VIAVID
communications simplified.

CarGurus, Inc.

First Quarter 2024 Earnings Results Conference

May 9, 2024

CORPORATE PARTICIPANTS

Kirndeep Singh, *Vice President, Head of Investor Relations*

Jason Trevisan, *Chief Executive Officer*

Elisa Palazzo, *President and Chief Operating Officer*

Samuel Zales, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Marvin Fong, *BTIG*

Jed Kelly, *Oppenheimer & Company*

Rajat Gupta, *JPMorgan*

John Colantuoni, *Jefferies*

Naved Khan, *B. Riley*

Tom White, *D.A. Davidson*

Doug Arthur, *Huber Research*

Jamesmichael Sherman-Lewis, *Citigroup*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to CarGurus Inc.'s First Quarter 2024 Earnings Results Conference.

At this time all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. To give everyone the opportunity to participate please limit yourself to one question and one follow-up. If you should require Operator assistance during the conference, please press star zero on your telephone keypad.

Please note this conference is being recorded.

I will now turn the conference over to Kirndeep Singh, Vice President, Head of Investor Relations.

Kirndeep Singh

Thank you, Operator.

Good afternoon. I'm delighted to welcome you to CarGurus' first quarter 2024 earnings call. With me on the call today are, Jason Trevisan, Chief Executive Officer; Sam Zales, President and Chief Operating Officer; and Elisa Palazzo, Chief Financial Officer.

During the call, we will be making forward-looking statements, which are based on our current expectations and beliefs. These statements are subject to risks and uncertainties which could cause our actual results to differ materially from those reflected in such statements. Information concerning those risks and uncertainties is discussed in our SEC filings, which can be found on our SEC's website and in the Investor Relations section of our website. We undertake no obligation to update or revise forward-looking statements, except as required by law.

Further, during the course of our call today, we will refer to certain non-GAAP financial measures. A reconciliation of GAAP to comparable non-GAAP measures is included in our press release issued today, as well as in our updated investor presentation, which can be found on the Investor Relations section of our website. 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, as it relates to metrics used by our Management in its financial and operational decision-making.

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

Jason Trevisan

Thank you, Kirndeep, and thanks to all of you for joining us today.

Each year, I share a theme that serves as our North Star. For 2024 our guiding principle is intelligent acceleration, as we leverage our industry-leading marketplace business, end-to-end transaction-enabled platform and integrated retail and wholesale data ecosystem, with the aim of continuing to grow our business even more profitably. We'll begin the discussion today with a high-level review of our quarterly results, then highlight the progress against our drivers of value creation and take you through our exciting journey to innovate and transform the way dealers and consumers predict, source, market, and sell used and new vehicles.

Before we dive into the quarter, I want to take a moment to recognize Ismail Elshareef, our new Chief Product Officer. As we continue to innovate new products and services to bolster our platform, Ismail's extensive experience with subscription and transaction models, and his rich appreciation of both enterprise and consumer needs will be invaluable in strengthening our partnership with dealers and deepening our connection with consumers.

Turning to our results. I'm pleased to share that we ended the first quarter at the high end of our forecasted revenue and above our Adjusted EBITDA guidance range. In the first quarter, non-GAAP consolidated Adjusted EBITDA grew 24% year-over-year, achieving the highest first quarter EBITDA margin in the last three years, driven by continued growth in our subscription base.

In our marketplace business, revenue growth accelerated again in the first quarter to 12% year-over-year, and our quarterly net new bookings grew 28% year-over-year. We're also particularly pleased with the performance of our international business, which profitably grew revenue 24% year-over-year in the first quarter.

Our strong marketplace results were driven by our ongoing focus on optimizing QARSD through the levers we've discussed in recent quarters. We are continuously enhancing the value of our listings tiers, and are engaging with dealers more frequently, to ensure they understand the full breadth of our platform's capabilities and are in the tier that best fits their strategy. At the same time, our consumer connections continue to drive greater ROI, so we are working to ensure pricing is commensurate with the value we provide.

During both renewals of existing customers and new business conversations, we remain dedicated to cultivating enduring relationships with our dealers, supported by a growing set of data, insights and tools integrated into their workflow, to help them grow their businesses faster and manage operations more effectively. More broadly, our impressive results reflect our ongoing efforts to advance against four drivers of value creation that represent our current business priorities. One, provide more value to dealers. Two, improve the consumer experience. Three, enable digital transactions and finally, four, rebuild and integrate digital wholesale, providing more value to dealers.

As I just mentioned, our primary focus is providing more value to our dealer partners, using our data, platform, tools, and audience to support their businesses and become increasingly integrated into their decision-making processes and transaction flow. As we continue to innovate our products and leverage exceptional data insights, with the aim of enhancing dealers' operating results and ROI from our platform, the quantity and quality of our leads remain pivotal factors.

In the first quarter, we delivered double-digit growth in leads driven by an increase in unique visitors and sessions. In the first quarter, we had 25% more unique visitors and 57% more minutes per visit than our next closest marketplace competitor, underscoring our audience leadership.

The robustness of our traffic metrics is fueled by sustained growth in organic and owned channels, including direct traffic and app usage, which continue to grow year-over-year, reflecting our investments in brand and user experience. We continue to enhance the value of our various listings tiers, and as part of that effort, we continue to offer an increasing amount of dealer data insights, or DDI, to our dealers, supporting their day-to-day decision-making process. DDI leverages our end-to-end retail and wholesale data ecosystem and offers dealer-specific recommendations and insights to our dealers, which we believe helps them sell cars faster and at higher margins and will entrench us more deeply in their daily workflow.

For example, in under two quarters, we've had several thousand dealers enroll in Next Best Deal Rating to inform their retail pricing decisions. Approximately, 30% of enrolled dealers receive their reports daily, with the remaining 70% of dealers receiving them weekly. In the first quarter, our dealers made over 300,000 price changes driven by Next Best Deal Rating, to sell cars faster and improve their dealership performance.

Additionally, as we continue to prioritize predictive analytics to support dealers' day-to-day decision-making, we are currently piloting our inventory acquisition recommendations tool, which is designed to inform dealers about what vehicles they should acquire to meet the demand of consumers in their markets. This tool leverages both dealer inventory data and CarGurus' website activity, to improve the accuracy of turn time predictions, and will be accessible exclusively to subscribers of our premium listing tiers, starting in Q2.

In pursuit of long-term partnerships with dealers, we have refined our account management approach to increase communication frequency, foster thought partnership and leverage local expertise to enhance customer value. These conversations allow us to convey the value and ROI we provide, and over time will allow us to capture greater dealer wallet share and maintain a long runway for QARSD growth. Our renewed emphasis on life cycle activities is already yielding remarkable results. In the first quarter, the number of dealers increased and 31% of new contracts sold were annual contracts, more than twice as many as the prior year period.

Better consumer experience. Along with providing increasing value to dealers, we strive to create a better consumer experience as we focus on simplifying the complexity of car shopping, whether that is financing, buying, or selling. As consumers increasingly look to complete more of the vehicle buying and selling journey online, we are providing them with the convenience and confidence they seek on our platform and are investing in a more seamless integration of the full range of transaction capabilities. We remain focused on enhancing the consumer experience across multiple platforms and have been investing in our market-leading mobile app to make it an invaluable tool for consumers at any stage of their car buying or selling journey.

Our app continued to be the number one automotive app in terms of downloads across iOS and Android and one of our fastest-growing channels. Our app generated more than a quarter of total leads and app users averaged more than three sessions per week with strong engagement and loyalty. Approximately 70% of app users ultimately registered with us, allowing us to offer increasingly customized user experiences with recommendations tailored to their preferences and needs.

We continue to offer our consumers the largest selection of used and new cars. In the first quarter, we grew our available listings by 30% year-over-year, and we ended the quarter with approximately 20% more available inventory than our next closest automotive competitor. We ended the quarter as the most visited automotive marketplace with 57% more total visits than our next closest competitor, and 48% of our monthly unique visitors did not visit our leading competitors' websites. Our net promoter score remained extremely high with 90% of buyers stating that they would recommend CarGurus to a friend.

Transaction enablement. In the first quarter, we continued to execute against our vision of building an end-to-end transaction enabled platform. During the quarter, we continued to experience tremendous adoption of digital deals, growing to 6,102 dealers as of the end of the first quarter, nearly tripling from the prior year. In providing these digital solutions, we enable transactions for our dealer partners, vastly expanding their reach to cater to the almost 60% of buyers open to complete their purchase online, encompassing nearly half a million digital deal-enabled vehicles.

Digital deal leads accounted for approximately one-fourth of a dealer's email leads and we have seen reservation deposits increase by 185% year-over-year. This is a remarkable achievement, as the growing number of consumers trust us with their credit card data, and we are delivering highly qualified leads to our dealers with higher close rates.

A key component to creating our end-to-end transaction enabled marketplace is the ability for consumers to not only shop for a vehicle on our site, but to also trade in their existing vehicle. In 2023, we began piloting Top Dealer Offers, a high margin subscription service that facilitates matching a prospective car seller with the most suitable dealership. Our pilot has been well received by both consumers and dealers, and we recently expanded this offering to major metropolitan areas, prioritizing our commercially savvy dealerships with the desire to aggressively acquire inventory.

Dealers in our early access program have found exceptional value in Top Dealer Offer leads, as we consider a number of factors such as price, dealership reputation, distance, and available trade-in inventory to ensure optimal matches. We're the only marketplace player that offers both white glove, sell from home experience with Instant Max Cash Offer and drop-off at dealer location services via our Top Dealer Offer subscription.

In the quarter, we also continued to pilot CG Buy Online, further validating the product market fit of our digitally native retail platform. By the end of March, approximately 1,000 vehicles were enabled on this platform with coverage across 10 states. We use the CarOffer platform to provide consumers with an estimated trade-in value during the CG Buy Online transaction journey, and these trade-ins can either be purchased by a CG Buy Online partner dealer or sold through the CarOffer platform.

Rebuild and integrate digital wholesale. I'll wrap-up by sharing our progress on rebuilding and integrating digital wholesale. As I mentioned earlier, we're excited to bring wholesale and retail insights together to assist our dealers in buying and selling inventory based on real-time retail pricing and market data.

Since assuming control of CarOffer in December, we've been in the process of rebuilding our wholesale business and hiring new talent, with the aim of creating a more efficient and scalable wholesale platform, and we are confident in the operational progress made so far. As we invigorate our go-to-market strategy to foster deeper, enduring partnerships with our dealer network, we have restructured CarOffer’s sales organization and redefined its incentive structure.

Our new sales model is based on a consultative approach, and we've begun selectively adding local consumer demand data and market days’ supply sourced from extensive data sets to our matrix recommendations. We are encouraged by early results, as we have seen new and returning dealers purchase five times as many vehicles per month, and retained dealers double their monthly purchases, when leveraging our powerful insights.

We are bolstering our product strategy and increasing our investment in engineering and product development. Our teams are focused on improving matrix usability, leveraging CarGurus' differentiated data set, to blend retail and wholesale data. We are incorporating consumer trends, competitive inventory analysis, and dealer turn times, as we aim to optimize inventory acquisition strategies. Overall, we are proud of the progress and improvement the CarOffer team continues to make, as we believe these steps are crucial to return the business to profitable growth in the next few quarters.

To summarize, I'm thrilled with our financial results and business performance. Every quarter, we've continued to add products, insights and features that leverage our end-to-end capabilities, and deliver increasingly more value to our customers. We are becoming increasingly embedded in the dealer's daily workflow, making our services stickier over a longer period of time. We believe this will translate into continued earnings growth, and a pipeline of products that we believe will deliver sustained expansion over time. With each step, we remain dedicated to sound financial management, operational excellence, and efficient capital deployment, which we believe are the foundation to continue to enhance profitability and create enduring value for shareholders.

Now, let me turn it over to Elisa to discuss our financial results.

Elisa Palazzo

Thank you, Jason and thank you all for joining us today.

My commentary will cover a detailed overview of our first quarter performance, followed by our guidance for the second quarter of 2024. First quarter consolidated revenue was $216 million, down 7% year-over-year, driven by lower wholesale and product volumes, partly offset by healthy expansion of our monthly recurring revenue base.

Marketplace revenue was $187 million for the first quarter, up 12% year-over-year, driven by continued strength in subscriptions, as net new MRR grew 28% year-over-year, resulting in a $20 million increase in listings revenue.

Consolidated QARSD grew approximately 14% year-over-year, driven primarily by the addition of new active dealers at current market rates, and increasing adoption of add-on products such as top dealer offers. International QARSD achieved the strongest year-over-year growth since the first quarter of 2022, reflecting positive momentum in renewals, both in the UK and in Canada.

Wholesale revenue was $16 million for the first quarter, down 36% year-over-year, driven by a decline in dealer-to-dealer transaction volume, as we continue to focus on rebuilding our go-to-market engine and improving our product offering and customer service, which we believe will result in a higher degree of confidence and trust among our dealer customers.

Lastly, product revenue was $12 million for the first quarter, down 69% year-over-year, reflecting Instant Max Cash Offer decline, as the growing number of consumer and dealers continue to opt in for our highly profitable subscription-based consumer vehicle sourcing product.

Top Dealer Offers. Despite a decline in Instant Max Cash Offer transaction, we have seen increasing demand for Top Dealer Offers which drives high margin subscription revenue to our marketplace business. The combined impact of these two offerings is accretive at the consolidated gross profit level.

I will now discuss our profitability and expenses on a non-GAAP basis. First quarter non-GAAP consolidated gross profit was $176 million, up 10% year-over-year. Non-GAAP gross margin was 82%, up from 69% in the prior year quarter. The meaningful year-over-year expansion in non-GAAP gross margin was primarily due to the shift in revenue mix toward our high-margin marketplace business. Marketplace non-GAAP gross margin expanded 160 basis points year-over-year to 92%, driven by favorable product mix.

Our digital wholesale non-GAAP gross margin was down approximately 200 basis points year-over-year, as CarOffer lower transaction volume was not sufficient to cover our fixed cost base. Consolidated Adjusted EBITDA was $50.4 million, up 24% year-over-year. Consolidated Adjusted EBITDA margin was 23%, approximately 580 basis points higher year-over-year.

Marketplace Adjusted EBITDA grew 29% year-over-year to approximately $55 million. Digital wholesale Adjusted EBITDA loss was $4.5 million in the first quarter. First quarter non-GAAP operating expenses increased by 6% year-over-year to $131 million, predominantly driven by higher sales and marketing spend, which was up 9% year-over-year but modestly below our initial expectations.

Non-GAAP diluted earnings per share attributable to common shareholders was 30% for the first quarter, up 23% year-over-year, reflecting the increasing consolidated Adjusted EBITDA, and lower share counts. We ended the first quarter with $246 million in cash and cash equivalents, a decrease of $66 million from the end of the fourth quarter. The lower cash balance was primarily driven by $81 million spent on share repurchases in the quarter and cash payments related to our new headquarters build-out.

I will now close my prepared remarks with our outlook for the second quarter. We expect our second quarter consolidated revenue to be in the range of $202 million to $222 million. We expect the momentum in our marketplace business to continue in the second quarter, with quarterly revenue expected to be in the range of $189 million to $194 million, up between 11% and 13% year-over-year.

In the second quarter, we expect digital wholesale segment volumes to be down sequentially, as we continue to rebuild our sales organization and optimize our unit economics, further compounded by expected strong market adoption for Top Dealer Offers. We expect our second quarter non-GAAP consolidated Adjusted EBITDA to be in the range of $47 million to $55 million.

Given our OpEx outperformance in the first quarter, we now expect non-GAAP operating expenses as a percentage of revenue to remain flat in the second quarter, and to decline progressively in the second half of the year.

Finally, we expect non-GAAP earnings per share to be in the range of $0.29 to $0.34 and fully diluted outstanding shares to be approximately 105.5 million.

With that, I would like to open the call for Q&A.

Operator

Thank you.

Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star two to leave the question queue. For participants making use of speaker equipment, it may be necessary to pick up your handset before pressing the star keys. To give everyone the opportunity to participate please limit yourself to one question and one follow-up. If time allows, you are welcome to rejoin the question queue for further questions.

Our first question comes from Marvin Fong of BTIG. Please go ahead.

Marvin Fong

Good evening. Thanks for taking my questions. Two questions if I may. I was interested in your disclosure, the net new bookings was up 28%. Correct me if I'm wrong, but I don't believe you've ever given us like a specific percentage number on this. I'm just curious, how should we view this as a leading indicator of revenue growth? What's the correlation and the phase-in of those bookings into revenue?

Then my second question, just on Top Dealer, understand the excitement around that product. How much of a driver of QARSD improvement was that in this last quarter? Was it material at all considering how early stage the product is, maybe you could kind of help us understand the dynamics there? Thanks.

Elisa Palazzo

Thanks for the question. In terms of marketplace revenue, I recommend you—I would point you out to the listings, which were actually up $20 million this quarter versus $60 million last quarter year-over-year. We are seeing a continued acceleration of the top line growth at the marketplace.

Jason Trevisan

It's reflected in—this is Jason, hey, Marvin, and it's reflected in the guidance to give you a sense for flow through.

Marvin Fong

Okay. We should just see it as revenue that's recognized in the next quarter?

Jason Trevisan

Yes. Typically, when we bring on a new customer, that gets activated fairly quickly. Sometimes they'll have an intro rate or something like that, but it can—it tends to materialize in pretty short order. Now it does depend, in terms of when it's booked in the quarter, in terms of its impact in that quarter relative to the next quarter. But they're monthly—there may be an annual contract you've heard us say in the script, but they're built and recognized monthly. The flow-through is the best way for you to get a sense for that outside of those intra-month comments and intro rate is through the guidance.

In terms of Top Dealer Offer impact on QARSD, there are a number of drivers of QARSD. As you've heard us say, the primary ones are us bringing new customers on at more commensurate market rates. The other is, another big one is upgrading dealers to higher packaged tiers and a lot of that is driven by us continuing to add more and more tools, insights, features, even some products into the higher tiers that are packing more value into that rather than charging a la carte. Then the third is new products. Top Dealer Offer, we consider a new product.

Marvin Fong

Okay, understood. Thanks a lot. Appreciate it.

Operator

The next question comes from Jed Kelly of Oppenheimer & Company. Please go ahead.

Jed Kelly

Hey, great. Thanks for taking my question. Just looking at your, the margins in the marketplace, looks like they were pretty strong. Can you tell us is that the right basis to look at? Then can you give us a sense on—granted you gave us 2Q guidance, but can you give us a sense on how you're thinking about the marketing cadence going for the balance of the year? Thank you.

Elisa Palazzo

Yes. The marketplace business continues to experience strong growth at the top line and also to demonstrate operating leverage, and you should expect that also going forward. In terms of the marketing cadence, I'll remind you what we said about OpEx - as a percentage of revenue, we expect it to be flat in the second quarter and then to decline sequentially in the second half of the year.

In terms of marketing spend cadence, what we anticipate is Q1 to be the largest quarter as we front-loaded our branding expense related to our new advertising campaign, Your Car, Your Way, and then Q4 to be the smallest quarter in terms of marketing spend as we typically dial down our media spend around the holiday season.

Jed Kelly

Thank you.

Operator

Our next question comes from Rajat Gupta of JPMorgan. Please go ahead.

Rajat Gupta

Great. Thanks for taking the question. Maybe just to clarify the second quarter commentary, the complexion of the marketplace revenue. Can you give us a sense of how much of that sequential pickup or maybe you want to talk about year-over-year is coming from QARSD improvement versus paying dealers? Relatedly, if you could touch upon the outlook for the international business a bit more over the next few quarters? Any initiatives in the pipeline that could potentially catalyze the segment further? Clearly strong uptick here in the QARSD and also dealer count there. Curious what's going on there? Any forward commentary would be helpful. Thanks.

Elisa Palazzo

In terms of QARSD, it was up 14% year-over-year and was primarily driven by dealers migrating to higher subscription tiers as well as new dealers joining at market rates. The number of—sorry, the number of dealers was also up sequentially from the fourth quarter, as we registered the highest number of new dealers joining our platform since the first quarter of 2just f021. Also, we had 30% of the contracts for new dealers being longer than one year, which suggests that over time, our retention will go up.

Rajat Gupta

Got it. The second quarter guidance on marketplace, does that assume continued improvement on both the QARSD and the dealer count? Or is one dominating the other, as you think about the remainder of the year?

Elisa Palazzo

Yes. We don't guide on these two specific drivers. However, what I can tell you is that our guidance implies to add year-over-year more revenue, both at the low end and the high end, to add more revenue than we did in the last two quarters. We are seeing continued momentum in the Marketplace business.

Rajat Gupta

Got it. Just on the international side, any additional thoughts there on any new initiatives during the pipeline Q2 to capitalize that segment further?

Samuel Zales

I'm happy to take it, Rajat. Thank you for noticing. Our business is cranking in the marketplace across the globe. I'm really proud to say that it's not just one market that's doing it. You know that we got to profitability in those markets, and we're really excited about where they're going. We're fueling fast growth there. I think we described the 24% growth in the international markets.

We're really excited about where those are going. It opens up huge opportunities for us. We're catching the market leaders. It leaves us opportunities to launch some new products that we've launched here in the US, and that means more QARSD growth and more ability to add dealers as we have in the international markets. It also opens up partnerships to look at other ways to continue to add on new product capability beyond what we build organically, and we'll probably follow the path we're doing here with—you've seen the addition of new products that have helped consumers move further down the transaction cycle. Both of those give us huge opportunity to continue catching the big market leaders there. I think we're really astounded by the growth and profitability in those businesses and are excited to keep that going.

Rajat Gupta

Great, thanks. Thanks for the color. I'll get back in the queue.

Operator

The next question comes from John Colantuoni of Jefferies. Please go ahead.

John Colantuoni

Hi everyone. Thanks for taking my question. I wanted to zoom in on CarOffer. A few years ago, there was a ramp of investments in product and marketing to expand awareness and build tech capabilities behind the offering. After having already gone through that initial investment phase, are there any learnings that could help make you more efficient next time around once you're ready to relaunch the wholesale offering so there might be a more tempered increase in expenses? Thanks.

Samuel Zales

Hey, John, thanks for the question. Sam Zales here. I don't know that I'd characterize the investment a couple of years ago as major investment in product and marketing. Quite honestly, as we're looking at this business, we couldn't be more excited about the combination of wholesale and retail coming together. We're still the only instant trade platform in the market, and we know that putting wholesale and retail together, as you heard in the prepared remarks, that we are now seeing some really interesting growth in transactions from those dealers who are using the CarGurus' information on consumer demand tied to their inventory strategies and making more investments in that way. We were still building and running a start-up there that was running and incented on daily profits. That business focus was, how do we get the most out of each day to maximize our incentive and the acquisition of the business? We are now running the business like we run the CarGurus business. Our focus in this investment is product-first.

Let's make sure that the product capabilities and the analyzers that we've built into matrix are going to optimize customer results. Quite honestly, we're rebuilding customer demand from a product capability that we didn't have in the days that we didn't fully acquire the business. The focus on product now, the focus on tooling our operations to make sure those are optimized. We make money at a low volume as a business when we get to that point. Now recrafting our go-to-market team and our sales and service teams to focus on consulting and putting this data analytics and the AI we're creating to look at CarGurus data on consumer demand, match to inventory strategies and inventory profits for our dealers is showing its first sign of growth in this two times to five times increase in transaction activity.

I wouldn't say that anytime in the past, there was real investment for the long-term on product and marketing. At CarOffer today, we're making those investments now so we can retool and build back the business demand that we've had from our customers in the past and go for growth as we go forward.

John Colantuoni

Thank you.

Operator

The next question comes from Naved Khan of B. Riley. Please go ahead.

Naved Khan

Yes, thanks a lot. It's great to see the traction you're seeing with the dealer count and new dealer growth. Maybe can you just share with us the monthly trend if you saw strength building throughout the quarter, how does April look like? The other related question is on the—you shared the percentage of annual contracts. What, in terms of pricing, does an annual look the same on a monthly times 12? Or is it, do the dealers get a discount? How should we think about that? Thank you.

Jason Trevisan

Sure. I can take a crack at that. Thanks for the question. Monthly trends building towards the quarter, we don't talk about current quarter. In our scripted comments, you can see and hear a number of trends that we talked about that resulted in the first quarter. In terms of contracts, there's a number of—if I understood the extent of that question. Correct me if I'm wrong or clarify. The annual contract, I think, is helpful in a number of ways. I think it sets a different expectation for customers in their relationship with us. I think it's actually a function of us building closer and better and more consultative relationships with our customers. I don't think they would be willing to sign an annual contract, frankly, if they didn't think that we were going to be a longer-term partner.

In the past, we weren't necessarily always earning the right to be a long-term partner to them. But now as we're delivering more insights and more tools, and as Sam just referenced, ways in which we're helping them source smarter and price smarter, they realize that we're adding a lot more value beyond just lead. We haven't ever commented on pricing implications for annual contracts versus monthly, but I think you can think of them as very similar. Although a lot of software companies for longer-term contracts may initiate a slight discount, it’s not anything big. They think of our pricing in a very similar way, whether it's signing a monthly or an annual.

Naved Khan

Great. Thank you.

Operator

The next question comes from Tom White of D.A. Davidson. Please go ahead.

Tom White

Great. Thanks for taking my question. Jason, your comments about the DDIs and also the more consultative approach you're taking with CarOffer. I don't know, it seems to me like you guys are maybe have been talking about this, but it seems like you're increasing your focus on leveraging all of your data in more creative ways and circling it back to your customers. Can you just talk a little bit about the high-level monetization opportunity of that strategy and then I’ve got a follow-up.

Jason Trevisan

Sure. Hey, Tom. You're right that we are talking about it more because we are delivering more. I would think of it on a couple of different dimensions. The first dimension is how we're using our insights to just help them sell cars better, smarter, faster with higher margin in our listings business. You've heard us talk about, over time, as we have had a pretty steady introduction of these, we're giving our dealer customers information on their market share of leads in the market relative to their market share of units of inventory. We're giving them information on how quickly they are dropping prices and the magnitude of their price drops. We're giving them information on what are demand trends in the market relative to supply data.

More recently, we've talked about Next Best Deal Rating, which helps them reduce how much they drop the price of a car to maintain margin but generate a lot more interest on the car by increasing the rating of that car and getting more activity on our site. You heard us talk about an inventory acquisition recommendation tool that uses, again, supply and demand data and to inform cars they should be stocking on their lots. As we're really starting to take our—and the next level is with CarOffer, I'll get to that in a second.

We're really starting to reorient our thinking as we've been building a lot of these capabilities, products, insights and taking more of a customer lens to our dealers to say, we can tie all of the steps that you need to do as a dealer together through our data. You need to source inventory and predict how that inventory is going to do. You need to price it; you need to market it in a number of different ways. You need to merchandise it in a number of different ways. You need to ultimately sell it. You need to retain your customer.

When we take the dealer lens and realize all the data we have, we can help in most of those steps. When you then layer in CarOffer, that gives us access to the whole back end, if you will, of that value chain into the wholesale market, to do things that really just honestly help them predict more. It's what kind of car should I acquire based on how I predict that car will sell in four weeks when I had it ready for sale. That becomes a really virtuous cycle. We think our data is more end-to-end than others in the market. We have the chops and are investing the resources to turn that data into insights. The way we're bringing that to market today, we have done some a la carte pricing in the past. One example is Lead AI, where that's another great example, actually, we're giving dealers more information on the shoppers that are coming to their dealerships. They have a better ability to close those sales.

But really, right now, we found that in order to gain adoption of them, it's better for us to bundle them into packages and tiers of listings products. When we do that, we get a couple of benefits. One, they're upselling into higher tiers because some of these we only offer to higher tiers. Two, they are stickier customers and we're seeing better retention because they're more reliant on our data. The Next Best Deal Rating example is a great one. In a very short period of time, we have many thousands of dealers using it. 30% of them are getting that information daily. The general managers are using it daily. That's just a whole different ballgame from where we were in the past when they may or may not open our dashboard. Yes, data is a theme that is growing volume. Yes, it's the thread that's holding together the end to end.

Tom White

That’s great. That's super interesting. Thank you. Maybe just a quick follow-up. QARSD growth obviously continues to be super strong. It looks like the guidance, by my math, looks like another double digit growth quarter for QARSD. How should we think about the sustainability of this level of QARSD growth over the next several quarters? Thanks.

Jason Trevisan

I'll keep going. I'm on a roll. It is quite sustainable. We've talked about many levers that drive it. Most of those levers exist for a long time. The example I just gave is a perfect reflection of that. As we add more value to dealers, even if we do it through bundling of a listings product, it's actually adding a ton of value to their dealership. We think their mindset is shifting from, I'm not just paying for leads, I'm paying for the ability to elevate the sophistication of my dealership. It just so happens it's coming from CarGurus, who is also providing me leads.

Package upsells, I think, has continued upside if we continue to execute on introducing these value-added features and insights, bringing dealers to market rate as we bring on new dealers. That's—we had a lot of dealers that had been on for a long time and are still well below market. We think our competitors are raising unit prices as well. The unit pricing ceiling continues to rise. We still think we’re very strong ROI because we think, on balance, we're still less expensive.

Then other products, Top Dealer Offers is a good example of that. We have a lot of new ideas. You heard me introduce Ish (phon) very briefly in the talking, in the script rather. He's bringing just a really terrific lens through the dealer customer-centric lens. Between what he's bringing in to be more unified activity with the CarOffer, we think there's new opportunities for new products that didn't exist before.

Tom White

Got it. Thanks so much, Jason.

Operator

Our next question comes from Doug Arthur of Huber Research. Please go ahead.

Doug Arthur

Yes, thanks. Elisa, on the operating expenses, it seemed GAAP or non-GAAP sales and marketing was elevated, product tech was—product development was down, G&A was elevated. Can you—is there anything to read into a trend there or is that more just on the sales and marketing side opportunistic?

Elisa Palazzo

Yes. Thanks for the question. It's primarily the marketing that was elevated in the first quarter as we said, because we frontloaded our branding spend related to our advertising campaign. But as we said, this should decline into the fourth quarter and throughout the year. Our OpEx in the second half of the year as percentage of revenue should also continue to decline.

Doug Arthur

Okay. All right. Yes, no, I know you mentioned that. Okay, great. Thank you. That's fine.

Operator

The next question comes from Ron Josey of Citigroup. Please go ahead.

Jamesmichael Sherman-Lewis

Hi, this is Jamesmichael on for Ron. Can you help us unpack the 30% inventory lift you saw in the quarter? What trends are you seeing in the new and used autos macro and what controllables are you executing against here to expand inventory? Then any more color on the potential you see from the new inventory acquisition recommendations tool would be helpful as well. If you think this is a drag on QARSD?

Jason Trevisan

Sure. I can, but I can ask to have you repeat the second part of that because that was fast. On the inventory expansion, that's largely—there's two functions to that, paying dealers and how we treat our premium dealers and bring them on. There was not a lot of change in terms of our treatment of premium dealers. We grew paying dealers modestly, so that will help it a little bit. But at the stage that we're at now, it's largely just market macro increases and decreases. What you've seen recently is an increase in new cars for the most part. I think used cars have continued to tick up a little bit. They're still not at pre-pandemic, new is still nowhere near pre-pandemic, but the biggest changes most recently were new car inventory.

Inventory acquisition tool is you asked, I think, how that affects retention. First of all, it's our most recent ones within pilot. It's still small numbers of dealers. We think all of these tools are going to have a positive impact on retention. One thing to keep in mind is that different segments of dealers. If you think about it really simplistically, there's franchise, large and small, independent, large and small. Then there's varying levels of sophistication and capability within each of those segments. To some dealers, an inventory acquisition recommendation tool is going to be something that perhaps like Next Best Deal Rating, they use every day. Others may have other tools or may not be as reliant on it.

But we think each of these will, for the segments that they apply the most, will help with retention. To be honest, that's hard to isolate that as a test to measure how much of an improvement it will have, any one tool will have on retention. But our philosophy, and I think what you will see from us, is we're going to continue to introduce a lot of these insights, we're just getting started, especially as we bring CarOffer together with us that we think in aggregate will have a very positive impact. I did not catch the last part of your question.

Jamesmichael Sherman-Lewis

Yes. I think you addressed the question on inventory recommendation tools. That's helpful. My second question is just around the app. Obviously, some success in downloads engagement, the 25% lead contribution. Can you talk about the investments you're making in either marketing with the core app infrastructure to drive some of those gains?

Jason Trevisan

A lot of that is in product and tech. It's not—there's a little bit more marketing that is geared toward app, but a lot of it is that we're improving it from a product perspective. In hindsight, we were probably a little bit behind the curve from an industry perspective in terms of investing in our app because we were being so successful in mobile web. I think now as we start to invest more resources in the product, we're seeing really fantastic results.

In fact, we started to see improvement in results before we started putting resources on it. As we put more resources on it, and when I say on it, I mean things like engagement and features that are unique to an app usage environment that's distinct from a web usage environment, mobile web environment, we're just seeing tremendous uptake we're seeing in engagement and growth in the app. Things like registration and things like frequency of use, engagement with dealers, time spent, our ability to message and communicate with them. We're really excited about the app, and we're proud of how it's getting recognized relative to others in our sector.

Samuel Zales

Hey, James, I'm just going to add something. It's Sam Zales here. Thanks for the question on both because Jason hit it all, just a couple of pieces of color from the market. One is when you add things like Top Dealer Offer to your app and you say, sell my car, we're the only player in the market that offers either the white glove, pick up the vehicle at your home or drop it off at the dealership and make a little bit more money. It is a truly unique offering in the market. It's one of the reasons 70% of the app users are registering and saying I want to think about this at some point in my future. I'm going to be in the long-term transaction model of auto ownership. It creates that incredible number one position in the app space for automotive marketplaces.

Number two is on the inventory acquisition report, as another example, as Jason was talking about analytics. A dealer typically says to us, quantity and quality of leads is the price of entry into this business. You can see from our QARSD growth, our marketplace growth, the lead growth we talked about year-over-year at double-digit, the lead we have on our competitors for visitors and visits, the lead we have in our competitors from an inventory perspective. That all fuels that lead volume and lead growth and lead quality that we have that we believe drives a higher ROI in the business and leads to that growth in our marketplace business.

The second part of that, though, is can you teach me how to run my dealership more profitably? All of those analytics reports that Jason is talking about, including this new inventory acquisition report, nobody in the market can take consumer demand with the largest audience in the marketplace and match that against inventory turns in a local market and help that dealer say, here's your best option to meet the market demand in your market, acquire that inventory and turn your inventory more quickly, which is both a CarOffer and CarGurus value proposition in the synergy of our businesses that we think is truly differentiated.

Jamesmichael Sherman-Lewis

Got it. Thank you both for the color. That's very helpful.

Operator

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session.

I will now hand over to Jason Trevisan for closing remarks.

Jason Trevisan

Thank you very much.

I just wanted to give a special thanks as we always do to all of our employees. We're extremely proud of all the innovation and growth that we're experiencing as a Company. I'd also like to thank everyone today who joined for your interest and support of us. We look forward to seeing many of you at upcoming conferences. Have a good evening.

Operator

Thank you. Ladies and gentlemen, that concludes today's event. Thank you for attending, and you may now disconnect your lines.