Investment Recommendation – $1.7 Billion Leveraged Buyout of Cars.com

Presentation to the Investment Committee

Investment Recommendation and Executive Summary

- We recommend **acquiring** Cars.com, a digital marketplace that connects car shoppers with dealers, for a Purchase Enterprise Value of $1.7 billion (~30% premium to its 6-month average share price) because it represents a compelling turnaround candidate that could become a platform business via add-on acquisitions

- Targeted and likely returns:
  - **Upside Case:** 30% IRR (27 – 33%); **Base Case:** 20% IRR (17 – 23%); **Downside Case:** 1.0x MOIC (1.1 – 1.4x)

- At current trading levels, the company's valuation is reasonable (10 – 11x EBITDA), and many smaller companies in the sector could be acquired for lower multiples

- There is significant growth in the used car dealer market in the U.S., and the company seems to have maintained its pricing power even with a declining market share

- Additionally, the company's website traffic has grown nearly 50% in FY 17 – 20 but is below its monetization potential

- Risk factors include the add-on acquisitions being too expensive and the company's market share or margins declining by more than expected; we could mitigate these risks with a different acquisition strategy and operational changes

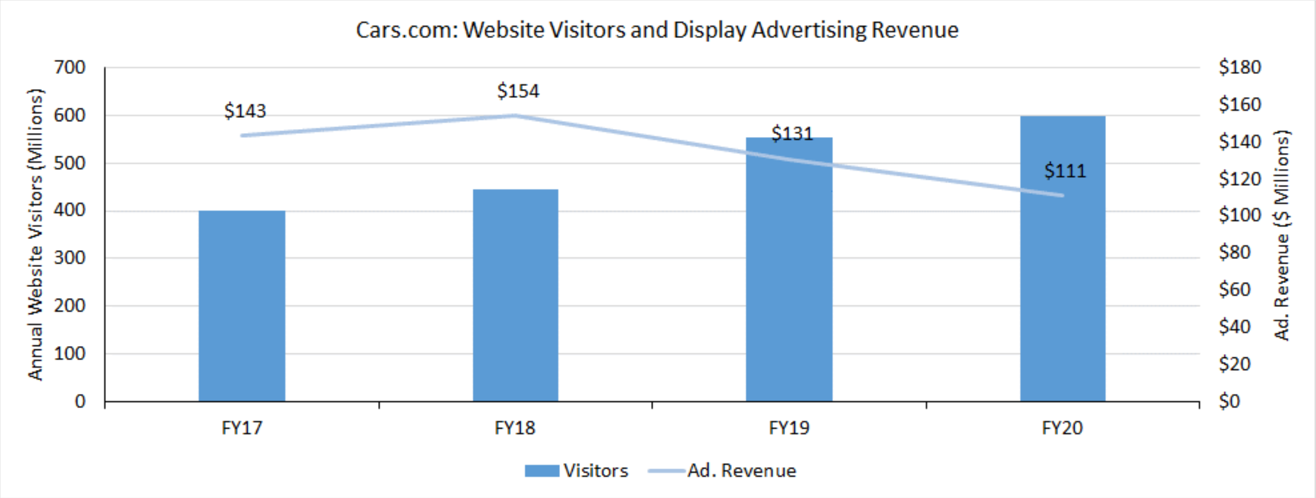
Cars.com – Company Selection Process

- First Consumer Capital is seeking undervalued consumer/media/telecom/software companies with stagnant/declining core businesses that can be turned around via restructuring, divestitures, and add-on acquisitions (deal sizes between $500 million and $2 billion):
  - **Purchase Price:** At a 20 – 40% premium, Cars.com is worth an Enterprise Value of $1.6 – $1.8 billion
  - **Financial Profile:** Its revenue has declined by ~4% per year in FY 17 – 20 due to falling market share
  - **Valuation:** Its current trading range of 10 – 11x EBITDA is lower than most software/media companies in the space, and its FCF yield has remained in the 10 – 15% range despite falling revenue
- Other companies considered had less favorable financial profiles:

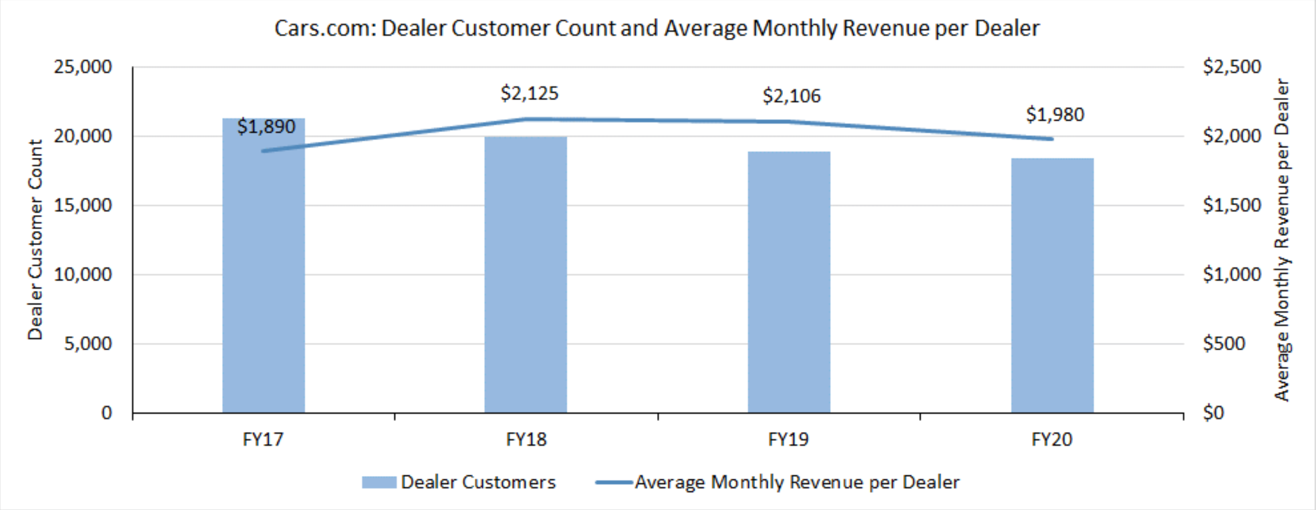
Potential TMT / Consumer Candidate	Revenue Growth	EBITDA Margin	FCF Yield	EBITDA Multiple
Cumulus Media	(25%)	10 – 15%	10%	11 – 12x
Digital Media Solutions	30%	10 – 15%	2%	13 – 14x
gogo	10 – 15%	30 – 40%	Negative	19 – 20x
Urban One	(5 – 10%)	25 – 30%	40%+	8 – 9x
thryv	(10 – 20%)	25 – 30%	20%+	5 – 6x

Historical Company Performance

- The company's website traffic has grown nearly 50% from FY 17 through FY 20, but its advertising revenue has fallen over 20%:

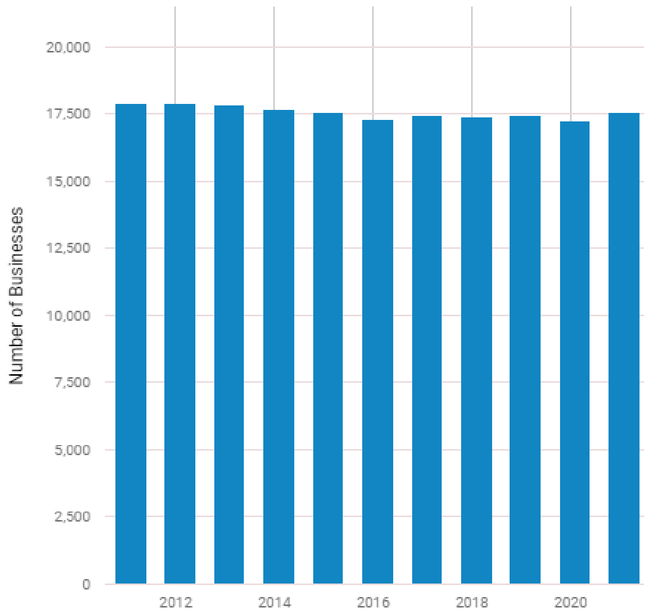


- And its dealer customers have declined even as it has maintained its pricing power, at approximately $2,000 per month per dealer:

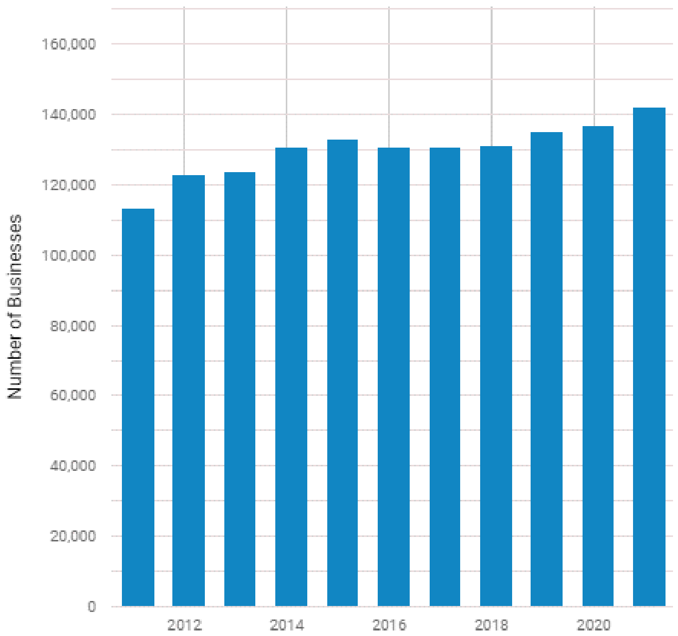


Market Overview – Car Dealerships in the U.S.

New Car Dealerships[1]



Used Car Dealerships[1]



- Used car dealerships have grown substantially and are expected to grow at a 3-4% annualized rate over the next decade; the new car dealership count will remain stagnant
- Therefore, even if the Cars.com market share continues to decrease, it is possible for the company to stabilize or grow its revenue due to the modestly expanding addressable market

(1) Data source: IBISWorld.

Market Overview – Growth Opportunities

- Since Cars.com has maintained its pricing power, a reasonable expansion opportunity might be to sell additional software, services, marketing, and lead generation to car dealers (especially in the used segment)
- It could also leverage its organic and paid website traffic more effectively; despite 50%+ visitor growth, its display advertising revenue per visitor has fallen by nearly 50% in the same time frame
- Add-on acquisitions with EBITDA yields of 10%+ could also boost the company's cash flow and turn it into a stronger software/services platform business for car dealerships

	Develop and Sell Additional Software / Services	Monetize Website Traffic More Effectively
Requirements:	▪ Full-time staff and multi-year development cycle; alternatively, acquisitions of smaller companies in the space that could benefit from wider distribution	▪ Full-time marketing/sales/SEO professionals, but cheaper and faster turnaround than new software and services
Potential Financial Impact:	▪ $2,500 / month in average revenue per dealer (up from $2,300) would boost Year 5 Base Case Revenue by ~$44 million (8% increase)	▪ Maintaining the advertising revenue per visitor at ~$0.20 would boost Year 5 Base Case Revenue by ~$59 million (11% increase)

Cars.com – Proposed Turnaround Strategy

Objective #1:

Stabilize the Company's Core Businesses

- Website traffic seems likely to grow based on strong organic search results and historical trends, so the company should focus on stabilizing and eventually increasing its advertising revenue per visitor
- Meanwhile, the company should pursue growth in the used car dealer market to offset losses among new dealers
- The company should continue to expand its services and platform to justify 2-3% annual price increases

Objective #2:

Become a Platform Company via Add-On Acquisitions

- There are at least 5-10 promising acquisition candidates in the software, media, and car dealer markets, and the market data justifies the financial case for these acquisitions
- The average Enterprise Value of each annual acquisition would be approximately $100 million, just below the company's projected Unlevered FCF
- These deals could potentially double Cars.com's EBITDA over 5 years

Potential Acquisition Candidates

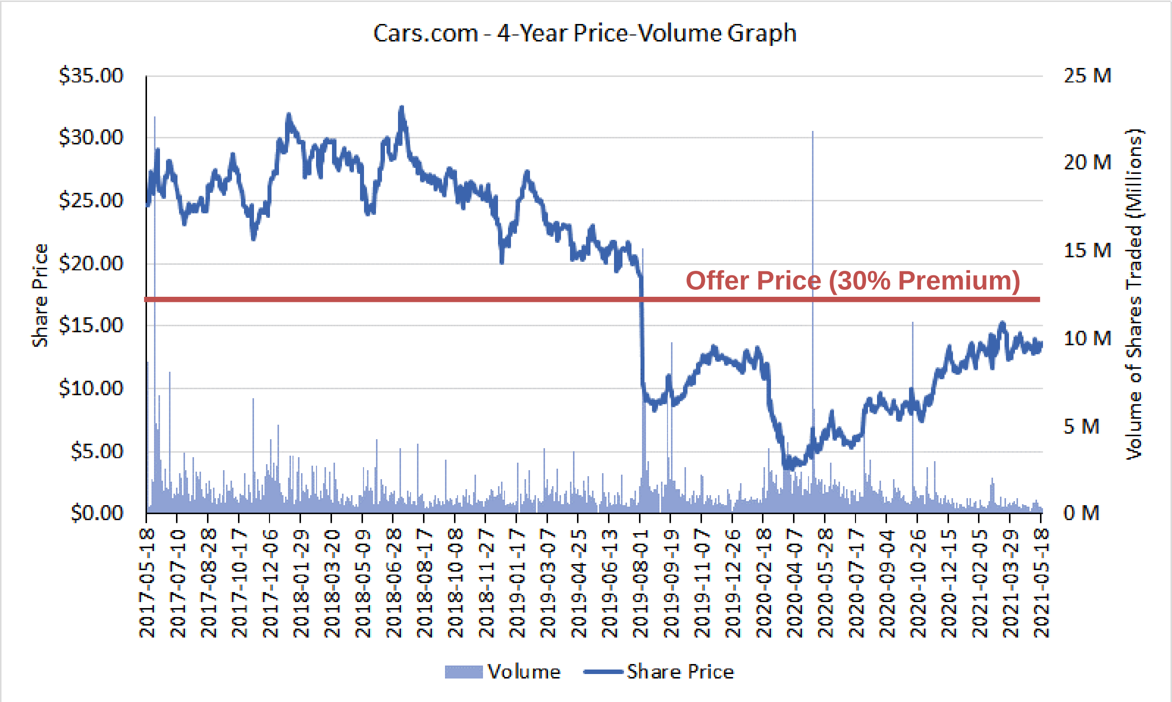
- To find potential acquisition candidates, we reviewed car-related companies in the software, media / services, and dealer / franchise spaces, as well as direct competitors
- Companies tended to be “growth”-oriented (many software candidates) or “value”-oriented (many legacy media companies as well as dealer / franchise owners)
- Several representative acquisition candidates are summarized below:

Acquisition Candidate	Market Segment	Approximate Revenue	EBITDA	Estimated EBITDA Multiple
NetSol	Auto finance software	$53 million (stagnant/declining)	$7 million	6 – 7x
TrueCar	Pricing data and leads for dealers	$265 million (over 10% growth)	Near $0	30x+
Dealer.com	Car dealership marketing	$300 million (modest growth)	$50 million	10 – 12x
Average Individual Dealers	Car dealerships (online or offline)	$10 million (low growth)	$500,000	4 – 6x
America’s Car-Mart	Car dealership owner	$833 million (5-10% growth)	$100 million	11 – 12x

- Nearly all car dealerships and dealer aggregators are private, but the numbers above are representative for companies in both categories

Cars.com – Leveraged Buyout Valuation

- At a standard 30% premium to the company's 6-month average price of ~$13.00, the purchase TEV / EBITDA multiple is approximately 13x, which compares favorably to other valuation data:
  - **Historical Trading Range of Cars.com:** EBITDA multiples have ranged between 8x and 14x over the past ~4 years, with share prices as high as $30.00+
  - **Trading Range of Comparable Public Companies:** The closest publicly traded comparables, CarGurus and TrueCar, both trade at LTM EBITDA multiples of 20-30x+
  - **Valuation Range of Precedent Transactions:** There's limited data on comparable M&A transactions in this sector, but the few deals over the past decade have been done at 20-30x+ EBITDA multiples



Revenue, Expenses, and Financial Metrics

	Downside	Base	Upside
Year 5 U.S. Car Dealer Count	~160K	~160K	~160K
Year 5 Cars.com Market Share (Current: 11.9%)	7.9%	10.0%	11.4%
Year 5 Marketplace Revenue (Current: $436 million)	$344 million	$436 million	$497 million
Year 5 Total EBITDA Incl. Add-On Acquisitions (CAGR)	$216 million (10%)	$267 million (15%)	$301 million (18%)
Year 5 FCF Yield Incl. Acquisitions	< 1%	4%	6%
Year 5 ROIC (Current: 1-3%)	4%	6%	7%
Plausible IRR Range	0 – 9%	17 – 23%	27 – 33%

Summary of LBO Model Assumptions

Purchase Price	▪ 30% premium to 6-month average share price ($16.90), which implies a Purchase Enterprise Value of $1.7 billion and a TEV / EBITDA of 13.2x
Leverage Ratio	▪ 5x EBITDA, in-line with recent LBOs, for $659 million in Total Debt
Deal Structure	▪ Standard public company acquisition (Stock Purchase) with Debt and Equity funding and modest Excess Cash used to fund the deal (~4%)
Debt Tranches	▪ Undrawn Revolver at close with 3x Term Loans (4.5% initial interest rate) and 2x Subordinated Notes (4.0% fixed cash interest and 4.0% PIK interest)
Add-On Acquisitions	▪ $100 million TEV in acquisitions each year, with Growth and Value cases included (Growth: 15x multiple, 10% initial growth, and 3% initial margins; Value: 5x multiple, 3% initial growth, and 10% initial margins)
Exit Strategies	▪ M&A and IPO options supported (IPO assumes sale of 1/3 of total Equity Proceeds from Year 5 through Year 7)
Exit Multiples	▪ Range from 11x to 14x to 17x in the Downside, Base, and Upside cases based on ROIC improvement; 10% premium for an IPO exit

Summary of LBO Model Output

- The IRRs across a range of outcomes are shown below (defaults in **bold**):

Purchase Premium:	TEV / EBITDA Exit Multiple: 10.0 x	11.0 x	12.0 x	13.0 x	**14.0 x**	15.0 x	16.0 x	17.0 x	18.0 x	19.0 x	20.0 x
40.0%	11.1%	13.8%	16.3%	18.6%	**20.8%**	22.8%	24.6%	26.4%	28.1%	29.7%	31.2%
37.5%	11.5%	14.3%	16.8%	19.1%	**21.2%**	23.3%	25.1%	26.9%	28.6%	30.2%	31.7%
35.0%	12.0%	14.8%	17.3%	19.6%	**21.7%**	23.7%	25.6%	27.4%	29.1%	30.7%	32.2%
32.5%	12.5%	15.2%	17.7%	20.1%	**22.2%**	24.3%	26.1%	27.9%	29.6%	31.2%	32.8%
30.0%	**12.9%**	**15.7%**	**18.2%**	**20.6%**	**22.7%**	**24.8%**	**26.7%**	**28.5%**	**30.2%**	**31.8%**	**33.3%**
27.5%	13.4%	16.2%	18.7%	21.1%	**23.3%**	25.3%	27.2%	29.0%	30.7%	32.3%	33.9%
25.0%	13.9%	16.7%	19.3%	21.6%	**23.8%**	25.9%	27.8%	29.6%	31.3%	32.9%	34.5%
22.5%	14.4%	17.2%	19.8%	22.2%	**24.4%**	26.4%	28.3%	30.2%	31.9%	33.5%	35.1%
20.0%	14.9%	17.8%	20.3%	22.7%	**24.9%**	27.0%	28.9%	30.8%	32.5%	34.1%	35.7%

Operating Scenario:	Acquisition Scenario: Growth	Value
Upside	30.2%	32.5%
Base	20.1%	22.7%
Downside	4.2%	8.0%

Operating Scenario:	Exit Scenario: M&A	IPO
Upside	32.5%	29.2%
Base	22.7%	21.3%
Downside	8.0%	9.3%

Acquisition Scenario:	Exit Scenario: M&A	IPO
Growth	20.1%	19.2%
Value	22.7%	21.3%

- While an M&A exit and Value acquisitions are best, the baseline IRR is still likely to be in the high teens to low 20% range even with a Growth strategy and an IPO exit

- The Upside case points to a 30%+ IRR, and the IRR in the Downside case is likely to be in the 0 – 9% range because the company's FCF generation remains acceptable

Impact of Add-On Acquisitions on LBO Model

- While add-on acquisitions make this deal work, they are also a major **risk factor** because they could end up being much more expensive than the assumed EBITDA multiples (5x in the Value case and 15x in the Growth case)
- The numbers point to risk from deal price increases in the Value case, but also a possible mitigant by increasing the average acquisition size:

Operating Scenario:	Average Acquisition Enterprise Value:										
	$ 50.0	$ 60.0	$ 70.0	$ 80.0	$ 90.0	**$ 100.0**	$ 110.0	$ 120.0	$ 130.0	$ 140.0	$ 150.0
Upside	27.9%	28.9%	29.8%	30.7%	31.6%	**32.5%**	33.3%	34.1%	34.9%	35.7%	36.5%
Base	17.9%	18.9%	19.9%	20.9%	21.8%	**22.7%**	23.6%	24.5%	25.3%	26.2%	27.0%
Downside	1.9%	3.3%	4.6%	5.8%	6.9%	**8.0%**	9.1%	10.1%	11.1%	12.1%	13.0%

Operating Scenario:	Average Acquisition TEV / EBITDA Multiple:										
	5.0 x	6.0 x	7.0 x	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x	13.0 x	14.0 x	**15.0 x**
Upside	**32.5%**	30.4%	28.9%	27.7%	26.8%	26.0%	25.4%	24.8%	24.3%	23.9%	**23.5%**
Base	**22.7%**	20.4%	18.7%	17.3%	16.1%	15.2%	14.4%	13.7%	13.1%	12.6%	**12.2%**
Downside	**8.0%**	4.8%	2.3%	0.2%	(1.6%)	(3.1%)	(4.4%)	(5.5%)	(6.6%)	(7.5%)	**(8.3%)**

Average Acquisition Enterprise Value:	Average Acquisition TEV / EBITDA Multiple:										
	5.0 x	6.0 x	7.0 x	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x	13.0 x	14.0 x	**15.0 x**
$ 50.0	**17.9%**	16.5%	15.5%	14.8%	14.1%	13.6%	13.2%	12.9%	12.6%	12.3%	**12.1%**
60.0	**18.9%**	17.4%	16.2%	15.3%	14.6%	14.0%	13.5%	13.1%	12.7%	12.4%	**12.1%**
70.0	**19.9%**	18.2%	16.8%	15.8%	15.0%	14.3%	13.7%	13.2%	12.8%	12.4%	**12.1%**
80.0	**20.9%**	18.9%	17.5%	16.3%	15.4%	14.6%	13.9%	13.4%	12.9%	12.5%	**12.1%**
90.0	**21.8%**	19.7%	18.1%	16.8%	15.7%	14.9%	14.2%	13.6%	13.0%	12.6%	**12.2%**
100.0	**22.7%**	**20.4%**	**18.7%**	**17.3%**	**16.1%**	**15.2%**	**14.4%**	**13.7%**	**13.1%**	**12.6%**	**12.2%**
110.0	**23.6%**	21.2%	19.3%	17.7%	16.5%	15.5%	14.6%	13.9%	13.2%	12.7%	**12.2%**
120.0	**24.5%**	21.9%	19.8%	18.2%	16.9%	15.8%	14.9%	14.1%	13.4%	12.7%	**12.2%**
130.0	**25.3%**	22.6%	20.4%	18.7%	17.3%	16.1%	15.1%	14.2%	13.5%	12.8%	**12.2%**
140.0	**26.2%**	23.2%	21.0%	19.1%	17.6%	16.4%	15.3%	14.4%	13.6%	12.9%	**12.2%**
150.0	**27.0%**	23.9%	21.5%	19.6%	18.0%	16.7%	15.5%	14.5%	13.7%	12.9%	**12.2%**

Downside Case and the Potential to Lose Money

- The main risk in the Downside case is that the add-on acquisitions will turn out to be more expensive than expected
  - Since the company's core business is weaker in this case, its EBITDA and FCF will not be high enough to offset the lower yields from the acquisitions
- We might be able to reduce this risk by executing Growth add-on acquisitions or acquiring larger companies in the Value case to get a higher EBITDA contribution:

Operating Scenario:	Average Acquisition TEV / EBITDA Multiple:										
	5.0 x	6.0 x	7.0 x	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x	13.0 x	14.0 x	15.0 x
Upside	32.5%	30.4%	28.9%	27.7%	26.8%	26.0%	25.4%	24.8%	24.3%	23.9%	23.5%
Base	22.7%	20.4%	18.7%	17.3%	16.1%	15.2%	14.4%	13.7%	13.1%	12.6%	12.2%
Downside	8.0%	4.8%	2.3%	0.2%	(1.6%)	(3.1%)	(4.4%)	(5.5%)	(6.6%)	(7.5%)	(8.3%)

Average Acquisition Enterprise Value:	Average Acquisition TEV / EBITDA Multiple:										
	5.0 x	6.0 x	7.0 x	8.0 x	9.0 x	10.0 x	11.0 x	12.0 x	13.0 x	14.0 x	15.0 x
$ 50.0	1.9%	(0.0%)	(1.5%)	(2.7%)	(3.7%)	(4.5%)	(5.2%)	(5.8%)	(6.3%)	(6.8%)	(7.1%)
60.0	3.3%	1.0%	(0.7%)	(2.1%)	(3.3%)	(4.2%)	(5.1%)	(5.8%)	(6.4%)	(6.9%)	(7.4%)
70.0	4.6%	2.0%	0.1%	(1.5%)	(2.8%)	(3.9%)	(4.9%)	(5.7%)	(6.4%)	(7.0%)	(7.6%)
80.0	5.8%	3.0%	0.8%	(1.0%)	(2.4%)	(3.7%)	(4.7%)	(5.6%)	(6.5%)	(7.2%)	(7.8%)
90.0	6.9%	3.9%	1.6%	(0.4%)	(2.0%)	(3.4%)	(4.6%)	(5.6%)	(6.5%)	(7.3%)	(8.0%)
100.0	**8.0%**	**4.8%**	**2.3%**	**0.2%**	**(1.6%)**	**(3.1%)**	**(4.4%)**	**(5.5%)**	**(6.6%)**	**(7.5%)**	**(8.3%)**
110.0	9.1%	5.7%	3.0%	0.7%	(1.2%)	(2.8%)	(4.2%)	(5.5%)	(6.6%)	(7.6%)	(8.5%)
120.0	10.1%	6.5%	3.7%	1.3%	(0.8%)	(2.5%)	(4.1%)	(5.4%)	(6.7%)	(7.8%)	(8.7%)
130.0	11.1%	7.4%	4.3%	1.8%	(0.4%)	(2.3%)	(3.9%)	(5.4%)	(6.7%)	(7.9%)	(9.0%)
140.0	12.1%	8.1%	5.0%	2.3%	(0.0%)	(2.0%)	(3.8%)	(5.3%)	(6.8%)	(8.0%)	(9.2%)
150.0	13.0%	8.9%	5.6%	2.8%	0.4%	(1.7%)	(3.6%)	(5.3%)	(6.8%)	(8.2%)	(9.5%)

Major Risk Factors and Mitigants

Risk Factor	Example of Impact on Returns	How to Mitigate the Risk
Add-On Acquisitions Turn Out to Be Significantly More Expensive	▪ Each 1x increase in the average acquisition multiple reduces the IRR by several percentage points, flipping many of the recommendations from positive to negative	▪ Pursue Growth acquisitions instead, as the multiple is already expected to be high, or use the Value strategy but make larger acquisitions for a more substantial EBITDA contribution
Company's Market Share Declines by More Than Expected	▪ If the company's market share declines by 1.5% per year, falling to 4.4% in the final year of the Downside case, the IRR falls to (14%) and remains negative across a wide range of assumptions	▪ Shift spending away from Marketplace Subscriptions and into monetizing the company's website traffic more effectively (e.g., cut Cost of Revenue and aim for a stable display advertising per visitor figure)
Company's EBITDA Margins Fall or Do Not Return to Historical Levels	▪ If the company's EBITDA margins (including acquisitions) are 4-5% lower by Year 5, the Downside case MOIC falls to the ~1x range, increasing the likelihood of losing money	▪ Spend even more on add-on acquisitions to compensate for the decline in the core business and/or monetize the company's website traffic more effectively

Summary and Recommendations

#1	The Baseline IRRs Meet or Exceed the Targeted Levels	We believe IRRs in the 17 – 23% and 27 – 33% ranges are likely in the Base and Upside cases, respectively, and that losing money is unlikely in the Downside case
#2	And the Assumptions Are Neutral to Relatively Conservative	In all operational scenarios, we assume low market growth, falling market share, and falling advertising revenue per visitor; the add-on acquisitions drive this deal, and they seem reasonable based on the data
#3	Acquisitions Will Make the Company a Platform Business	The add-on acquisitions could result in the company's EBITDA more than doubling over 5 years, as well as substantial improvements in ROIC, and they make Cars.com a more attractive acquisition target or public company
#4	And We Can Mitigate the Top Risk Factors in the Deal	We can focus on Growth acquisitions or make larger Value acquisitions to mitigate risk, and we could aim to monetize the company's website traffic more effectively if its Marketplace Subscriptions business declines