia will lead the discussion on our third quarter financial results. Sonia?

Sonia Jain

Chief Financial Officer, Cars.com, Inc.

Thank you, Alex. Our diversified platform strategy and strong operating discipline produced both year-over-year revenue growth and strong adjusted EBITDA margin in the third quarter. Revenue totaled $180 million, our second-best quarterly revenue of all time and was up 3% year-over-year. Dealer revenue grew 2% year-over-year to $160 million, driven by contribution from D2C Media and improved adoption of our website and Trade & Appraisal products, with a slight offset from lower marketplace revenue.

As Alex mentioned, we are diligently monitoring dealer funding trends, which has been pressured in the near term by profit normalization, and we're optimistic that the same consumer demand and expectations for an easing rate environment will lessen some of these constraints as we head into the New Year. OEM and National revenue was $17 million, up 17% compared to the prior-year period and the highest revenue for this segment in over three years. Our momentum reflects our product investments, coupled with ongoing OEM investments into marketing and advertising targeted at raising consumer awareness to capture demand in a rising inventory environment.

Turning to our operating expenses. Third quarter expenses were $168 million compared to $160 million a year ago, up roughly 5% year-over-year. Third quarter adjusted operating expenses were $156 million, approximately 4% higher than the same period last year. Product and technology expenditures decreased $4 million year-over-year and $3 million year-over-year on an adjusted basis. The increase supported additional head count and investment in data infrastructure and back-end systems to support greater product development velocity.

Marketing and sales costs decreased $2 million year-over-year on both a reported and adjusted basis, reflecting improved marketing efficiency as well as favorable comps against the year-ago period, which contained costs related to our corporate rebranding initiative. General and administrative expense was up $4 million year-over-year, primarily due to the inclusion of D2C operating costs, including $2.8 million in D2C earn-out expense this quarter.

As a reminder, unlike the earn-outs associated with our other acquisitions, D2C earn-outs were deemed compensation expense under GAAP, and therefore, run through operating expenses. As a result, on an adjusted basis, general and administrative expenses were up just $1 million year-over-year.

Net income for the third quarter was $19 million or $0.28 per diluted share compared to $4 million or $0.07 per diluted share a year ago, primarily due to the change in the fair value contingent consideration of prior acquisition. Meanwhile, adjusted net income for the third quarter was $28 million or $0.41 per diluted share compared to $27 million or $0.40 per diluted share a year ago.

Adjusted EBITDA for the third quarter was $51 million, up 3% year-over-year and also slightly outpacing revenue growth. We are pleased with our disciplined execution, which yielded adjusted EBITDA margin of 28.5% for the quarter, pushing us to the high end of our guidance range.

Now to recap some key metrics. We ended Q3 with 19,255 dealer customers, down 135 dealers quarter-over-quarter. Our dealer customer count captures some of the challenges we faced when sales momentum was hampered in July and August as customers recovered from third-party DMS outages, and as continued macro trends put pressure on dealer profitability and budget. However, we're pleased to see market [indiscernible] (00:15:25) dealer customer growth in October, and we're confident that our diversified growth strategy and focused product execution will help us sustainably expand our customer base in the long term.

It was also encouraging to see that third quarter ARPD of $2,478 was up slightly quarter-over-quarter, indicating a healthy level of monetization across marketplace, websites and appraisal technology. Encouragingly, we increased the penetration rate of higher-tier premium and preferred marketplace packages from 68% last year to 75% this year. It's the same structural shift that we attribute to strong customer demand for our services. On a year-over-year basis, ARPD was down $70, largely ascribable to D2C growth, which contributes lower average revenue per dealer due to the more narrow suite of solution sold in the Canadian market.

Now, shifting to our balance sheet. Net cash provided by operating activities totaled $123 million year-to-date. Free cash flow was up $104 million year-to-date, roughly $28 million higher year-over-year. Free cash flow performance year-to-date was primarily driven by adjusted EBITDA growth of $50 million and timing related to lower cash taxes and working capital, partially offset by increased CapEx.

During the third quarter, we repurchased 1.2 million shares for $21 million and are on pace with our commitment to return approximately 50% of second half free cash flow to shareholders via share repurchases. Year-to-date, we have repurchased 2 million shares for $36 million, and we have $84 million remaining on our current share repurchase authorization. In addition, we repaid $5 million of debt in the third quarter and reduced total debt outstanding to $470 million as of September 30, 2024.

Our total net leverage is now 2 times, at the low end of our target range of 2 to 2.5 times. Total liquidity of $330 million as of September 30, 2024, ensures that we have ample resources to execute our growth strategy and to pursue sustainable value creation for shareholders.

Finally, I'll provide guidance. We're reaffirming our fiscal year 2024 outlook of 4.5% to 5.5% revenue growth based on year-to-date performance and current business trends. For the fourth quarter, we anticipate strong high single-digit year-over-year growth in OEM and National revenue, with that growth rate reflecting a tougher comparison against last year's best quarter of OEM performance.

Dealer revenue is expected to grow modestly year-over-year with continued product adoption, while also lapping the D2C acquisition of November 2023. Adjusted EBITDA margin outlook for fiscal 2024 remains at 28% to 30%, representing adjusted EBITDA growth of approximately 8% year-over-year at the midpoint of the range. We also expect to exit Q4 with adjusted EBITDA margin of approximately 30%, based on continued cost discipline and operational efficiency for the remainder of the year.

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-answer-session. [Operator Instructions] Your first question is from Naved Khan from B. Riley. Your line is now open.

Naved Khan
Analyst, B. Riley Securities, Inc.

Q

Great. Thank you very much. A couple of questions for me. So it's great to see dealer count return to growth in October. I'm curious if this is driven by new dealer additions in AccuTrade and in D2C or if you're able to also bring back some of the dealers that might have left over the last several months. So just a little bit of color on that would be helpful.

And then just in terms of the CDK outage and how it kind of negatively affected the sales cycle and everything, where do you think you are now in terms of recovery from that? Do you think by year-end, we should be completely over it or do you think it takes a longer term? Thank you.

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

A

Thank you. Well, first of all, our October growth was strong across the board. We saw growth in marketplace and in all of our product solutions. So we're pleased to see sales momentum returning to the platform. And certainly, the DMS impact prolonged longer than we would have liked in terms of rebooting those conversations. But that's why we're pointing to October as being evidence that we're getting through it. I think we've got literally one enterprise client that we're still in discussions with them about remedies for the outage. But generally, I think sales momentum is back across the platform.

Naved Khan
Analyst, B. Riley Securities, Inc.

Q

Great. And then maybe just in terms of the marketing spend. What's the right way to think about this for the fourth quarter? I see that you kind of dialed it down a little bit. Is that because of seasonality or is it because you adjusted your spending because of the outages? How should we think about this?

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

A

We're always looking to figure out – to find the best return on investment when it comes to kind of our marketing and sales investments. So when we have the opportunity to dial back, we will. Now, as mentioned I think in my prepared remarks, we did have I guess a slightly favorable comp versus last year in terms of some of our brand spend associated with the corporate rebranding. As you roll forward sequentially into Q4, there's probably a little bit of opportunity for us in terms of sequential growth in marketing spend because we do have some events typically that land in Q3, you won't see that same cost repeat in Q4.

Naved Khan
Analyst, B. Riley Securities, Inc.

Q

Got it. Thank you, guys.

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

A

Thank you.

Operator: Thank you. The next question is from Tom White from Davidson. Your line is open.

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

Q

Great. Thanks for taking my question. I guess I wanted to just flush out the dynamics in the dealer revenue a bit more. I guess, I mean, what – can you maybe explain sort of what gives you guys the confidence that it's sort of this hangover from the CDK situation when there are some peers who seem to be able to kind of grow through it. And if you back out D2C, the kind of the organic growth, I don't know it's maybe flattish or maybe down a little bit, it looks like. Can you just maybe just talk about how you're thinking about elevated churn in dealers potentially? And then I had a follow-up. Thanks.

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

A

Sure. Well, again, we'll point to October, Tom, in that. We had strong dealer growth across all of our products and solutions and even D2C, respectively, a lot of that growth is selling AccuTrade throughout Canada. So we're getting growth across our full product set and our full sales suite. And so, we feel generally good about dealer revenue. Historically, both during election seasons and at year-end, seasonally, those tend to be softer impacts. Consumer demand tends to get muted during election years. This may be different just because it was more demonstrative. But typically, Q4 is soft in terms of dealer growth, but we're feeling bullish on the growth in all our product lines occurring in October and carrying that through end of year.

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

Q

Okay. Thanks for that. And then just on the OEM – yeah? Go ahead.

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

A

And I think that – I was just going to add, Tom, I mean, a lot of our confidence in terms of our ability to deliver growth comes from the investments that we've made in our product. I think we see that consistently when we look at the performance of our marketplace, our ability to influence sales and a sample of our dealers. We found that we influence roughly 30% of their sales, and our conversion rates continue to be superior to what dealers may get through other channels.

We redesigned our AccuTrade website, which is driving 50% more leads this quarter versus last year to dealer customers. So we do see ourselves as being really front-footed from a product innovation perspective in terms of our ability to deliver on growth as well. So I just wanted to add that in there, coupled with what we saw in October.

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

Q

Okay. Thanks. And then just a follow-up on the OEM line. So I think you guys last quarter – three months ago had guided to it being down sequentially, and it was up sequentially nicely. Can you just maybe talk a little bit about how that quarter transpired on that front? I know that's a notoriously kind of lumpy business. But just trying to, I guess, understand the visibility on that kind of going forward. Thanks.

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

A

So, well, first, I'll comment more broadly that we're pleased with the momentum in this channel, and importantly, that sets up also for 2025. We're in the upfront process for next year, and I would say those conversations are being affirmed based on the point Sonia just made on the product innovation, New Car Hub. Most of our clients are saying that other endemics don't have products solutions like this, and so there is a heavy lean in by the new car players that want to use our platform to take market share. And so, I just think we're feeling very good about the transformation we've led in that business.

I'll let Sonia comment a little bit on Q3. We were able to pick up some of the penalties that we incurred earlier in the year in Q3 from one of the clients who rebooked some of that penalty revenue as media sales, so that was a nice pickup in the quarter. But generally, we had strong demand across all of our clients in Q3.

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

A

No. I would just – I mean, I think, Tom, you know the business quite well. I think the OEM and National revenue does tend to be a little lumpier. It tends again to be oriented around new model launches, special incentives, things like that which can make it a little bit more difficult to pinpoint on range. But we're pleased with the Q3 results. And we had a record set of incremental wins that we hope will bolster us into Q4 and next year.

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

Q

Great. Thank you, guys.

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

A

Thank you, Tom.

Operator: Thank you. Your next question is from Joseph Spak from UBS. Your line is now open.

Zach Walljasper
Analyst, UBS Securities LLC

Q

Hi. It's Zach Walljasper on for Joe Spak today. So thank you for the question. I had two quick ones. One, did the hurricanes impact the business and AccuTrade adoption in the quarter? And then, two, is there any change in tone from the dealers about adding services and then higher inventories versus 90 days ago, especially as we head into the seasonal – like holiday season? Thank you.

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

A

Great question. We did see seasonal impact or, I should say, regional impact to the hurricane impact. And we've seen this movie before where consumer traffic initially comes to a halt as people reckon with the crisis and even dealer inventories are impacted. But they're also followed with like a 30-day lag, and we're seeing record traffic rebounds in those regions and much stronger consumer demand than where we were before the impacts. So it somewhat nets itself out, and certainly, we know it spurs a lot of replacement vehicle sales.

As far as interesting product adoption, the dealer new car inventory levels are rising, but the one durable trend which we're seeing across the industry take form is dealers recognizing that street buying or sourcing cars from private sellers is far more profitable than battling over aging inventory at wholesale auction. And so, regardless of inventory levels, dealers are recognizing that sourcing cars from their customers always brings in more desirable inventory.

You're seeing this reported by some of the large, publicly traded dealer groups who are signaling this as being one of their key profit-driving strategies. And now that's taking root across the dealer community, looking for ways to replicate that success at their local level. And so, we've been doing AccuTrade luncheons over the past two months, and they've been sellout events across the country where dealers are coming to learn, how can I copy what some of the industry players are doing to source inventory directly? And so, I think we're on a very durable trend there.

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

A

Can we move to the next question, please?

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

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Hey. Good morning, all. I kind of jumped on the call a little bit late. Did you guys quantify or talk about any lagging impact of the CDK cyber hit in the quarter for Q3?

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

A

Yeah. Gary, the headline there was just our sales pipeline rebooted a little bit slower than we would have liked, but definitely popped in October across all product lines. So we're on the right track. It just took a little bit longer to get people past it and moving forward, and certainly, obviously, the current economic cloud and the dealer community is profit normalization happens also is a little bit harder sales rate where dealers are looking to cut back on technology solutions as opposed to add. But when they see the strength of our solutions, I think they know they're getting enterprise-grade technology. So we're feeling really good about the October growth across the board, all solutions.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

I'm just interested in looking at slide 11 with the VPM, the VIN Performance Media business, which you said the subscribers have quadrupled since Q1. It's very early in the game, but what are the dealers finding is the real benefit with this product? And maybe if you could – could you slap a number on how many dealers have actually started to subscribe to this, Alex?

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

A

I don't have the dealer count numbers. But generally, if you understand the product benefit is that we can put more media weight against aging inventory. So dealers rather than just promoting all their cars with equal weight, we now help the dealers customize where they want additional retargeting weighting on aging inventory. And what that's doing is it's lifting the total turn rate for the dealer's entire inventory.

And so, yes, they've got to spend more to sell more. But we're not finding resistance in the price points here, which are analogous to almost a different subscription tier. And so, the take rates been strong out of the gate. And I think that will continue to accumulate heading into next year, as I just think we're going to head into higher inventory levels, slightly softer demand. Dealers are going to have to be much more disciplined about moving their entire inventory as opposed to being reliant on a third.

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

A

Yeah. And I'll just add in terms of the number of dealers who are using the product. It's still, as you mentioned, in early days. But we have several hundred dealers that are using the product and benefiting from these results.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And is this priced on dealer size? How do you price this?

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

A

It's a flat fee.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Flat fee per month?

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

A

Yes.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. And then just as you talk to your dealer base, your salespeople are out there talking to the dealer base. I mean, was there a feeling like a lot of companies, prior to the election, they were saying they were really kind of sitting on their hands and all that. And now that the election is over, I know it's really a day or two over, but is there still, you think, a big appetite for your product lines out there, given what's going on in the market itself and then it's a real sluggish market?

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

Yeah. Gary, we just held a two-day dealer council meeting here in Chicago with probably 25 of the larger dealer groups in the country. And what they shared with us heading into next year is that while they were concerned about the election outcome and not wanting to see a heavily contested election or a prolonged period, which doesn't look like we're going to have, but they generally are going into next year wanting to invest more in technologies to help reduce their overall employee cost and try to compete on running a more efficient business as vehicle sales and gross profit per unit normalizes.

So they're really reaffirmed that our Cars Commerce platform technologies that seamlessly work together is the antidote to what they're trying to solve. And so, going into next year, I generally think dealers are going to be looking to spend more in technology to automate parts of their business and to streamline operations versus less.

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, Gary.

Operator: Thank you. The next question is from Marvin Fong from BTIG. Your line is now open.

Marvin Fong
Analyst, BTIG LLC
Q

Great. Good morning. Thanks for taking my question. So I also hopped on a little late to the call. But two questions on AccuTrade. First question, it's great to see the dealer account rebound to positive growth, up 50 in the quarter, I believe. Just to level set expectations, I mean how do you see sort of that cadence of increases going over the next couple of quarters? Should we kind of think about 50 to 100 dealers as – quarter-over-quarter growth as about the right number?

And then second question. Alex, I do believe you mentioned earlier that you're in discussions with OEMs about getting further endorsements for AccuTrade and maybe some co-op dollars. Could you just kind of dial or drill down a little bit deeper? I'd love to kind of know like what are sort of those discussions like. What is it that OEMs are looking for before they kind of give the go-ahead for those endorsements? Just love some extra insight there. Thanks.

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

Sure. Marvin, well, first of all, we're really pleased with the health of the AccuTrade installed base. Not only are dealers who are using the platform, appraising more vehicles, we can actually see to the data that they're also acquiring more cars. And so, our first priority is making sure our clients are successful with the technology and the tools. And we're feeling front-footed on that.

I think part of our Q3 success was that we did snap through the DMS impact that halted sales earlier in the quarter. And so, we did get a little bit of a pickup there. But I do think that's a realistic kind of pacing that we could finish the year on because we're getting a lot of interest, and importantly, industry attention. When publicly traded dealer groups report record profitability, citing vehicle acquisition being entirely done from customers versus auctions, the dealer body takes notice.

And so, they're trying to replicate what some of the large consolidators are demonstrating in their financial performance, and they're looking to us to enable that outcome. So that's exactly what AccuTrade does. It levels the playing field and gives power back to the long tail of this industry. So I would hope that could be a consistent growth metric that we could achieve most of next year. But we'll see how Q4 finishes out and get guidance for next year at the end of the quarter.

Marvin Fong
Analyst, BTIG LLC

Q

Okay. That's great. Maybe as a follow-up...

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

A

By the way, your second part – yeah, on the OEM.

Marvin Fong
Analyst, BTIG LLC

Q

Yeah. Sure. Please.

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

A

On the OEM side, look, we're really pleased with the progress. In fact, I think it's almost like 60% of the sales that we generated for AccuTrade in the quarter were from the OEM dealers that we've got endorsements with. So it's showing that if we can get the OEM endorsements and the top-down financial support from OEMs to point dealers our direction, it can be a boost for sales. So we are in discussions with more OEMs. I don't think those will close this year, but I think that'll be a 2025 thing that could accelerate our growth next year. But we're in multiple conversations to expand the AccuTrade footprint with OEMs this year.

Marvin Fong
Analyst, BTIG LLC

Q

Got it. Okay. I'll leave it at that. Thanks so much. Appreciate it.

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

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Thank you, Marvin.

Operator: Thank you. There are no further questions at this time. I will now hand the call back to Alex Vetter for the closing remarks.

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

Well, thank you for joining us today. We appreciate the questions and the interest in Cars Commerce, and we're looking forward to seeing many of you in the coming weeks, both virtually and in person. I just wanted to add and extend this save a date for our investor breakfast at NADA in New Orleans, which will be at the beginning of next year, January 24, 2025 in New Orleans. So please save the date. We'll send you more details soon. But it will be a great way to kick off the year and get a deeper dive look at our product roadmap.

This concludes our call. Thank you very much for joining us today.

Operator: Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.