



CarGurus, Inc.

First Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Wyatt Swanson, *D.A. Davidson*

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Rajat Gupta, *JPMorgan Chase & Co.*

Jed Kelly, *Oppenheimer*

PRESENTATION

Operator

Ladies and gentlemen, greetings and welcome to CarGurus, Inc. First Quarter 2025 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference please signal the Operator by pressing star and zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Kirndeeep Singh, Vice President of Investor Relations. Please go ahead.

Kirndeeep Singh

Thank you, Operator. Good afternoon. I'm delighted to welcome you to CarGurus first quarter 2025 earnings call. With me on the call today are Jason Trevisan, Chief Executive Officer and Sam Zales, President and Chief Operating 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 the 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 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 as it relates to metrics used by our Management in its financial and operational decision making.

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

Jason Trevisan

Thank you, Kirndee, and thank you all for joining us today. In 2024, our North Star was intelligent acceleration, reigniting growth, and expanding margins. We delivered consistent double-digit year-over-year marketplace revenue growth, accelerated new product introductions, and had stronger operating leverage. In 2025, we're building on that momentum in what we are calling the year of transformative innovation, innovation that's customer-centric, differentiated, heavily leveraging AI and opens up new avenues of product and platform growth for us with both consumers and dealers.

While innovation is not new to CarGurus, having pioneered a freemium model, instant market value, deal ratings, digital deal and dealer data insights to name just a few. We are innovating in even more profound ways today than we ever have. Our organization is better structured to solve customer needs. We're dedicating a higher percentage of resources to net new products and investing in AI to accelerate innovation.

Our strategy for 2025 centers on three value creation drivers. One, expanding our suite of data-driven solutions across dealers' workflows to help them drive more profitable businesses. Two, meeting the evolving needs of car shoppers by powering a more intelligent and seamless journey. Three, enabling dealers and consumers to complete more of the transaction online, streamlining the final steps of the deal. These drivers have fueled meaningful progress in how we operate and the results we deliver.

Now, turning to our first quarter performance. Marketplace revenue grew 13% year-over-year, adding \$25 million, driven by dealer count growth, subscription tier upgrades, increased adoption of value-added products and services and strong lead growth. Marketplace Adjusted EBITDA grew 27% year-over-year, with margins improving more than 340 basis points to nearly 33%. International revenue expanded 20% year-over-year, driven by steady traffic growth, approximately 22% year-over-year aggregate lead growth in Canada and the U.K. and continued product innovation. In Canada, these factors supported accelerated dealer adoption.

In a recent survey of a select group of CarGurus dealers, 90% reported seeing better ROI on CarGurus compared to alternative platforms. Consumer engagement also remains strong. CarGurus was Canada's most downloaded auto app in Q1, contributing to an 85% year-over-year increase in direct traffic and reinforcing the strength of the brand. In the U.K., a recent survey of a select group of CarGurus dealers ranked CarGurus number one in ROI compared to alternative platforms, a key input as we scale and grow market share.

Double-digit year-over-year lead growth was underpinned by an 82% year-over-year increase in direct traffic, while lead quality also improved with stronger buyer signals. OEM advertising sustained healthy revenue growth in Q1, delivering double-digit gains year-over-year. This performance was driven by

strong annual upfront commitments, which also grew at double-digit rates year-over-year and set a solid foundation for momentum. Our continued impressive results demonstrate our leadership in the marketplace business and highlight the traction we're gaining across new areas of innovation, which we believe positions us to build on this momentum throughout the year.

I will now outline our progress against each strategic driver. Driver number one, expanding our suite of data-driven solutions across dealers' workflows to help them drive more profitable businesses. In Q1, we advanced our existing tools to give dealers greater inventory control and predictive intelligence, empowering them to make more informed decisions. Backed by the industry's largest retail data and consumer insights moat, we are also delivering actionable recommendations that improve performance across the dealer workflow.

We introduced VIN level targeting to give dealers more granular control over how they price, manage and promote inventory. This capability first launched with Highlight, enabling dealers to apply customizable strategies to feature their most compelling listings to more in-market shoppers. Highlight adoption grew 32% year-over-year and average leads per day increased 115% year-over-year following the introduction of VIN level targeting alongside further product optimizations. We are now extending this capability to our real-time performance marketing solution, allowing dealers to promote specific vehicles such as new arrivals, aged units or high-value listings directly from their dashboards.

Collectively, these enhancements enable dealers to respond rapidly to market changes and move inventory with greater speed and precision. Adoption across the Dealer Data Insight suite accelerated. Next Best Deal Rating, our first product, is now used by over 17,000 dealers globally, with 74% taking action on our pricing recommendations in Q1. Merchandising health optimized approximately 34,500 inventory units for nearly 6,400 dealers. Maximize margin usage rose 64% quarter-over-quarter. Dealers using it increased average listing prices by \$747 with nearly half of those vehicles still turning within two weeks.

Internationally, after introducing next Best Deal Rating in Canada and the U.K. at the end of last year, we are now rolling out additional dealer data insights tools in these markets. In parallel, our in-person dealer engagement program expanded, driven by measurable performance improvements and strong satisfaction among U.S. dealers. All national accounts now receive dedicated support focused on maximizing platform value, emphasizing practical guidance and data-driven best practices for systems integration, pricing, lead management and customer experience, including customer connections.

This approach has resulted in improvements across many dealerships. For example, a multi-franchise group increased CarGurus lead conversion by 200%. A medium-sized franchise doubled its digital deal conversion rate. Another multi-franchise group achieved over a 650% increase in consumer connection rates through Sell My Car. Following this success, we recently launched the same engagement model in Canada and the U.K.. These efforts, coupled with seven consecutive quarters of global year-over-year lead growth supported nearly 1,200 net new global dealer additions year-over-year, a meaningful acceleration in platform adoption.

Dealers have been adopting value-added products and services, migrating to higher subscription tiers and extending contract durations. Retention rates have continued to improve. Over 40% of new contracts signed this quarter classified as long-term commitments, underscoring dealer reliance on our platform despite macroeconomic uncertainty.

Driver number two, meeting the evolving needs of car shoppers by powering a more intelligent and seamless journey. We are helping consumers navigate the car shopping journey with greater confidence through more intelligent personalized experiences, extending our product capabilities from initial discovery to vehicle ownership.

In early-stage discovery, we launched cargurus.com/discover, a conversational research and search AI experience that allows shoppers to describe what they want in a car and receive personalized recommendations tied directly to live inventory. This supports upper funnel discovery, makes it easier for shoppers to decide which car is right for them and improves our understanding of consumer intent by feeding richer behavioral data back into our systems.

While we're still in the initial stages of expanding this new experience, users who engage with the experience are spending two times more time on site. We focused on two key areas of optimization to improve usability and consistency across the platform. First, enhancing the app with features like upgraded filtering and sorting, type-ahead search on the search results page and streamlined lead form submission. The app now accounts for over 30% of total leads and monthly active users have grown 25% year-over-year.

Second, refreshing the homepage and core shopping pages in Canada and the U.K. to align with the U.S. experience. These changes are making it easier for shoppers to navigate and find the right vehicle. We expanded our reach further into the car ownership life cycle. In Q1, we launched a redesigned car value experience, now integrated into Sell My Car. Consumers can view real-time valuations, tied to monthly car estimate updates and receive offers creating an ongoing connection with CarGurus that extends beyond the initial shopping phase.

With continued product improvements and a more consistent user experience, we are giving consumers more reasons to come directly to CarGurus. Combined with ongoing brand investments, this contributed to nearly 20% year-over-year growth in direct traffic and better lead conversion. This momentum continues to reinforce our position as the most visited listing site with 60% more traffic than our closest competitor.

Driver number three, enabling dealers and consumers to complete more of the transaction online, streamlining the final steps of the deal. In Q1, we advanced our transaction capabilities through continued progress across digital deal, top dealer offers and CarOffer. These offerings are delivering a more seamless online to off line journey for shoppers while giving dealers more efficient ways to acquire and sell inventory.

Digital transaction enablement blends online convenience with in-person engagement, helping dealers connect with more qualified shoppers. Digital Deal now supports over 11,000 dealers globally with nearly one million vehicle listings enabled. Following strong pilot results, we broadly released a Digital Deal feature integrating credit applications directly into dealer finance management systems. This addresses dealers' challenges of overlapping lenders, eliminates manual data reentry and provides immediate visibility into shopper financing eligibility, resulting in a faster, more streamlined workflow. Adoption reached 1,100 dealers at the end of the first quarter.

Given the healthy uptake and higher consumer satisfaction relative to other financing options this is now the default financing experience within Digital Deal. Through our Digital Deal flow, shoppers can take high-value steps like applying for financing, placing a deposit or scheduling an appointment before visiting the dealership, helping them move further down the funnel with greater confidence. To drive more of these actions across the platform, we've embedded key Digital Deal capabilities directly into core site experiences, including trade-in and financing options within the lead submission flow and are piloting a post-lead appointment scheduler designed to help dealers engage faster with high-intent buyers.

As these enhancements roll out, we've seen encouraging improvements in consumer NPS and dealer responsiveness, reinforcing the value of more qualified transaction-ready leads. Digital Deal now

accounts for over 25% of a dealer's e-mail leads with a growing share coming from shoppers further along in their decision-making process, resulting in higher quality engagement.

Giving dealers better tools to source inventory more efficiently is critical to facilitating transactions. In Q1, we grew dealer adoption of top dealer offers, which enables dealers to acquire inventory directly from consumers. Demand remains strong, and our measured rollout has driven healthy growth and high consumer engagement. To support better dealer execution, our in-person engagement team provides onboarding and lead handling support. Dealers who complete this training have recently doubled lead conversion, improving outcomes for both dealers and consumers.

At CarOffer, the continued rollout of insights driven by CarGurus' proprietary consumer demand data drove higher engagement and demonstrated the value of our retail demand signals, pricing trends and appraisal intelligence in enabling smarter wholesale decisions. This helped reactivate previously inactive dealers, attract new ones and led to the first year-over-year increase in both buying and selling dealers in over a year.

Despite this progress, overall transaction volume declined as several large buyers and sellers were less active or off the platform. The CarOffer platform, which at its core is a matrix rules engine, lacks the flexibility for dealers to adapt to rapidly shifting market conditions and requires broader automation to streamline fulfillment and improve operational efficiency. While we made meaningful operational progress, rising market volatility has raised the bar, and those changes have not been sufficient in this environment.

Over the past year, we focused on three areas of improvement, operations, product market fit and go-to-market, and we made progress in each. However, the pace of macro change continues to expose structural limitations in the model. At the same time, our insights capabilities are delivering clear value by helping dealers make more intelligent wholesale decisions. As a result, we have initiated a broader strategic assessment of a CarGurus wholesale business model that would have more sustainable growth and profitability potential. This work includes assessing business models to identify core product functionality and revenue strategies that have the potential to support a more profitable, scalable wholesale business across market cycles.

To conclude, the first quarter marked a strong start to our year of transformative innovation, continuing the momentum we built throughout 2024. We delivered solid financial results and made measurable progress across our three value creation drivers. These efforts are deepening engagement, expanding adoption and reinforcing our market leadership in the U.S., while internationally, our growth signals meaningful share gains. As we look ahead, we remain focused on disciplined execution, strategic investment in innovation and embedding our products more deeply across the consumer and dealer journey.

Now let me walk through our financial results, followed by our guidance for the second quarter of 2025. First quarter revenue was \$225 million, up 4% year-over-year, just below the midpoint of our guidance range as double-digit year-over-year growth in our marketplace business was partly offset by lower wholesale and product volumes. Marketplace revenue was \$212 million for the first quarter, up 13% year-over-year and just above the midpoint of our guidance range. Marketplace revenue growth was driven by continued strength in our subscription-based listings revenue, bolstered by robust double-digit year-over-year growth in OEM advertising revenue.

We grow revenue through two primary levers, adding paying dealers and increasing revenue per dealer, both of which contributed to our marketplace growth. The mix between these levers will vary over time. In Q1, we added 734 paying U.S. dealers year-over-year, marking our highest dealer growth since pre-pandemic. Because QARSD is subscription revenue divided by average dealer count and net dealer

count adds more than doubled our recent historical average, rapid dealer growth can moderate the pace of QARSD expansion. Still, U.S. QARSD grew 10% year-over-year, driven by new dealers joining at market rates, subscription tier upgrades, broader adoption of value-added products and services, price increases and higher lead quantity and quality, all contributing to strong revenue growth.

The robust growth in our international business continued in the first quarter with revenue up 20% year-over-year and international QARSD, up 10% year-over-year. Wholesale revenue was about \$8 million for the first quarter, down 52% year-over-year and down 21% sequentially, driven by a 26% sequential decline in total digital wholesale segment transaction volumes, below our expectations. Lastly, product revenue was \$5 million for the first quarter, down 58% year-over-year and down 39% sequentially.

I will now discuss our profitability and expenses on a non-GAAP basis. First quarter non-GAAP gross profit was \$200 million, up 14% year-over-year. Non-GAAP gross margin was 89%, up approximately 720 basis points year-over-year and up about 170 basis points sequentially. The meaningful margin expansion in both comparison periods was primarily due to the ongoing revenue mix shift toward our high margin marketplace business. Marketplace non-GAAP gross profit was up 15% year-over-year and non-GAAP gross margin expanded by about 100 basis points year-over-year to 93%, driven by modest operating efficiencies.

In our digital wholesale business, non-GAAP gross margin was flat sequentially, as we continue to make improvements to the platform. On a consolidated basis, Adjusted EBITDA was \$66.3 million, up 32% year-over-year. Margin was 29%, up about 610 basis points year-over-year, reflecting primarily the favorable mix shift to high-margin marketplace revenue and operating leverage on our fixed cost base. Marketplace Adjusted EBITDA grew 27% year-over-year to \$69.5 million, with margin up approximately 350 basis points year-over-year, but down about 490 basis points sequentially. The sequentially lower margins were driven by seasonally higher media spend in the first quarter related to the February launch of our big deal ad campaign.

Digital Wholesale Adjusted EBITDA loss was approximately \$3.2 million, a \$0.4 million sequential decline, driven primarily by lower volumes, partly offset by lower OpEx.

Moving to OpEx, our first quarter consolidated non-GAAP operating expenses totaled \$140 million, up 6% year-over-year and 8% sequentially, primarily reflecting the seasonally higher sales and marketing expenses.

Non-GAAP diluted earnings per share attributable to common stockholders was \$0.46 for the first quarter, up \$0.12 or 35% year-over-year, reflecting primarily the increase in Adjusted EBITDA and lower diluted share count. We ended the first quarter with \$173 million in cash and cash equivalents, a decrease of \$131 million from the end of the fourth quarter. The lower cash balance was primarily driven by \$183 million in share repurchases and \$8 million in CapEx and capitalized website development costs, partly offset by Adjusted EBITDA and net working capital inflows of about \$9 million.

I will now close my prepared remarks with our guidance and outlook for the second quarter 2025. As always, our guidance factors in the most up-to-date information we have on our business and the evolving macro landscape. At present, while the market remains highly volatile, we have not seen a material impact on our business related to tariffs.

We expect our second quarter total revenue to be in the range of \$222 million to \$242 million, up between 2% and 11% year-over-year, respectively. We expect our second quarter marketplace revenue to be in the range of \$219.5 million to \$224.5 million, up between 12% and 15% year-over-year, respectively.

Looking ahead, given the momentum we have experienced year-to-date, we are more positive about our growth outlook for the remainder of the year. While we still expect growth to moderate in the second half of the year, we anticipate exiting the year at a low double-digit year-over-year growth rate. That said, shifts in market conditions may influence the exit rate.

Moving to Digital Wholesale, we expect second quarter volumes to decrease sequentially. We expect our second quarter non-GAAP Adjusted EBITDA to be in the range of \$71.5 million to \$79.5 million, up between 29% and 43% year-over-year, respectively. For Digital Wholesale, we expect segment EBITDA losses to be relatively flat sequentially as we expect lower transaction volumes to be in part offset by lower operating expenses. At the midpoint of guidance, we expect our Q2 Adjusted EBITDA margin to be elevated, driven by stronger-than-expected growth and a deliberate pacing of commensurate marketing investments.

Based on our current expectations, we are choosing to reinvest behind that momentum, particularly in marketing, international product innovation. We do not expect the same sequential margin expansion trends through 2025 as we have seen over the past two years. That said, we do expect annualized margin expansion in 2025 relative to 2024.

Finally, we expect second quarter non-GAAP earnings per share to be in the range of \$0.52 to \$0.58 and diluted weighted average common shares outstanding to be approximately 100 million.

With that, let's open the call for Q&A.

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press star and one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star and two if you'd like to remove your question from the queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing the star keys. Ladies and gentlemen, we request you to limit to one question and one follow-up question per participant. One moment please, while we poll for questions.

The first question comes from the line of Tom White from D.A. Davidson. Please go ahead.

Wyatt Swanson

Hi. This is Wyatt Swanson on for Tom. Thanks for taking the question. First question is about Amazon. There were recent reports that Amazon is planning to display used vehicles from dealers on its marketplace as an extension of what they've launched with Hyundai on the new car side. Curious how you might view their entry into this space? Then secondly, curious whether you've seen any difference in trends with new Hyundai vehicles, either consumer engagement or leads on your site since Amazon went live with their offering. Thanks.

Jason Trevisan

Yes. Thanks, Wyatt. This is Jason Trevisan. We're certainly familiar with what Amazon is working on in auto, and we won't speak for Amazon. I think it makes sense if they started in new. It's a more organized segment of the market. Used is where we are predominantly more active, it's a much different arena. It's much less structured data, and you need to have much tighter systems integrations with the dealers and much more trust, honestly, with dealers that's been established.

We think that what we do in used is quite difficult and is a messier area than new. As a result, we think it's harder, and we think the trust that we have built with dealers over the last 20 years is a really good strength for us. In terms of new Hyundai or Hyundai franchise trends, we have not seen a change there.

Wyatt Swanson

Got it. Thank you very much, Jason.

Operator

Thank you. The next question comes from the line of Naved Khan from B. Riley Securities. Please go ahead.

Naved Khan

Great. Thank you very much. Two questions from me. One on the OEM ad spending, great to see the strength you had in your Q1 results. We're hearing some other commentary from other players about some maybe hesitation from the OEMs, lack of clarity in terms of how their ad spending could evolve over the coming months, given tariffs and everything. Just wanted to get your thoughts on how you're thinking about it within your guidance.

Then I had a question on CarOffer. I think you talked about more work that needs to be done in order to kind of adapt the product to volatility and this kind of environment. Just maybe some examples there would be great for us to understand what kind of changes it would take and maybe the amount of effort and time.

Sam Zales

Naved, it's Sam Zales. I'll try to take a shot at both of them and then ask Jason for a follow-on. The OEM ad business, we're really proud of the first quarter results. I think you see them. They're tremendously strong. We came out of the year and into the upfront cycle because of our growth on the consumer end. You're seeing the number one positioning we've got. Our audience is growing. We're bringing in down-funnel shoppers. We're really proud of that, and that has translated into that reacceleration of the OEM advertising business for us. We're really proud of the results.

I think, obviously, with the tariff situation, manufacturers are being careful and cautious. I don't think that's gauging us to say much different about our pathway forward, but we're going to be careful because we know the macro industry the first place dollars get cut in a tough environment might be advertising, but we're really proud of where we are right now.

Let me switch to CarOffer for you where you're asking a good question on our strategy to really review the revenue and business models there. I'm going to start with the first one, which is a positive, which is we talked about go-to-market for the last period of time and that we were pushing for some new ways to show dealers that we had something different. We really latched on to something with this insights capability. It is taking CarGurus' consumer demand data and putting it into the Dealer Insights to see that in my local market, there may be more purchase activity and more search activity going on for a particular type of vehicle that matched against the market days supply, gives that dealer a leg up on the industry where they've told us there is no predictive analytics tool set in the marketplace that does this. It compelled us to sign more dealers from the CarGurus platform onto the CarOffer platform. You saw net dealer adds on the CarOffer platform first time in over a year, which is one good sign to our business.

But let me be real frank with you, as I have been over the last several quarters on this business not achieving the path to profitability we wanted it to. We're looking very carefully at the platform itself and our business model to try to achieve that pathway for the future. I'd give you two examples to your good question. One would be operational, how are we thinking about the business a little bit differently. That is the flow of operations, which includes inspection, title, transportation, how do we do that more effectively and efficiently?

With that, the things we're examining are what does CarOffer do and what are we best at serving our customers doing? What should we allow our clients to do? In many cases, clients will say, I want to transport that vehicle myself. I had a dealer, 37 store group dealer in this week who said, can I just pick up the vehicle that's close enough to my Midwest regional office? There's a question for us. Can we get more efficient doing that? Should third parties do more or less of that operational activity for us? It's another question we're asking.

On the product-market fit side, I'll just be upfront to say, as we said in the prepared remarks, the structure of our platform, our matrix platform, needs to be more flexible, needs to have more throughput and needs to be automation at a higher level for today's very fluid pricing model. We're looking at a couple of things on that front from a product-market fit perspective.

The data I talked about in insights, can it be a revenue model for our business? Can we use predictive analytics to be part of the package that we offer as a distinct and unique tool in the marketplace? Can we be more seller-focused with tools that we provide to sellers, which don't exist in today's market? When should I sell a product? What is the best path for that price to be sold either to another dealer or to a consumer and helping in that kind of model revenue-wise. We're looking at the entire spectrum of what the platform does today and saying, can we look at it differently than we had previously to make this business run profitably for the long term.

I hope you'll applaud us for finally saying we're going to look differently at the business than we have over the last several quarters.

Naved Khan

I appreciate the detailed answer, Sam. Thank you.

Operator

Thank you. The next question comes from the line of Rajat Gupta from JPMorgan. Please go ahead.

Rajat Gupta

Great. Thanks for taking the question. I had one question initially on just the revenue algorithm. You've given us like second quarter marketplace guidance. You mentioned exiting the year low double-digit. Curious if you could help us with what's going to be the equation there in terms of dealer count versus QARSD. Is one going to be a bigger driver than the other? Is it going to be similar? Any more color you can add would be helpful. I have a follow-up on tariffs. Thanks.

Jason Trevisan

Sure. Thanks, Rajat. It's Jason. We're obviously very proud of the strong revenue growth that we had this quarter and the momentum that we're seeing in our business. I think one way to look at it is the growth rate. Another way to look at it is the nominal dollars added in our marketplace business, both of which were really strong. To really oversimplify it, aside from OEM advertising, we grow revenue through two

primary levers; paying dealers, paying dealer count and revenue per dealer or QARSD and the mix between these levers is going to vary over time.

You've seen that recently, we have been adding net positive dealers each quarter. This quarter was a significant increase in the number of dealers that we added. Since QARSD is the formula subscription revenue divided by average dealer count, then when we have a really big dealer count quarter like we did, which is two times to three times higher than the last several quarters that can moderate the pace of QARSD expansion. But no, there was really no change in the trajectory of QARSD drivers like upselling, packaging, cross-selling, lead quantity and volume so forth. There was really no change in that.

Going forward, we don't—as you know, we don't guide to between those two drivers, but the guide for Q2 for marketplace is 12% to 15%, which again is quite strong and consistent with where we've been.

Rajat Gupta

Understood. That's helpful. In terms of just on the tariff stuff, any insight you can give us in terms of what your conversations with dealers are suggesting or signaling? Are you sensing any sort of uncertainty at all on future spending? I know the used car market probably looks great right now. I mean there is some pent-up demand, there's some prebuy. But curious if there's any signals around what the behavior might look like in the second half or the dealers are just not concerned irrespective of what turns out to be—what the industry turns out to do due to the affordability impact of tariffs. Thanks.

Jason Trevisan

Sure. I would say the prevailing theme related to tariffs is just how fluid it is. There have been announcements nearly every day related to new cars and parts that have been changing. Number one is just, I think, learning to live with that new dynamism. I think with that dynamism comes future uncertainty. I don't think many, ourselves included, are trying to predict exactly what will happen. But in that ambiguity and uncertainty that dealers and others are feeling, there does tend to be a flight to quality, and that's what we offer with our volume and our lead quality, and in particular, a lot of the dealer data insights that we're delivering to them because if and as those give them more clarity, more understanding, more ability to predict, then those increase in value with the more uncertainty that there is.

In terms of what's actually happened, consumer sentiment, consumers pulled forward a lot of purchases toward the end of Q1 and into April. Then that surge sort of abated. That was followed with a pretty significant precipitous fall in consumer sentiment, which is just another contributor to that uncertainty. When there is uncertainty in the market, larger sophisticated dealers tend to market more and do tend to organize around the leader in a smaller set of partners. Smaller dealers is more of a mixed bag in terms of how they react. Some of them try to preserve spend, some of them act more like the larger franchise and try and get ahead of it.

From a dealer perspective, I think they are particularly concerned about new and the uncertainty that comes with new. As far as used goes, I think they're just trying to navigate that uncertainty, and we're a partner that they, I think, are leaning into more heavily to do that.

Rajat Gupta

Is it safe to say like the exit rate comment that you made, that really does not assume any change in spending patterns due to tariffs?

Jason Trevisan

If I understood the question correctly, we have not seen a change in spending patterns because of tariffs.

Rajat Gupta

I just meant like your outlook does not assume any future change in spending patterns versus what you would expect pre-tariffs?

Jason Trevisan

Yeah, I would just point you to the commentary we made on the full year exit rate.

Rajat Gupta

Understood. Okay. Great. Thanks for all the color and good luck.

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question please press star, and one. We take the next question from the line of Jed Kelly from Oppenheimer. Please go ahead.

Jed Kelly

Hey, great. Thanks for taking my question. Joined a little late, but Jason, I caught the tail end of your comments thinking you're choosing to reinvest, not to take 1Q as the high end of margin expansion. Can you just expound on that, why invest? Then just going back to CarOffer, do you ever contemplate making it more—making it more like an auction to drive up higher dealer or more like an auction to drive up higher dealer adoption? That would be great if you could answer that, too. Thanks.

Jason Trevisan

Sure. Hey Jed. On the first one, yes, we're having a lot of success right now, and we are growing both sides of our marketplace in consumer time spent and traffic and engagement. Clearly, on the dealer side, we're growing at double-digits as well and now growing rooftops as well. In a two-sided marketplace, when you have that type of momentum, it typically benefits to not double down on that, but to invest behind that to continue the momentum and gain more of a relative market share leadership. Our market share and market gains over the past several quarters, if we look at the growth rates and the rooftops of our competitors, has been gaining steam substantially and our lead has been growing substantially.

In a two-sided marketplace, when you have more liquidity, you become more and more valuable. The reinvestment—reinvestment may not be the perfect term, it's basically continuing to invest in the things that are working really well for us like product innovation, marketing, branding, investing in our app, investing in account management to have the team, the small but mighty team that goes into the dealerships to help them improve their performance on our platform. We want to continue to embed ourselves deeper and deeper in a broader spectrum of the dealer workflow and a broader percentage of the consumer journey as well. It's things that are paying off, and we're going to do more of them.

Sam Zales

Jed, its Sam Zales. I'll take the CarOffer question. It's a thoughtful one. I think I'd answer it by saying, we're open to considering the next revenue business models for the CarOffer business. But I want it to stay in an arena where we have a competitive advantage. My comment, I'm not sure if you heard it earlier

was the really nice bump that we've seen with new customers joining the platform at CarOffer at a greater extent than we've seen in more than a year.

I think that's completely due to this new offering of insights and what I call them as predictive insights, at a dealer regional level to see where is CarGurus' consumer demand data suggesting there are more purchase opportunities and acquisition opportunities for those dealers. We're looking at that as completely differentiated. That as a capability, sits on top of whatever we build from a transaction model longer term. The question about building an auction capability is less for me about, should we just do what everybody else does in an auction? It's the question I mentioned earlier; what parts of the transaction process should CarOffer own and manage themselves versus third-parties or versus other partners we might work with longer term?

I'd rather not build a me-too out there in the market. I'd rather build to our strengths and things we do differently. You'll see us look at something like a seller-focused capability. It's interesting to know when you go out to customers there are really no market tools for sellers in a wholesale arena to say, here's predictive analytics to think about when and who you should sell to. Again, there is something different on the data analytics front. But on the operational, how does the transaction work? I couldn't tell you today we're going to rebuild an auction capability. That seems farther away from using our own key strengths, but we will be looking at that transaction model that comes from our matrix today, how do we rebuild something that becomes more profitable and scalable for the business?

Jed Kelly

Thank you.

Operator

Thank you. Ladies and gentlemen, as there are no further questions, I will now hand the conference over to Jason Trevisan, CEO, for his closing comments.

Jason Trevisan

Thank you. I would just like to thank everyone for joining us this evening. Special thanks to our global team whose hard work, and commitment is what's driving all of our success and we look forward to seeing investors and analysts on this conference circuit. Thanks, everyone.

Operator

Thank you. Ladies and gentlemen, the conference of CarGurus has now concluded. Thank you for your participation. You may now disconnect your lines.