



## CarGurus Announces Fourth Quarter 2017 and Full Year 2017 Financial Results

March 1, 2018

### *Fourth Quarter Highlights:*

- Total revenue of **\$90.6 million**, an increase of **49% year-over-year**
- **GAAP operating income of approximately break-even; non-GAAP operating income of \$4.8 million**
- **GAAP net income of \$2.3 million; non-GAAP net income of \$5.3 million**
- **Adjusted EBITDA of \$6.0 million**

### *Full Year 2017 Highlights:*

- Total revenue of **\$316.9 million**, an increase of **60% year-over-year**
- **GAAP operating income of \$15.3 million; non-GAAP operating income of \$20.3 million**
- **GAAP net income of \$13.2 million; non-GAAP net income of \$15.8 million**
- **Adjusted EBITDA of \$24.1 million**

CAMBRIDGE, Mass., March 01, 2018 (GLOBE NEWSWIRE) -- CarGurus, Inc. (Nasdaq:CARG), a leading global automotive marketplace, today announced financial results for the fourth quarter and full year ended December 31, 2017.

"The fourth quarter marked a strong end to the year," said Langley Steinert, Founder and Chief Executive Officer of CarGurus. "Our ability to deliver solid results across our key operating metrics was driven by our disruptive value proposition as consumers continue to recognize our platform as one of the world's most trusted and transparent automotive marketplaces. We remain well positioned to extend our leadership position given our commitment to innovation and greater brand awareness."

### **Revenue**

#### *Fourth Quarter 2017:*

- Total revenue was \$90.6 million, an increase of 49% compared to \$60.8 million in the fourth quarter of 2016.
- Marketplace subscription revenue was \$80.8 million, an increase of 52% compared to \$53.2 million in the fourth quarter of 2016.
- Advertising and other revenue was \$9.8 million, an increase of 30% compared to \$7.6 million in the fourth quarter of 2016.

#### *Full Year 2017:*

- Total revenue was \$316.9 million, an increase of 60% compared to \$198.1 million in 2016.
- Marketplace subscription revenue was \$282.7 million, an increase of 65% compared to \$171.3 million in 2016.
- Advertising and other revenue was \$34.2 million, an increase of 27% compared to \$26.8 million in 2016.

### **Operating Income**

#### *Fourth Quarter 2017:*

- GAAP operating income was approximately break-even, or less than 1% of total revenue, compared to \$4.6 million or 8% of total revenue in the fourth quarter of 2016.
- Non-GAAP operating income was \$4.8 million, or 5% of total revenue, compared to \$4.7 million or 8% of total revenue in the fourth quarter of 2016.

#### *Full Year 2017:*

- GAAP operating income was \$15.3 million, or 5% of total revenue, compared to \$8.6 million or 4% of total revenue in 2016.
- Non-GAAP operating income was \$20.3 million, or 6% of total revenue, compared to \$8.9 million or 4% of total revenue in 2016.

### **Net Income & Adjusted EBITDA**

#### *Fourth Quarter 2017:*

- GAAP net income was \$2.3 million as compared to net income of \$3.8 million in the fourth quarter of 2016. GAAP net income attributable to common shareholders was \$2.1 million, or \$0.02 per share based on 103.2 million weighted average diluted shares outstanding, compared to a net loss attributable to common shareholders of \$28.2 million or  $(\$0.66)^1$  per share based on 42.6 million weighted average diluted shares outstanding in the fourth quarter of 2016.
- Non-GAAP net income was \$5.3 million, or \$0.05 per share based on 113.7 million weighted average diluted shares outstanding, compared to \$3.9 million or  $(\$0.27)^1$  per share based on 103.1 million weighted average diluted shares outstanding in the fourth quarter of 2016.
- Adjusted EBITDA, a non-GAAP metric, was \$6.0 million, compared to \$5.4 million in the fourth quarter of 2016.

#### *Full Year 2017:*

- GAAP net income was \$13.2 million as compared to net income of \$6.5 million in 2016. GAAP net income attributable to

common shareholders was \$7.4 million, or \$0.12 per share based on 60.6 million weighted average diluted shares outstanding, compared to a net loss attributable to common shareholders of \$25.6 million or (\$0.58)<sup>1</sup> per share based on 44.1 million weighted average diluted shares outstanding in 2016.

- Non-GAAP net income was \$15.8 million, or \$0.15 per share based on 108.6 million weighted average diluted shares outstanding, compared to \$6.7 million or (\$0.25)<sup>1</sup> per share based on 103.3 million weighted average diluted shares outstanding in 2016.
- Adjusted EBITDA, a non-GAAP metric, was \$24.1 million, compared to \$11.0 million in 2016.

<sup>1</sup> During Q4 2016, the Company repurchased certain shares of Preferred Stock. The difference between the amount implicitly paid and the corresponding carrying value of the underlying shares (\$32.1 million) was treated as a deemed dividend.

#### Balance Sheet and Cash Flow

- As of December 31, 2017, CarGurus had cash, cash equivalents, and short-term investments of \$137.7 million and no debt.
- The Company generated \$7.1 million in cash from operations and \$5.5 million in free cash flow, which is a non-GAAP metric, during the fourth quarter of 2017 compared to using \$0.4 million in cash from operations and an outflow of \$2.7 million in free cash flow during the fourth quarter of 2016. For the full year of 2017, the Company generated \$25.7 million in cash from operations and \$18.3 million in free cash flow compared to \$20.0 million in cash from operations and \$12.8 million in free cash flow in 2016.

#### Recent Business Metrics and Highlights

- U.S. revenue was \$87.5 million in the fourth quarter of 2017, an increase of 47% compared to \$59.6 million in the fourth quarter of 2016. GAAP operating income in the U.S. was \$8.0 million, a decrease of 25% compared to \$10.6 million in the fourth quarter of 2016. The decrease in GAAP operating income from the fourth quarter of 2016 to the fourth quarter of 2017 was primarily due to a \$4.4 million increase in stock-based compensation expense.
- International revenue was \$3.1 million in the fourth quarter of 2017, an increase of 171% compared to \$1.1 million in the fourth quarter of 2016. GAAP operating loss in the International markets was (\$7.9) million, an increase of 31% compared to a loss of (\$6.0) million in the fourth quarter of 2016.
- Total paying dealers were 27,670 at December 31, 2017, an increase of 30% compared to 21,301 at December 31, 2016. Of the total paying dealers at December 31, 2017, U.S. and International accounted for 25,122 and 2,548, respectively, compared to 20,349 and 952, respectively, at December 31, 2016.
- Average annual revenue per subscribing dealer (AARSD) in the U.S. was \$12,055 as of December 31, 2017, an increase of 16% compared to \$10,383 as of December 31, 2016.
- Average annual revenue per subscribing dealer (AARSD) in the International markets was \$4,904 as of December 31, 2017, an increase of 28% compared to \$3,830 as of December 31, 2016.
- Website traffic and consumer engagement metrics for the fourth quarter of 2017 grew as follows:
  - U.S. average monthly unique users were 25.7 million, an increase of 25% compared to 20.6 million in the fourth quarter of 2016. U.S. average monthly sessions were 68.5 million, an increase of 43% compared to 48.0 million in the fourth quarter of 2016.
  - International average monthly unique users were 2.8 million, an increase of 53% compared to 1.8 million in the fourth quarter of 2016. International average monthly sessions were 6.1 million, an increase of 69% compared to 3.6 million in the fourth quarter of 2016.

#### First Quarter and Full-Year 2018 Guidance

CarGurus anticipates total revenue, non-GAAP operating income, and non-GAAP earnings per share to be in the following ranges:

##### First Quarter 2018:

- |                             |                          |
|-----------------------------|--------------------------|
| • Total revenue             | \$93.5 to \$94.5 million |
| • Non-GAAP operating income | \$2.5 to \$3.5 million   |
| • Non-GAAP EPS              | \$0.01 to \$0.02         |

The first quarter 2018 non-GAAP earnings per share calculation assumes 114.7 million diluted weighted average common shares outstanding.

##### Full-Year 2018:

- |                             |                        |
|-----------------------------|------------------------|
| • Total revenue             | \$396 to \$400 million |
| • Non-GAAP operating income | \$21 to \$25 million   |

The full-year non-GAAP earnings per share calculation assumes 115.8 million diluted weighted average common shares outstanding. Guidance for the first quarter and full-year 2018 does not include any potential impact of foreign exchange gains or losses.

CarGurus has not reconciled its non-GAAP operating income guidance to GAAP operating income, or its non-GAAP EPS guidance to GAAP EPS, because stock-based compensation, the reconciling item between such GAAP and non-GAAP financial measures, cannot be reasonably predicted due to timing, valuation and number of future employee awards and therefore is not available without unreasonable effort. For more information regarding the non-GAAP financial measures discussed in this release, please see the reconciliations of GAAP financial measures to non-GAAP financial measures and the section titled "Non-GAAP Financial Measures and Other Business Metrics" below.

#### Conference Call and Webcast Information

CarGurus will host a conference call and live webcast to discuss its fourth quarter and full year 2017 financial results and first quarter and full fiscal year 2018 financial guidance at 5:00 p.m. Eastern Time today, March 1, 2018. To access the conference call, dial (877) 451-6152 for the U.S. or Canada, or (201) 389-0879 for international callers. The webcast will be available live on the Investors section of the Company's website at <https://investors.cargurus.com>.

An audio replay of the call will also be available to investors beginning at approximately 8:00 p.m. Eastern Time on March 1, 2018, until 11:59 p.m. Eastern Time on March 15, 2018, by dialing (844) 512-2921 for the U.S. or Canada, or (412) 317-6671 for international callers, and entering passcode 13675936. In addition, an archived webcast will be available on the Investors section of the Company's website at <https://investors.cargurus.com>.

#### About CarGurus

Founded in 2006, CarGurus (Nasdaq:CARG) is a global, online automotive marketplace connecting buyers and sellers of new and used cars. The Company uses proprietary technology, search algorithms and data analytics to bring trust and transparency to the automotive search experience and help users find great deals from top rated dealers. In addition to the United States, CarGurus operates online marketplaces in Canada, the United Kingdom and Germany. To learn more about CarGurus, visit [www.cargurus.com](http://www.cargurus.com).

CarGurus® is a registered trademark of CarGurus, Inc.

#### Cautionary Language Concerning Forward-Looking Statements

This press release includes forward-looking statements. All statements contained in this press release other than statements of historical facts, including, without limitation, statements regarding our future financial and business performance for the first quarter 2018 and full-year 2018, attractiveness of our product offerings and platform and the value proposition of our products, are forward-looking statements. The words "anticipate," "believe," "continue," "estimate," "expect," "intend," "guide," "may," "will" and similar expressions and their negatives are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks and uncertainties, including, without limitation, risks related to our rapid growth and ability to sustain our revenue growth rate, our relationships with dealers, competition in the markets in which we operate, market growth, our ability to innovate and manage our growth, our ability to expand effectively into new markets, our ability to operate in compliance with applicable laws as well as other risks and uncertainties set forth in the "Risk Factors" section of our form 10-K filing on March 1, 2018 and subsequent reports that we file with the Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, we cannot guarantee future results, levels of activity, performance, achievements or events and circumstances reflected in the forward-looking statements will occur. We are under no duty to update any of these forward-looking statements after the date of this press release to conform these statements to actual results or revised expectations, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this press release.

#### Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

|  | At December 31, |            |
|--|-----------------|------------|
|  | 2017            | 2016       |
| <b>Assets</b>  |                 |            |
| Current assets   |                 |            |
| Cash and cash equivalents  | \$ 87,709       | \$ 29,476  |
| Investments  | 50,000          | 44,774     |
| Accounts receivable, net of allowance for doubtful accounts of \$494 and \$164, respectively | 12,577          | 6,653      |
| Prepaid income taxes   | 1,533           | 1,815      |
| Prepaid expenses and other current assets  | 5,385           | 2,789      |
| Total current assets   | 157,204         | 85,507     |
| Property and equipment, net  | 16,563          | 12,780     |
| Restricted cash  | 1,843           | 2,044      |
| Deferred tax assets  | 825             | —          |
| Other long-term assets   | 159             | —          |
| Total assets   | \$ 176,594      | \$ 100,331 |
| <b>Liabilities, convertible preferred stock, and stockholders' equity (deficit)</b>          |                 |            |
| Current liabilities  |                 |            |
| Accounts payable   | \$ 23,908       | \$ 16,426  |
| Accrued expenses   | 13,588          | 8,384      |
| Deferred revenue   | 4,305           | 3,330      |
| Deferred rent  | 1,165           | 910        |
| Total current liabilities  | 42,966          | 29,050     |
| Deferred rent, net of current portion  | 5,648           | 5,673      |

|   |            |            |
|---|------------|------------|
| Deferred tax liabilities  | —          | 292        |
| Other non-current liabilities   | 955        | 590        |
| Total liabilities   | 49,569     | 35,605     |
| Commitments and contingencies   |            |            |
| Convertible preferred stock   | —          | 132,698    |
| Stockholders' equity:   |            |            |
| Class A common stock, \$0.001 par value; 500,000,000 shares authorized; 77,884,754 and 14,022,132 shares issued and outstanding at December 31, 2017 and 2016, respectively | 78         | 14         |
| Class B common stock, \$0.001 par value; 100,000,000 shares authorized; 28,226,104 and 28,044,264 shares issued and outstanding at December 31, 2017 and 2016, respectively | 28         | 28         |
| Additional paid-in capital  | 185,190    | 3,714      |
| Accumulated deficit   | (58,499 )  | (71,698 )  |
| Accumulated other comprehensive income (loss)   | 228        | (30 )      |
| Total stockholders' equity (deficit)  | 127,025    | (67,972 )  |
| Total liabilities, convertible preferred stock, and stockholders' equity (deficit)  | \$ 176,594 | \$ 100,331 |

### Unaudited Condensed Consolidated Income Statements

(in thousands, except per share data)

|  | Three Months Ended<br>December 31, |              | Year Ended<br>December 31, |              |
|--|------------------------------------|--------------|----------------------------|--------------|
|  | 2017                               | 2016         | 2017                       | 2016         |
| Revenue  | \$ 90,597                          | \$ 60,764    | \$ 316,861                 | \$ 198,141   |
| Cost of revenue <sup>(1)</sup>   | 5,242                              | 2,904        | 17,609                     | 9,575        |
| Gross profit   | 85,355                             | 57,860       | 299,252                    | 188,566      |
| Operating expenses:  |                                    |              |                            |              |
| Sales and marketing  | 67,670                             | 45,302       | 236,165                    | 154,125      |
| Product, technology, and development   | 8,317                              | 3,319        | 22,470                     | 11,453       |
| General and administrative   | 8,590                              | 4,064        | 22,688                     | 12,783       |
| Depreciation and amortization  | 746                                | 569          | 2,655                      | 1,634        |
| Total operating expenses   | 85,323                             | 53,254       | 283,978                    | 179,995      |
| Income from operations   | 32                                 | 4,606        | 15,274                     | 8,571        |
| Other income, net  | 240                                | 114          | 563                        | 374          |
| Income before income taxes   | 272                                | 4,720        | 15,837                     | 8,945        |
| (Benefit from) provision for income taxes  | (1,995 )                           | 882          | 2,638                      | 2,448        |
| Net income   | \$ 2,267                           | \$ 3,838     | \$ 13,199                  | \$ 6,497     |
| Reconciliation of net income to net income (loss) attributable to common stockholders:   |                                    |              |                            |              |
| Net income   | \$ 2,267                           | \$ 3,838     | \$ 13,199                  | \$ 6,497     |
| Deemed dividend to preferred stockholders  | —                                  | (32,087 )    | —                          | (32,087 )    |
| Net income attributable to participating securities  | (223 )                             | —            | (6,098 )                   | —            |
| Net income (loss) attributable to common stockholders — basic  | \$ 2,044                           | \$ (28,249 ) | \$ 7,101                   | \$ (25,590 ) |
| Net income   | \$ 2,267                           | \$ 3,838     | \$ 13,199                  | \$ 6,497     |
| Deemed dividend to preferred stockholders  | —                                  | (32,087 )    | —                          | (32,087 )    |
| Net income attributable to participating securities  | (210 )                             | —            | (5,829 )                   | —            |
| Net income (loss) attributable to common stockholders — diluted  | \$ 2,057                           | \$ (28,249 ) | \$ 7,370                   | \$ (25,590 ) |
| Net income (loss) per share attributable to common stockholders:   |                                    |              |                            |              |
| Basic  | \$ 0.02                            | \$ (0.66 )   | \$ 0.13                    | \$ (0.58 )   |
| Diluted  | \$ 0.02                            | \$ (0.66 )   | \$ 0.12                    | \$ (0.58 )   |
| Weighted-average number of shares of common stock used in computing net income (loss) per share attributable to common stockholders: |                                    |              |                            |              |
| Basic  | 96,386                             | 42,579       | 55,835                     | 44,139       |
| Diluted  | 103,170                            | 42,579       | 60,638                     | 44,139       |

(1) Includes depreciation and amortization expense for the three months ended December 31, 2017 and 2016 and for the year ended December 31, 2017 and 2016 of \$379, \$122, \$1,140, and \$438, respectively.

### Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

| Operating Activities | Three Months Ended<br>December 31, |          | Year Ended<br>December 31, |          |
|----------------------|------------------------------------|----------|----------------------------|----------|
|                      | 2017                               | 2016     | 2017                       | 2016     |
| Net income           | \$ 2,267                           | \$ 3,838 | \$ 13,199                  | \$ 6,497 |

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Adjustments to reconcile net income to net cash provided by operating activities: |           |           |           |           |
| Depreciation and amortization   | 1,125     | 691       | 3,795     | 2,072     |
| Unrealized currency loss on foreign denominated transactions                      | 32        | —         | 128       | —         |
| Deferred taxes  | (454 )    | 578       | (1,117 )  | 782       |
| Provision for doubtful accounts   | 573       | 174       | 1,117     | 508       |
| Stock-based compensation expense  | 4,804     | 86        | 5,028     | 322       |
| Excess tax benefit related to exercise of stock options                           | —         | (821 )    | —         | (821 )    |
| Changes in operating assets and liabilities:                                      |           |           |           |           |
| Accounts receivable, net  | (3,026 )  | (864 )    | (7,039 )  | (1,432 )  |
| Prepaid expenses, prepaid income taxes, and other assets                          | (3,430 )  | 612       | (2,287 )  | (2,226 )  |
| Accounts payable  | (165 )    | (5,674 )  | 6,244     | 5,811     |
| Accrued expenses  | 5,776     | 775       | 5,191     | 4,118     |
| Deferred revenue  | (303 )    | 151       | 962       | 1,856     |
| Deferred rent   | (35 )     | (122 )    | 227       | 1,927     |
| Other non-current liabilities   | (15 )     | 129       | 243       | 590       |
| Net cash provided by (used in) operating activities                               | 7,149     | (447 )    | 25,691    | 20,004    |
| <b>Investing Activities</b>   |           |           |           |           |
| Purchases of property and equipment   | (910 )    | (1,837 )  | (5,157 )  | (5,846 )  |
| Capitalization of website development costs                                       | (728 )    | (459 )    | (2,215 )  | (1,372 )  |
| Investments in certificates of deposit  | —         | (18,000 ) | (50,000 ) | (59,774 ) |
| Maturities of certificates of deposit   | 10,000    | 10,000    | 44,774    | 15,000    |
| Net cash (used in) investing activities   | 8,362     | (10,296 ) | (12,598 ) | (51,992 ) |
| <b>Financing Activities</b>   |           |           |           |           |
| Initial public offering proceeds, net of offering costs                           | 46,510    | —         | 44,382    | —         |
| Proceeds from issuance of preferred stock, net of issuance costs                  | —         | (268 )    | —         | 59,732    |
| Proceeds from exercise of unit options and stock options                          | 110       | 45        | 398       | 137       |
| Excess tax benefit related to exercise of stock options                           | —         | 821       | —         | 821       |
| Cash paid for repurchase of preferred stock, common stock, and vested options     | —         | (58,738 ) | —         | (60,000 ) |
| Net cash provided by (used in) financing activities                               | 46,620    | (58,140 ) | 44,780    | 690       |
| Impact of foreign currency on cash, cash equivalents, and restricted cash         | 2         | (19 )     | 159       | (45 )     |
| Net increase (decrease) in cash, cash equivalents, and restricted cash            | 62,133    | (68,902 ) | 58,032    | (31,343 ) |
| Cash, cash equivalents, and restricted cash at beginning of period                | 27,419    | 100,422   | 31,520    | 62,863    |
| Cash, cash equivalents, and restricted cash at end of period                      | \$ 89,552 | \$ 31,520 | \$ 89,552 | \$ 31,520 |

#### Unaudited Reconciliation of GAAP Operating Income to Non-GAAP Operating Income and GAAP Operating Margin to Non-GAAP Operating Margin

(in thousands, except percentages)

|                                  | Three Months Ended<br>December 31, |          | Year Ended<br>December 31, |          |
|----------------------------------|------------------------------------|----------|----------------------------|----------|
|                                  | 2017                               | 2016     | 2017                       | 2016     |
| GAAP operating income            | \$ 32                              | \$ 4,606 | \$ 15,274                  | \$ 8,571 |
| Stock-based compensation expense | 4,804                              | 86       | 5,028                      | 322      |
| Non-GAAP operating income        | \$ 4,836                           | \$ 4,692 | \$ 20,302                  | \$ 8,893 |
| GAAP operating margin            | 0 %                                | 8 %      | 5 %                        | 4 %      |
| Non-GAAP operating margin        | 5 %                                | 8 %      | 6 %                        | 4 %      |

#### Unaudited Reconciliation of GAAP Net Income to Non-GAAP Net Income

(in thousands, except per share amounts)

|                 | Three Months Ended<br>December 31, |          | Year Ended<br>December 31, |          |
|-----------------|------------------------------------|----------|----------------------------|----------|
|                 | 2017                               | 2016     | 2017                       | 2016     |
| GAAP net income | \$ 2,267                           | \$ 3,838 | \$ 13,199                  | \$ 6,497 |

|   |          |              |           |              |
|---|----------|--------------|-----------|--------------|
| Stock-based compensation expense, net of tax <sup>(1)</sup>   | 3,123    | 56           | 3,268     | 209          |
| Change in tax provision from stock-based compensation expense <sup>(2)</sup>  | (41 )    | —            | (681 )    | —            |
| Non-GAAP net income   | \$ 5,349 | \$ 3,894     | \$ 15,786 | \$ 6,706     |
| Deemed dividend to preferred stockholders   | —        | (32,087 )    | —         | (32,087 )    |
| Non-GAAP net income (loss) attributable to common stockholders  | \$ 5,349 | \$ (28,193 ) | \$ 15,786 | \$ (25,381 ) |
| Non-GAAP net income (loss) attributable to common stockholders per share:   |          |              |           |              |
| Basic   | \$ 0.05  | \$ (0.27 )   | \$ 0.15   | \$ (0.25 )   |
| Diluted   | \$ 0.05  | \$ (0.27 )   | \$ 0.15   | \$ (0.25 )   |
| Weighted-average number of shares of common stock used in computing non-GAAP net income per share to common stockholders: |          |              |           |              |
| GAAP Basic Shares   | 96,386   | 42,579       | 55,835    | 44,139       |
| Preferred Shares assuming conversion  | 10,533   | 60,565       | 47,954    | 59,125       |
| Total Non-GAAP Basic Shares   | 106,919  | 103,144      | 103,789   | 103,264      |
| GAAP Diluted Shares   | 103,170  | 42,579       | 60,638    | 44,139       |
| Preferred Shares assuming conversion  | 10,533   | 60,565       | 47,954    | 59,125       |
| Total Non-GAAP Diluted Shares   | 113,703  | 103,144      | 108,592   | 103,264      |

(1) The stock-based compensation amounts reflected in the table above are tax effected at the U.S. federal statutory tax rate of 35%.

(2) This adjustment reflects the tax effect of differences between tax deductions related to stock compensation and the corresponding financial statement expense. CarGurus adopted ASU 2016-09 on January 1, 2017 which requires these differences to be recorded through the income tax provision. Prior to January 1, 2017, these differences were recorded to additional paid-in-capital. As a result, there is no adjustment for the three months or year ended December 31, 2016.

#### Unaudited Reconciliation of GAAP Expense to Non-GAAP Expense and GAAP Expense as a Percentage of Revenue to Non-GAAP Expense as a Percentage of Revenue

(in thousands, except percentages)

|   | Three Months Ended<br>December 31,<br>2017 |           |          |          | 2016            |           |          |          |
|---|--|-----------|----------|----------|-----------------|-----------|----------|----------|
|   | Cost of Revenue                            | S&M       | P,T&D(1) | G&A      | Cost of Revenue | S&M       | P,T&D(1) | G&A      |
| GAAP expense                                | \$ 5,242                                   | \$ 67,670 | \$ 8,317 | \$ 8,590 | \$ 2,904        | \$ 45,302 | \$ 3,319 | \$ 4,064 |
| Stock-based compensation expense            | (135 )                                     | (1,803 )  | (1,565 ) | (1,301 ) | (4 )            | (44 )     | (28 )    | (10 )    |
| Non-GAAP expense                            | \$ 5,107                                   | \$ 65,867 | \$ 6,752 | \$ 7,289 | \$ 2,900        | \$ 45,258 | \$ 3,291 | \$ 4,054 |
| GAAP expense as a percentage of revenue     | 6 %  | 75 %      | 9 %      | 9 %      | 5 %             | 75 %      | 5 %      | 7 %      |
| Non-GAAP expense as a percentage of revenue | 6 %  | 73 %      | 7 %      | 8 %      | 5 %             | 74 %      | 5 %      | 7 %      |

(1) Product, Technology, & Development

|   | Year Ended<br>December 31,<br>2017 |            |           |           | 2016            |            |           |           |
|---|------------------------------------|------------|-----------|-----------|-----------------|------------|-----------|-----------|
|   | Cost of Revenue                    | S&M        | P,T&D(1)  | G&A       | Cost of Revenue | S&M        | P,T&D(1)  | G&A       |
| GAAP expense                                | \$ 17,609                          | \$ 236,165 | \$ 22,470 | \$ 22,688 | \$ 9,575        | \$ 154,125 | \$ 11,453 | \$ 12,783 |
| Stock-based compensation expense            | (151 )                             | (1,911 )   | (1,637 )  | (1,329 )  | (18 )           | (163 )     | (104 )    | (37 )     |
| Non-GAAP expense                            | \$ 17,458                          | \$ 234,254 | \$ 20,833 | \$ 21,359 | \$ 9,557        | \$ 153,962 | \$ 11,349 | \$ 12,746 |
| GAAP expense as a percentage of revenue     | 6 %                                | 75 %       | 7 %       | 7 %       | 5 %             | 78 %       | 6 %       | 6 %       |
| Non-GAAP expense as a percentage of revenue | 6 %                                | 74 %       | 7 %       | 7 %       | 5 %             | 78 %       | 6 %       | 6 %       |

(1) Product,  
Technology, &  
Development

**Unaudited Reconciliation of GAAP Net Income to Adjusted EBITDA:**

(in thousands)

|   | Three Months Ended<br>December 31, |          | Year Ended<br>December 31, |           |
|---|------------------------------------|----------|----------------------------|-----------|
|   | 2017                               | 2016     | 2017                       | 2016      |
| GAAP net income                           | \$ 2,267                           | \$ 3,838 | \$ 13,199                  | \$ 6,497  |
| Depreciation and amortization             | 1,125                              | 691      | 3,795                      | 2,072     |
| Stock-based compensation expense          | 4,804                              | 86       | 5,028                      | 322       |
| Other (income) expense, net               | (240 )                             | (114 )   | (563 )                     | (374 )    |
| Provision for (benefit from) income taxes | (1,995 )                           | 882      | 2,638                      | 2,448     |
| Adjusted EBITDA                           | \$ 5,961                           | \$ 5,383 | \$ 24,097                  | \$ 10,965 |

**Unaudited Reconciliation of GAAP Net Cash and Cash Equivalents Provided by Operating Activities to Non-GAAP Free Cash Flow**

(in thousands)

|   | Three Months Ended<br>December 31, |             | Year Ended<br>December 31, |           |
|---|------------------------------------|-------------|----------------------------|-----------|
|   | 2017                               | 2016        | 2017                       | 2016      |
| GAAP net cash and cash equivalents provided by (used in) operating activities | \$ 7,149                           | \$ (447 )   | \$ 25,691                  | \$ 20,004 |
| Purchases of property and equipment   | (910 )                             | (1,837 )    | (5,157 )                   | (5,846 )  |
| Capitalization of website development costs                                   | (728 )                             | (459 )      | (2,215 )                   | (1,372 )  |
| Non-GAAP free cash flow   | \$ 5,511                           | \$ (2,743 ) | \$ 18,319                  | \$ 12,786 |

**Non-GAAP Financial Measures and Other Business Metrics**

To supplement our consolidated financial statements, which are prepared and presented in accordance with Generally Accepted Accounting Principles in the United States, or GAAP, we provide investors with certain non-GAAP financial measures and other business metrics, which we believe are helpful to our investors. We use these non-GAAP financial measures and other business metrics for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures and other business metrics provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making.

The presentation of non-GAAP financial information and other business metrics is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. While our non-GAAP financial measures and other business metrics are an important tool for financial and operational decision-making and for evaluating our own operating results over different periods of time, we urge investors to review the reconciliation of these financial measures to the comparable GAAP financial measures included above, and not to rely on any single financial measure to evaluate our business.

We define Adjusted EBITDA as net income (loss), adjusted to exclude: depreciation and amortization, stock-based compensation expense, other (income) expense, net, the provision for (benefit from) income taxes, and other one-time, non-recurring items, when applicable. We have presented Adjusted EBITDA because it is a key measure used by our management and board of directors to understand and evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. In particular, we believe that the exclusion of certain items in calculating Adjusted EBITDA can produce a useful measure for period-to-period comparisons of our business.

We define Free Cash Flow as cash flow from operations, adjusted to include purchases of property and equipment and capitalization of website development costs. We have presented Free Cash Flow because it is a measure of the Company's financial performance that represents the cash that the Company is able to generate after expenditures required to maintain or expand our asset base.

We also monitor operating measures of non-GAAP operating income and non-GAAP operating margin, non-GAAP net income and non-GAAP net income per share. These non-GAAP financial measures exclude the effect of stock-based compensation expense. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making.

While a reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis as a result of the uncertainty regarding, and the potential variability of, many of these costs and expenses that we may incur in the future, we have provided a reconciliation of non-GAAP financial measures and other business metrics to the nearest comparable GAAP measures in the accompanying financial statement tables included in this press release.

We define a paying dealer as a dealer, based on a distinct associated inventory feed, that subscribes to our Enhanced or Featured listing product at the end of a defined period.

We define average annual revenue per subscribing dealer (AARSD), as measured at the end of a defined period, as the total marketplace subscription revenue

during the trailing 12 months divided by the average number of paying dealers during the same trailing 12-month period.

We define a monthly unique user as an individual who has visited our website within a calendar month, based on data as measured by Google Analytics. We calculate average monthly unique users as the sum of the monthly unique users in a given period, divided by the number of months in that period. We count a unique user the first time a computer or mobile device with a unique device identifier accesses our website during a calendar month. If an individual accesses our website using a different device within a given month, the first access by each such device is counted as a separate unique user.

We define monthly sessions as the number of distinct visits to our website that take place each month within a given time frame, as measured and defined by Google Analytics. We calculate average monthly sessions as the sum of the monthly sessions in a given period, divided by the number of months in that period. A session is defined as beginning with the first page view from a device and ending at the earliest of when a user closes their browser window, after 30 minutes of inactivity, or at midnight Eastern Time each night. A session can be made up of multiple page views and visitor actions, such as performing a search, visiting vehicle detail pages, and connecting with a dealer.

We anticipate holding our annual meeting of stockholders on or about Thursday, May 24, 2018 (the "2018 Annual Meeting") and will file with the SEC a proxy statement for the 2018 Annual Meeting. The deadline for receipt of a stockholder proposal to be submitted pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended ("Rule 14a-8"), for inclusion in our proxy materials for the 2018 Annual Meeting is the close of business on March 27, 2018. In accordance with our Amended and Restated By-Laws, the deadline for receipt of a stockholder proposal submitted outside of Rule 14a-8, or a director nomination, is the close of business on March 10, 2018.

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