UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of

The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 5, 2020

AutoWeb, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**1-34761**	**33-0711569**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

400 North Ashley Drive, Suite 300
Tampa, Florida 33602-4314
(Address of principal executive offices) (Zip Code)

(949) 225-4500
Registrant's telephone number, including area code

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	AUTO	The Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On August 5, 2020, AutoWeb, Inc., a Delaware corporation ("**AutoWeb**" or "**Company**"), announced in a press release its financial results for the quarter ended June 30, 2020. A copy of AutoWeb's press release announcing these financial results is attached as Exhibit 99.1 to this Current Report on Form 8-K.

In connection with the press release, the Company also held a conference call that was webcast on August 5, 2020. A transcript of that call is attached as Exhibit 99.2 to this Current Report on Form 8-K.

The attached press release and transcript contain information that includes "Adjusted EBITDA," a non-GAAP financial measure as defined in Regulation G adopted by the Securities and Exchange Commission. The Company defines Adjusted EBITDA as net loss before interest, taxes, depreciation, amortization, non-cash stock-based compensation, non-cash gains or losses, and other extraordinary items. The Company's management believes that presenting Adjusted EBITDA provides useful information to investors regarding the underlying business trends and performance of the Company's ongoing operations, as well as providing for more consistent period-over-period comparisons. This non-GAAP measure also assists management in its operational and financial decision-making and monitoring the Company's performance. In addition, the Company uses Adjusted EBITDA as a measure for determining incentive compensation targets. Adjusted EBITDA is used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review the Company's consolidated financial statements in their entirety and to not rely on any single financial measure. A table providing a reconciliation of Adjusted EBITDA to the most comparable GAAP financial measure is included at the end of the press release attached as Exhibit 99.1 to this Current Report on Form 8-K.

The attached press release and transcript are incorporated herein solely for purposes of this Item 2.02 disclosure. The information furnished pursuant to this Item 2.02, including the exhibits attached hereto, shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("**Exchange Act**"), or otherwise subject to the liabilities of that section, nor shall it be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any incorporation by reference language of such filing. In addition, the press release and transcript furnished as exhibits to this report include "safe harbor" language pursuant to the Private Securities Litigation Reform Act of 1995, stating that certain statements about AutoWeb's business contained in the press release and transcript are "forward-looking" rather than "historic."

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Press Release dated August 5, 2020
99.2 Transcript of AutoWeb, Inc.'s Conference Call dated August 5, 2020

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: August 7, 2020

AUTOWEB, INC.

By: /s/ Glenn E. Fuller
Glenn E. Fuller, Executive Vice President,
Chief Legal Officer and Secretary

Exhibit 99.1

AutoWeb Reports Second Quarter 2020 Results

Gross Profit up 11% to $6.0 Million; Generated Strongest Level of Gross Margin since 2016

Cost Controls and Operating Efficiencies Continue to Improve Profitability

TAMPA, FL. – August 5, 2020 – AutoWeb, Inc. (Nasdaq: AUTO), a robust digital marketing platform providing digital advertising solutions for automotive dealers and OEMs, is reporting financial results for the second quarter ended June 30, 2020.

"Our second quarter performance demonstrates the strong progress we have made in our turnaround, even as we navigate the effects of the coronavirus pandemic," said Jared Rowe, President and CEO of AutoWeb. "Despite Q2 revenues declining in-line with the broader automotive industry, we significantly expanded gross margin to the highest level in several years, reduced our net loss and achieved a critical milestone in turning adjusted EBITDA positive. These results validate our disciplined approach to expense management and running an efficient, flexible and sustainable business capable of profitable growth in both good times and bad. I am extremely proud of our team's hard work during this challenging time for our industry."

Second Quarter 2020 Financial Summary

	Q2 2020	**Q1 2020**	**Q2 2019**
Total Revenues *(millions)*	$17.0	$24.5	$27.1
Advertising Revenues *(millions)*	$2.8	$6.0	$5.4
Gross Profit *(millions)*	$6.0	$5.4	$5.4
Gross Margin	35.5%	21.9%	19.8%
Net Income/(Loss) *(millions)*	$(1.4)	$(4.1)	$(5.0)
Net Income/(Loss) per share	$(0.10)	$(0.31)	$(0.38)
Adjusted EBITDA[1] *(millions)*	$0.4	$(1.7)	$(2.1)

Second Quarter 2020 Key Operating Metrics[2]

	Q2 2020	**Q1 2020**	**Q2 2019**
Lead Traffic[3] *(millions)*	18.3	27.3	33.1
Lead Volume[4] *(millions)*	1.2	1.5	1.8
Retail Dealer Count[5]	1,854	1,822	2,510
Retail Lead Capacity[6]	100,000	106,000	142,000
Click Traffic[7] *(millions)*	23.0	31.8	26.7
Click Volume[8] *(millions)*	5.5	8.6	5.9
Net Revenue per Click[9]	$0.42	$0.63	$0.75

1 Refer to the Non-GAAP financial measures discussed below.
2 Certain website properties have been added and removed from tracking metrics as AutoWeb continues to refine its website portfolio and its approach to tagging. These changes have been made to the prior periods for lead traffic, click traffic, and click volume as well for comparative purposes.
3 Lead traffic = total visits to AutoWeb's owned lead websites.
4 Lead volume = total new and used vehicle leads invoiced to retail and wholesale customers.
5 Retail dealer count = the number of franchised dealers contracted for delivery of retail new vehicle leads plus the number of vehicle dealers (franchised or independent) contracted for delivery of retail used vehicle leads.
6 Retail lead capacity = the number of new and used vehicle leads contracted for by new or used retail vehicle dealers that the dealers wish to receive each month (i.e., "targets") at the end of the applicable quarter.
7 Click traffic = total visits to AutoWeb's owned click referral websites and AutoWeb's Click Traffic Affiliate Network websites.
8 Click volume = the number of times during the applicable quarter that consumers clicked on advertisements on AutoWeb's owned click referral websites and on AutoWeb's Click Traffic Affiliate Network websites.
9 Net revenue per click = total click revenue divided by click volume for owned & affiliated sites.

"Across our business, our team has remained almost entirely intact with limited furloughs or layoffs, even during the lowest points in April. It was very important that we ensured job continuity for our team and maintained critical health benefits for the few employees that were furloughed. Since the lows in April, we have sequentially grown revenue, gross margin and adjusted EBITDA every month during the second quarter, and our overall operational and financial performance in July continued this positive trajectory. Our retail dealer 'suspend status' has also continued to improve since our last corporate update and revenues in suspend status are now down more than 75% from mid-April, which is when it peaked.

"In our clicks business, volumes remain challenged like other traditional impression-based media, however our high-quality leads have become an even more valuable asset. We have historically referenced that dealers and OEMs turn to leads when there is market uncertainty given their high attribution and 'lower funnel' targeting. In fact, we recently conducted an email survey of our users that showed more than 70% of respondents had no plans to delay their automotive purchase due to COVID-19, which indicates that AutoWeb's leads are submitted by committed car buyers, not just shoppers.

"One of our key strategic decisions this quarter has also panned out. Instead of implementing widespread product discounts, we focused on matching our consumer marketing spend to projected industry selling rates, which better aligned with the true consumer demand in the market. By focusing on the changing market dynamics in a targeted manner, we believe we were able to better meet the true needs of our dealer and OEM customers by delivering them actionable car buyers, not discounted traffic made up of shoppers.

"Throughout the automotive industry, new car sales remain well below pre-COVID levels, and dealers are still contending with the broader macroeconomic impacts of the pandemic on consumer behavior. Analysts project that second quarter U.S. vehicle sales have fallen by about one-third, and high unemployment rates continue to affect consumer confidence. We cannot predict how these market forces will evolve in the coming months, but we will continue to support our dealer and OEM customers as they continue to turn to leads to support their sales recovery.

"The progress we have made this quarter would not be possible without our work to realign our organizational structure, reduce costs, and improve our operational focus over the past two years. Our work in this turnaround is not yet complete, however we remain optimistic and focused on continuing our momentum to improve profitability."

Second Quarter 2020 Financial Results

Total revenues in the second quarter of 2020 were $17.0 million compared to $27.1 million in the year-ago quarter, with advertising revenues of $2.8 million compared to $5.4 million in the year-ago quarter. The expected decline in total revenues was primarily due to continued challenges in the automotive industry in the wake of the coronavirus pandemic. The company anticipated these challenges and proactively reduced marketing spend to better align lead and click volumes with market demand.

Gross profit in the second quarter increased 11% to $6.0 million compared to $5.4 million in the year-ago quarter. As a percentage of revenue, gross profit increased significantly to 35.5% compared to 19.8%. The increase was driven by improved traffic acquisition and lower costs per lead, as well as continued focus on higher-margin distribution channels.

Total operating expenses in the second quarter decreased 30% to $7.3 million compared to $10.4 million in the year-ago quarter, primarily driven by continued prudent cost management across the business.

Net loss in the second quarter of 2020 improved significantly to $1.4 million or $(0.10) per share, compared to a net loss of $5.0 million or $(0.38) per share in the year-ago quarter.

Adjusted EBITDA improved to $0.4 million compared to $(2.1) million in the second quarter of 2019 (See "Note about Non-GAAP Financial Measures" below for further discussion).

At June 30, 2020, cash, cash equivalents and restricted cash totaled $8.5 million compared to $7.9 million at March 31, 2020.

At June 30, 2020, AutoWeb had an outstanding balance of $7.2 million on its revolving credit facility with CIT Northridge Credit compared to $6.7 million at March 31, 2020.

Conference Call
AutoWeb will hold a conference call today at 5:00 p.m. Eastern time to discuss its second quarter results, followed by a question-and-answer session.

Date: Wednesday, August 5, 2020
Time: 5:00 p.m. Eastern time (2:00 p.m. Pacific time)
Toll-free dial-in number: 1-877-852-2929
International dial-in number: 1-404-991-3925
Conference ID: 8050647

The conference call will also be broadcast live at www.autoweb.com (click on "Investors" and then click on "Events & Presentations"). Please visit the website at least 15 minutes prior to the start of the call to register and download any necessary software. For those who will be joining the call by phone, please call the conference telephone number 5-10 minutes prior to the start time, and an operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Gateway Investor Relations at 1-949-574-3860.

A replay of the conference call will be available after 8:00 p.m. Eastern time on the same day through August 12, 2020. The call will also be archived in the Investors section of the company's website for one year.

Toll-free replay number: 1-855-859-2056
International replay number: 1-404-537-3406
Replay ID: 8050647

Tax Benefit Preservation Plan
At December 31, 2019, the company had approximately $100.5 million in available net operating loss carryforwards (NOLs) for U.S. federal income tax purposes. AutoWeb reminds stockholders about its Tax Benefit Preservation Plan dated May 26, 2010, as amended (the "Plan") between the company and Computershare Trust Company, N.A., as rights agent.

The Plan was adopted by the company's board of directors to preserve the company's NOLs and other tax attributes, and thus reduce the risk of a possible change of ownership under Section 382 of the Internal Revenue Code. Any such change of ownership under Section 382 would limit or eliminate the ability of the company to use its existing NOLs for federal income tax purposes. In general, an ownership change will occur if the company's 5% shareholders, for purposes of Section 382, collectively increase their ownership in the company by an aggregate of more than 50 percentage points over a rolling three-year period. The Plan is designed to reduce the likelihood that the company experiences such an ownership change by discouraging any person or group from becoming a new 5% shareholder under Section 382. Rights issued under the Plan could be triggered upon the acquisition by any person or group of 4.9% or more of the company's outstanding common stock and could result in substantial dilution of the acquirer's percentage ownership in the company. There is no guarantee that the Plan will achieve the objective of preserving the value of the company's NOLs.

As of June 30, 2020, there were 13,146,831 shares of the company's common stock, $0.001 par value, outstanding. Persons or groups considering the acquisition of shares of beneficial ownership of the company's common stock should first evaluate their percentage ownership based on this revised outstanding share number to ensure that the acquisition of shares does not result in beneficial ownership of 4.9% or more of outstanding shares. For more information about the Plan, please visit investor.autoweb.com/tax.cfm.

About AutoWeb, Inc.
AutoWeb, Inc. provides high-quality consumer leads, clicks and associated marketing services to automotive dealers and manufacturers throughout the United States. The company also provides consumers with robust and original online automotive content to help them make informed car-buying decisions. The company pioneered the automotive Internet in 1995 and has since helped tens of millions of automotive consumers research vehicles; connected thousands of dealers nationwide with motivated car buyers; and has helped every major automaker market its brand online.

Investors and other interested parties can receive AutoWeb news alerts by accessing the online registration form at investor.autoweb.com/alerts.cfm.

Note about Non-GAAP Financial Measures
AutoWeb has disclosed Adjusted EBITDA in this press release, which is a non-GAAP financial measure as defined by SEC Regulation G. The company defines Adjusted EBITDA as net loss before interest, taxes, depreciation, amortization, non-cash stock-based compensation, non-cash gains or losses, and other extraordinary items. A table providing a reconciliation of Adjusted EBITDA is included at the end of this press release.

The company's management believes that presenting Adjusted EBITDA provides useful information to investors regarding the underlying business trends and performance of the company's ongoing operations, as well as providing for more consistent period-over-period comparisons. This non-GAAP measure assists management in its operational and financial decision-making and monitoring the company's performance. In addition, we use Adjusted EBITDA as a measure for determining incentive compensation targets. Adjusted EBITDA is used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review the company's consolidated financial statements in their entirety and to not rely on any single financial measure.

Forward-Looking Statements Disclaimer
The statements contained in this press release or that may be made during the conference call described above that are not historical facts are forward-looking statements under the federal securities laws. Words such as "anticipates," "could," "may," "estimates," "expects," "projects," "intends," "pending," "plans," "believes," "will" and words of similar substance, or the negative of those words, used in connection with any discussion of future operations or financial performance identify forward-looking statements. In particular, statements regarding expectations and opportunities, new product expectations and capabilities, projections, statements regarding future events, and our outlook regarding our performance and growth are forward-looking statements. These forward-looking statements, including, that (i) while the company cannot predict how market forces will evolve in the coming months, the company will continue to support its dealer and OEM customers as they continue to turn to leads to support their sales recovery; and (ii) while the company's work in its turnaround is not yet complete, the company remains remain optimistic and focused on continuing its momentum to improve profitability, are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Actual outcomes and results may differ materially from what is expressed in, or implied by, these forward-looking statements. AutoWeb undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Among the important factors that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements are changes in general economic conditions; the financial condition of automobile manufacturers and dealers; disruptions in automobile production; changes in fuel prices; the economic impact of terrorist attacks, political revolutions or military actions; failure of our internet security measures; dealer attrition; pressure on dealer fees; increased or unexpected competition; the failure of new products and services to meet expectations; failure to retain key employees or attract and integrate new employees; actual costs and expenses exceeding charges taken by AutoWeb; changes in laws and regulations; costs of legal matters, including, defending lawsuits and undertaking investigations and related matters; and other matters disclosed in AutoWeb's filings with the Securities and Exchange Commission. Investors are strongly encouraged to review the company's Annual Report on Form 10-K for the year ended December 31, 2019 and other filings with the Securities and Exchange Commission for a discussion of risks and uncertainties that could affect the business, operating results or financial condition of AutoWeb and the market price of the company's stock.

Company Contact
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AUTOWEB, INC.
AUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,210	$ 892
Restricted cash	3,300	5,054
Accounts receivable, net of allowances for bad debts and customer credits of $638 at June 30, 2020, and net of allowances for bad debt and customer credits of $740 at December 31, 2019	14,679	24,051
Prepaid expenses and other current assets	1,939	1,265
Total current assets	25,128	31,262
Property and equipment, net	3,026	3,349
Right-of-use assets	3,246	2,528
Intangibles assets, net	5,537	7,104
Other assets	745	661
Total assets	$ 37,682	$ 44,904
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,899	$ 14,080
Borrowings under revolving credit facility	7,181	3,745
Current portion of PPP Loan	615	-
Accrued employee-related benefits	1,928	1,004
Other accrued expenses and other current liabilities	1,257	2,315
Current portion of lease liabilities	820	1,167
Total current liabilities	17,700	22,311
PPP Loan	769	-
Lease liabilities, net of current portion	2,524	1,497
Total liabilities	20,993	23,808
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value; 11,445,187 shares authorized		
Series A Preferred stock, none issued and outstanding	-	-
Common stock, $0.001 par value; 55,000,000 shares authorized;		
13,146,831 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	13	13
Additional paid-in capital	365,056	364,028
Accumulated deficit	(348,380)	(342,945)
Total stockholders' equity	16,689	21,096
Total liabilities, minority interest and stockholders' equity	$ 37,682	$ 44,904

AUTOWEB, INC.
AUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Revenues:				
Lead generation	$ 14,263	$ 21,691	$ 32,723	$ 47,389
Digital advertising	2,756	5,432	8,768	11,310
Other	14	19	14	47
Total revenues	17,033	27,142	41,505	58,746
Cost of revenues	10,993	21,758	30,108	47,605
Gross profit	6,040	5,384	11,397	11,141
Operating Expenses				
Sales and marketing	2,026	2,956	4,158	5,834
Technology support	1,786	2,182	3,643	4,962
General and administrative	2,901	4,026	6,844	8,316
Depreciation and amortization	559	1,201	1,281	2,440
Total operating expenses	7,272	10,365	15,926	21,552
Operating loss	(1,232)	(4,981)	(4,529)	(10,411)
Interest and other income (expense), net	(142)	33	(906)	103
Loss before income tax provision	(1,374)	(4,948)	(5,435)	(10,308)
Income taxes provision	-	5	-	5
Net loss and comprehensive loss	$ (1,374)	$ (4,953)	$ (5,435#)	$ (10,313)
Basic and diluted loss per share:				
Basic loss per common share	$ (0.10)	$ (0.38)	$ (0.41)	$ (0.78)
Diluted loss per common share	$ (0.10)	$ (0.38)	$ (0.41)	$ (0.78)
Shares used in computing net loss per share:				
Basic	13,133	13,111	13,133	13,018
Diluted	13,133	13,111	13,133	13,018

AUTOWEB, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash flows from operating activities:		
Net (loss) income	$ (5,435)	$ (10,313)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,278	3,509
Provision for bad debt	94	122
Provision for customer credits	33	120
Share-based compensation	1,028	1,111
Right-of-use assets	767	924
Lease Liabilities	(805)	(924)
Changes in assets and liabilities		
Accounts receivable	9,245	3,325
Prepaid expenses and other current assets	(674)	(410)
Other non-current assets	(84)	(303)
Accounts payable	(8,181)	(1,945)
Accrued expenses and other current liabilities	(135)	(787)
Net cash (used in) provided by operating activities	(1,869)	(5,571)
Cash flows from investing activities:		
Purchases of property and equipment	(388)	(990)
Net cash (used in) provided by investing activities	(388)	(990)
Cash flows from financing activities:		
Borrowings under PNC credit facility	28,564	16,940
Payments under PNC credit facility	(32,308)	(16,940)
Borrowings under CNC credit facility	33,201	-
Payments under CNC credit facility	(26,020)	-
Borrowings under the PPP Loan	1,384	-
Payments on convertible note	-	(1,000)
Proceeds from exercise of stock options	-	408
Net cash provided by (used in) financing activities	4,821	(592)
Net increase in cash and cash equivalents and restricted cash	2,564	(7,153)
Cash and cash equivalents and restricted cash at beginning of period	5,946	13,600
Cash and cash equivalents and restricted cash at end of period	$ 8,510	$ 6,447
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents at beginning of period	$ 892	$ 13,600
Restricted cash at beginning of period	5,054	-
Cash and cash equivalents and restricted cash at beginning of period	$ 5,946	$ 13,600
Cash and cash equivalents at end of period	$ 5,210	$ 1,431
Restricted cash at end of period	3,300	5,016
Cash and cash equivalents and restricted cash at end of period	$ 8,510	$ 6,447
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	-	1
Cash refunds for income taxes	381	124
Cash paid for interest	449	40
Supplemental disclosure of non-cash financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	1,485	-

AUTOWEB, INC.
RECONCILIATION OF ADJUSTED EBITDA
(Amounts in thousands)

	Three Months Ended		Three Months Ended	
	March 31, 2020	**March 31, 2019**	**June 30, 2020**	**June 30, 2019**
Net loss	$ (4,061)	$ (5,360)	$ (1,374)	$ (4,953)
Depreciation and amortization	1,213	1,787	1,066	1,723
Interest income	(12)	(6)	-	(20)
Interest expense	844	5	205	56
Other income (expense)	(6)	-	-	-
Income taxes	(186)	-	(34)	5
Non-cash stock compensation expense	509	551	518	560
Gain on government grant	-	-	(10)	-
Personnel Restructuring	-	-	-	496
Adjusted EBITDA	$ (1,699)	$ (3,023)	$ 371	$ (2,133)

Exhibit 99.2

Call Participants

EXECUTIVES

Jared R. Rowe
CEO, President & Director

Joseph Patrick Hannan
Executive VP & CFO

ANALYSTS

Edward Moon Woo
Ascendiant Capital Markets LLC, Research Division

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Lee T. Krowl
B. Riley FBR, Inc.,
Research Division

ATTENDEES

Sean Mansouri
Gateway Group, Inc.

Presentation

Operator

Good morning, everyone, and thank you for participating in today's conference call to discuss AutoWeb's financial results for the second quarter ended June 30, 2020. Joining us today are AutoWeb's CEO, Jared Rowe; the company's CFO, J.P. Hannan; and the company's outside Investor Relations Adviser, Sean Mansouri, with Gateway Investor Relations. Following their remarks, we'll open the call for your questions.

I would now like to turn the call over to Mr. Mansouri for some introductory comments.

Sean Mansouri
Gateway Group, Inc.

Thank you, Dimitris. Before I introduce Jared, I remind you that during today's call, including the question-and-answer session, statements that are not historical facts, including any projections, statements regarding future events or future financial performance or statements of intent or belief are forward-looking statements and are covered by the safe harbor disclaimers contained in today's press release and the company's public filings with the SEC. Actual outcomes and results may differ materially from what is expressed in or implied by these forward-looking statements. Specifically, please refer to the company's Form 10-Q for the quarter ended June 30, 2020, as well as other filings made by AutoWeb with the SEC from time to time. These filings identify factors that could cause results to differ materially from those forward-looking statements.

Please also note that during this call, management will be disclosing adjusted EBITDA. This is a non-GAAP financial measure as defined by SEC Regulation G. A reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure and a statement disclosing the reasons why company management believes that adjusted EBITDA provides useful information to investors regarding the company's financial condition and results of operations are included in today's press release, which is posted on the company's website.

With that, I'll turn the call over to Jared.

Jared R. Rowe
CEO, President & Director

Thanks, Sean, and good afternoon, everybody. So as our business continues to navigate the effects of the coronavirus pandemic, we've made really strong progress in our turnaround here. During the second quarter, we generated our strongest level of gross margin since 2016. We reduced our net loss, both sequentially and year-over-year. And we achieved a crucial milestone in turning adjusted EBITDA positive. These results would not have been possible without our team's commitment to improving the efficiency of the business and the overall effectiveness of our operations, not just over the past quarter, but really over the last 2 years of the turnaround.

Our overall workforce transition over the past couple of years also really positioned us well for this remote work environment. We'd already shifted our workforce geographically. We top graded an awful lot of our talent, and we did realign the organizational structure, all of which helped us transition far more smoothly than we initially anticipated and allowed us to lean in as we push to achieve to adjusted EBITDA profitability. Now keeping our team intact and healthy during the pandemic has really remained one of our top priorities. We work diligently to maintain job continuity across our business, even during the lowest points of the pandemic in mid-April. And we ensured that the few team members who were furloughed had continued access to health benefits. This hard work and the adaptability of our team has been incredible. And they really have ensured our ability to continue serving our retail dealer and OEM customers during this important time for their recovery.

As for the broader automotive industry, the operating environment remains largely uncertain. You've got high unemployment rates, which do continue to affect consumer confidence. Second quarter U.S. GDP saw its steepest decline in more than 70 years. Financing availability has begun to tighten in the wake of widespread loan and delinquency forgiveness. And in addition to all that, dealers are contending with challenges in their inventory mix as cars that are in high demand, have not yet been fully replenished. North American auto production only started to pick back up in June really. After reaching all-time lows in April and May, and it really does remain below pre-COVID levels and largely out of sync with consumer demand patterns. We cannot predict how these market forces will evolve in the coming months or how they will shape our customers' businesses. And in fact, our own, that said, our focus in the second quarter was -- and going forward is on the areas of the business that we can control. And in those areas, we've stayed well ahead of our expectations. Our consistent focus on running a lean, operationally effective organization that's focused on the needs of our customers really continues to benefit us in this challenging environment.

We've been incredibly efficient with our traffic acquisition tactics, as reflected by the fact that our revenue declined in line with the decline in vehicle sales, but our gross profit increased compared to the prior year. We intentionally scaled back our media spend to better match lead volume with our dealers diminish sales capacity, which is a real testament to our team's ability to shift our approach to better align with our customers. This approach ensured that we were offering our customers, really the right mix of traffic and leads during the market disruption. We could have driven more lead volume if we'd wanted to because there was traffic available, but it really would not have been an effective outcome for outcome for our customers, given how difficult we knew it would be for them to actually monetize the traffic that we were sending them. This was one of our key strategic decisions this quarter to preserve value for our customers.

As we resisted the industry right trend, of across the board product discounting and instead matched our customer marketing spend and lead volume to projected industry selling rates. This approach allowed us to align more closely with true consumer demand in the market and deliver leads submitted by action minded car buyers, both for new and used vehicles rather than lead sourced from passive shoppers or deeply discounted search traffic.

To further improve consumers' engagement with our media this quarter, we started to roll out a new, more contemporary lead funnel experience for our larger mobile audience campaign. In both the initial test phases, in Q1 and our first deployment in Q2, the experience produced an improvement of over 50% in lead conversion. So, while this solution was targeted towards mobile campaigns, our conversion optimization efforts have consistently yielded material benefits for desktop campaigns as well. We're really pleased with these new conversion models. And we're going to continue to optimize and deploy additional developments in this area.

The success of our operational and product improvement demonstrates that our strategy really is working. The efficiencies we've driven in our customer acquisition are proving to not just be market based, but rather materially reflective of our constant work to enhance the services we provide. As the pandemic's impact to our industry and broader consumer behavior continues to change, leveraging quality in our paid search offerings will remain crucial. We will continue to be flexible and value-oriented in how we respond to this operating environment. But really, we're going to stay firm in the high-quality service, we offer our customers.

I'll have more to discuss about our recent trends and market conditions. But before commenting further, I'd like to turn it over to J.P. to walk through our Q2 results. J.P.?

Joseph Patrick Hannan
Executive VP & CFO

Great. Well, thanks, Jared, and good afternoon, everyone. So, jumping right into our results. Total revenue in the second quarter came in at $17 million, which is down about $7 million from last quarter and down about $10 million from the year ago quarter. Our digital advertising revenues, which primarily consists of our click revenue, were $2.8 million, which is about half of where we were last quarter and the year ago quarter. Now this expected decline in total revenue stems from these continued challenges in the automotive industry and a proactive reduced marketing spend to better align the leading click volumes with that market demand.

The success of this strategy is reflected at the gross profit line as gross profit was up 11% quarter-over-quarter and year-over-year to $6 million. Second quarter gross margin was also up significantly to 35.5%. These sequential and year-over-year improvements were driven by improved traffic acquisition and lower cost per lead as well as our continued focus on selling more through our higher-margin retail distribution channel.

We also significantly reduced operating expenses in the quarter, which were down 30% year-over-year to $7.3 million. Our net loss in the second quarter of 2020 improved to $1.4 million or a loss of $0.10 per share, and that compares to a net loss of $4.1 million or $0.31 per share in Q1 of 2020 and a net loss of $5 million or $0.38 per share in Q2 2019. Adjusted EBITDA from the second quarter improved significantly to $400,000, which is up from a loss of $1.7 million last quarter and a loss of about $2 million in the year ago quarter.

As Jared mentioned earlier, the work we've put in over the last 2 years is truly what's enabled us to reach this milestone. And we believe we can continue to operate at positive adjusted EBITDA levels for the second half of 2020 in this current environment going forward. As of June 30, 2020, our cash, cash equivalents and restricted cash were $8.5 million, and that compares to $5.9 million at December 31, 2019. As of June 30, 2020, we had an outstanding balance of $7.2 million on our revolving credit facility with CIT Northridge Capital, and we had another $2.5 million available to us on that revolver. Our previous actions to bolster liquidity and reduce costs position us well to weather this changing market environment. If present trends hold as they have through July, we remain comfortable with our balance sheet and our liquidity for the next 12 months.

Now lastly, I'll provide a brief overview of our operating metrics. Click traffic for the second quarter came in at 23 million visits, which was down by about 9 million visits last quarter and about 4 million visits year-over-year. Click volume totaled 5.5 million clicks, which was down about 400,000 clicks from last year, and 3 million clicks from last quarter. Our lead traffic was also down by about 9 million visits compared to last quarter and by about 15 million visits year-over-year. So these decreases are largely reflective of the industry-wide impact of the pandemic on the auto industry as well as our proactive reduced marketing spend to better align with the true customer purchase demand, as Jared mentioned earlier.

Retail lead capacity and net revenue per click were both down sequentially and year-over-year. But we drove a slight increase in our quarter-over-quarter dealer count as more dealers have come back online for our leads to drive their car sales. So overall, we plan to continue building on our gross margin and profitability momentum. And we'll continue to operate flexibly into the second half of 2020 as we continue to adapt to market dynamics.

So that concludes my prepared remarks, and I'll turn the call back over to Jared.

Jared R. Rowe
CEO, President & Director

Thanks, J.P., our click product traffic and volumes have been performing in line with traditional forms of media advertising, which have experienced some of the largest impacts from the pandemic-related disruption to automotive advertising budgets. By extension, its performance has been further reflective of consumer demand disruption with financing and consumer confidence concerns affecting the typical demand volumes in the automotive buying cycle. As the market recovers over time and consumers and dealers continue adjusting to the new normal, we do expect to see a corresponding improvement in our clicks business in line with broader traditional media advertising.

Moving on to our leads product. We have gained critical momentum and efficiencies over the past few months, although some of this progress has been market-driven. Our operational investments have allowed us to stay ahead of expectations and generating valuable leads for our customers. We've been able to generate leads at a lower cost and our customers and leads are really a crucial part of their sales recovery strategy, which has enabled us to maintain lead pricing. Our history demonstrates that dealers and OEMs turn to lead during periods of market uncertainty because leads can be attributed and more effectively valued than other forms of traditional advertising.

Our leads reflect consumers who already know they want to purchase a vehicle and they often know what type of vehicle they'd like to purchase. They truly are lower funnel end market consumers. We recently confirmed this trend during an e-mail survey of our users, which found that over 70% of our respondents had no plans to delay their automotive purchases as a result of the pandemic. These results demonstrate that AutoWeb's leads are coming from committed active car buyers. Their intention to purchase a vehicle is not diminished relative to their pre-COVID position, which is not the case more broadly given U.S. vehicle sales decline.

Now within this context, our strategy appears to be working and delivering prime support to our dealers during this difficult time. As J.P. mentioned, our strategy has been further validated by our modest improvement in dealer count, along with significant improvements in our current retail dealers suspend status. On the latter point, our revenue in suspend status is now down more than 75% from its peak in mid-April. Given the industry-wide operating environment, we expect that our dealer count remains somewhat choppy over the next few months as the market works towards stability. However, the quarter-over-quarter improvement from Q1 tells us that we're trending in the right direction.

Now through July, we have continued to optimize our volumes and sustain our operational and financial performance from June, which we believe gives us a strong foundation for Q3. As we look ahead to the second half of 2020, if current market trends hold, we believe we can continue to operate an adjusted EBITDA breakeven to positive levels, and we will continue to manage costs and drive efficiencies across our business accordingly.

Simply put, the work we put in over the past 2 years has positioned AutoWeb to really operate effectively in both good times and times like now, which are not particularly good. So, although we still were -- so although we still have work to do to fully achieve our turnaround and demonstrate the true potential of our operating model, I'm really proud of the steps that we've taken to navigate this environment. And I'm especially proud of our team members for their response and commitment to really get us to this point in our journey.

So, with that, we'll now open the call up for questions. Operator, can you please take over?

Question and Answer

Operator

[Operator Instructions] And our first question we'll come from Gary Prestopino with Barrington.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

A series of questions here. Great progress on the gross margin. I guess the first thing that would come to my mind, Jared, as you move on through this turnaround. Is that level a sustainable level? Or is that just really reflective of the fact that because of the pandemic, you guys pulled back a lot of marketing spend. And so, if you could elaborate on that a little bit?

Jared R. Rowe
CEO, President & Director

Yes. Gary, absolutely. And thanks for the questions. A couple of things. Number one there is some market in there. There is a little bit of market in there and that we know that overall automotive ads spend is down. I think the number was 32%. eMarketer thought it was going to be down this year, year-over-year from '20 to '19. So, we are seeing a little less competition in the auction than we historically have seen. However, we deployed a whole series of tactics that we may not have really had the courage to deploy in certain ways, had there not been a global pandemic. It's an old adage of making lemonade out of lemons here. And some of the new tactics that we've deployed from the search have actually driven some incremental efficiency for us that I believe is durable.

On top of that, Gary, the third piece is we've deployed some changes to our search experiences that I referenced in the prepared remarks that are driving some real material conversion rate improvement on the mobile side, in particular, like I said, for those large campaigns, we basically have doubled our conversion rate, for those mobile campaigns. And I will tell you what, that's durable. That's sustainable. That's product change. So, what's really interesting, Gary, and I'll stop in a second here, so let's turn this into a long answer, but if you look at the trend on the mobile buy side, we pulled impressions out of mobile, more aggressively than we did a desktop on the search spend side. At the same time, we deployed these conversion improvements, which means we actually drove more lead volume because our conversion rate went up on mobile. So again, that stuff, the tactics and the product improvements listen, that will last beyond the market disruption.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Okay. And then it's good to see the retail dealer suspended status improved. And I guess, is that really the biggest issue there that in terms of the way that your dealers increase sequentially? I mean did dealers start to go into suspended in late March, and then they started coming back? Or is this -- is truly where you think that the dealer count may have bottomed here?

Jared R. Rowe
CEO, President & Director

Yes. No, we actually grew dealer count, Gary. So, we didn't pull the suspended status dealers out of the numbers we had last quarter when we talked about it or the mid-quarter review either because they still were on the program. They just weren't actively participating, but they still had active contract. So, what you're seeing quarter-over-quarter in terms of dealer count is actual dealer count growth. Some of the margin improvement, though, is coming from dealers coming off of suspended status because as you know, the retail side of our business has a better margin characteristic than the wholesale side. So as these dealers came back online, it actually enhanced the margin for both the clicks, but also mainly the lead product.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Okay. And that was going to lead me to my other question. I remember in the last quarter, you said OEM that had about 3% of your revenues opted out of the lead program. So, you're selling to the dealers of this OEM, and you must be at least getting some early success there?

Jared R. Rowe
CEO, President & Director

We are. We are. It was interesting because we started reaching out to those dealers right prior to the pandemic hitting, and we were getting some traction. Then the pandemic hit in earnest, slowed our efforts down. But as we come back out the other side here and as dealers have started to loss of suspended status, yes, we've had some really nice progress in picking up those dealers on the retail side that once participated on the OEM side. We're not all the way back to where we were prior in terms of total lead volume, but we're making really good progress, Gary. And again, as you know, every lead we pick up on the retail side is vastly more valuable to us than a lead on the wholesale side or OEM side.

Operator

And our next question comes from Lee Krowl with B. Riley FBR.

Lee T. Krowl
B. Riley FBR, Inc., Research Division

Wanted to start out on the clicks business. Obviously facing pressures, but not universally specific to the clicks business, but just overall as an industry. Wanted to see, do you expect sequential growth in that business and do you have the visibility to say that the rebound in that business can be sustained throughout the quarter? Or is it pretty touch and go from a visibility standpoint?

Jared R. Rowe
CEO, President & Director

Lee, clicks has been interesting because click got hit pretty hard with the rest of kind of the traditional media side of the business, right? They tended to get hit a little bit harder than the lead side with the pullback. We've done some good optimization work, and we've really attacked the distribution side there. And so, we're starting to bring that back. And we've seen some good progress on that over the last 2 or 3 months. And so, some of the trends that we saw at the end of the quarter with it starting to come back we're carrying through here through July as well. I wouldn't expect for it to have a quick rebound. But I do think we can grind away at it. And I think it will be flat to slightly up-ish. Again, we're down 40%, 50% on that thing. And I think we'll grind out of it slowly as the media spend comes back in, but I wouldn't expect a quick rebound on that. But I do think that we can continue to make incremental improvements throughout the next quarters, a couple of quarters. I do.

Lee T. Krowl
B. Riley FBR, Inc., Research Division

Got it. And then my second question, kind of more of a high level one, but it's been clear that with the spike in demand in June and through July, that inventory is becoming an issue both in used and new as OEMs are trying to get capacity online. Does that in any way manifest as a headwind for you guys? Or is there enough demand out there, excluding inventory that, that's not an issue?

Jared R. Rowe
CEO, President & Director

Yes. It's been interesting, Lee, because we've had -- well -- while, we're down 75% in terms of our total suspense status. What I can tell you, anecdotally, we've had dealers on and off that list a couple of times, some of them. And the reason is, is because there's 2 challenges that dealers are having right now. Number one, is inventory, to your point, some of the hotter vehicles or more in-demand vehicles are just more difficult to get their hands on. The OEMs are ramping back production and vehicles are starting to flow again. We hear that anecdotally from the dealers, but they're not -- they don't have as many as they'd like. So that's one of the challenges the dealers have had and why they bounced back and forth between on and off the suspense as. The other is sales staff. So, dealers optimize to a new kind of demand level and are just starting to bring some of their salespeople back on in more earnest and opening up capacity in their BDCs and their sales side. So, it is a bit of a headwind. Lee, it is. I think it's going to be overcomeable, I do believe that over the next 60 to 90 days. And I think that's a very conservative estimate. I think the OEMs are going to replenish and lean in and push on the new car side. So yes, it's something we keep a very close eye on. We wish we didn't have to worry about it. But I do think it's going to get itself sorted out here over the next couple of months.

Operator

And our next question comes from Ed Woo with Ascendiant Capital.

Edward Moon Woo
Ascendiant Capital Markets LLC, Research Division

Congratulations on the signs of improvement. My question is have you noticed any differences as some of the Sun Belt states have seen spikes in COVID reoccurring?

Jared R. Rowe
CEO, President & Director

Ed, we haven't. We haven't seen a decline in either lead volume or specifically in dealer count in those areas. And I'll tell you what our working theory is here because we talk about this internally. Our working theory is this, is that when you look at April, right, April and May, that was about as bad as you could get from an industry perspective because we weren't prepared for the disruption. Since that time, the dealers have really hardened their operations and they've evolved a bit. And so, as we've seen spike in infection rate, and some disruption in some of the other industries in those markets, we see bars being closed down and restaurants being closed down again. We're not seeing the same thing in automotive because essentially, the dealers are now operating in this new manner, which appears to be a bit more manageable for the environment that we're operating in. So as for what it's worth, we haven't seen that. We thought we might. But the dealers are terribly, terribly resilient, and they're plugging along, even though we're seeing some spikes from an infection rate perspective across the country.

Edward Moon Woo
Ascendiant Capital Markets LLC, Research Division

Great to hear. And then my other question is, you guys did a very good job of getting your operating costs down to right size for the business. How much leverage revenue upside can you grow with the existing business? Or as revenue comes back, will you have to ramp up our operating expenses again?

Jared R. Rowe
CEO, President & Director

Yes. J.P., why don't you take that one?

Joseph Patrick Hannan
Executive VP & CFO

Sure. I mean, as you know, we've been optimizing on the expense line, really for 2 years. And then when -- as we entered into the pandemic, we did another round, accelerated a bunch of cost cuts, which we announced would be about $1.7 million inside of calendar year 2020. And so, the thing about those cost cuts is we did everything possible to stay away from cutting people. And so, it was a lot of fixed cost and overhead expenses. So, we won't have to add back in people now as things start to expand and grow again. So, it's a long way of saying I don't think we're going to have to add a lot of cost back in at all, if any, to move forward from here.

Operator

And our next question, is a follow-up from Gary Prestopino with Barrington.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Yes. J.P., I just had a quick question on the cash. You had $8.5 million this quarter, $7.9 million at the end of Q '20. And first, I thought you may be generating some positive cash flow. But then I looked at it, it looked like you pulled some money on your line that is about equal to what the cash grew. Is that -- am I reading that right?

Joseph Patrick Hannan
Executive VP & CFO

Yes. We have a requirement under the new facility that we have to carry higher levels of debt. So, we have a minimum balance that we have to borrow. And so that's sort of what we borrowed up to the amount. So that's the increase in cash. That said, I will say, towards -- on the cash flow, we actually saw operating cash flow swing positive in the month of June whereas it had been negative earlier in the quarter.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Okay. And then I think that in your narrative, you said that you feel somewhat confident that you'll have positive adjusted EBITDA in the back half of the year, Q3 and Q4. Did I hear that correctly? Because I think you -- go ahead.

Joseph Patrick Hannan
Executive VP & CFO

Yes. I mean breakeven to positive. I mean there's some level of positive EBITDA.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Okay. Breakeven a positive because I think Jared said more or less breakeven. Okay. That's what I wanted to clarify.

Jared R. Rowe
CEO, President & Director

We don't always -- I don't always read well, Gary. We do -- we believe that we can generate some level of positive adjusted EBITDA going forward.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Okay. I just wanted to make sure I had it right.

Jared R. Rowe
CEO, President & Director

No, we weren't hedging there. We weren't hedging. We believe that we've gotten to a point where we're going to be slightly positive going forward. We just don't want to -- it's been a tough 2 years, and we don't necessarily want to make too many bold predictions or promises in the -- with the market environment being the way it is. But I can tell you, we feel -- feel good about last quarter. And like we mentioned in our narrative, July is off to a good start here -- I'm sorry, July was a good start. And August is looking pretty good, too. So, what we saw in Q2 at the end, we nothing changes and go sideways on us from a market perspective, we feel pretty good about the second half.

Gary Frank Prestopino
Barrington Research Associates, Inc., Research Division

Yes. Well, that's great. It's always good to under-promise in order to deliver. So...

Jared R. Rowe
CEO, President & Director

We're trying.

Operator

At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Rowe for any closing remarks.

Jared R. Rowe
CEO, President & Director

Well, thank you very much. I really appreciate everybody's hard work. Our team has really done a lot of really heroic things over the last couple of months to transition this business as effectively as we transitioned it. So, I just want to say thank you to the team. They've done a great job, and we're excited about the second half of the year. And so, thank you for joining the call. We look forward to talking again soon, and stay safe, everybody. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.