



CarGurus, Inc.

Third Quarter 2025 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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Jason Trevisan, *Chief Executive Officer*

Sam Zales, *President and Chief Operating Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Chris Pierce, *Needham & Company*

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Jamesmichael Sherman-Lewis, *Citi*

Ryan Powell, *B. Riley Securities*

Rajat Gupta, *JPMorgan Chase & Co.*

Brianna Diaz, *Citizens JMP Securities*

PRESENTATION

Operator

Good day, and welcome to the CarGurus Earnings Call.

Please note that this event is being recorded.

I would now like to turn the conference over to Kirndeeep Singh, Vice President and Head of Investor Relations. Please go ahead.

Kirndeeep Singh

Thank you, Operator. Good afternoon. I'm delighted to welcome you to CarGurus' third 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 certainties 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 the 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, Kirndeeep, and thanks to everyone joining us today. In the third quarter, we delivered double-digit year-over-year Marketplace revenue growth while also expanding profitability across our U.S. and international businesses. Marketplace revenue and Marketplace EBITDA both finished above the midpoint of our guidance range, reflecting focused investment to drive sustainable top line growth and disciplined execution of our strategic priorities.

Marketplace revenue grew approximately 14% year-over-year, or \$28 million, and Marketplace Adjusted EBITDA was up 18% during the same period. Growth was driven by continued expansion in QARSD, led by dealer upgrades to higher tiers, broader adoption of our add-on products, like-for-like price increases, and higher lead quantity and quality. We also added 1,989 net new dealers globally year-over-year, supported by stronger retention.

Our international operations contributed meaningfully, with revenue up 27% year-over-year, driven by momentum in both Canada and the U.K. QARSD grew 15%, and we added 807 net new dealers year-over-year.

At the foundation of these results is the strength of our market-leading two-sided Marketplace. Built on trust and transparency, CarGurus connects the largest audience of car shoppers with the broadest network of dealers, giving consumers confidence and dealers high-quality demand and intelligence, both of which bolster Marketplace liquidity through rising engagement and adoption.

As our Marketplace continues to scale, it generates vast proprietary data and machine learning signals that fuel a uniquely advantaged analytics and intelligence platform for dealers. With this expanding data set and our accelerating AI capabilities, we turn data into intelligence, delivering predictive tools and insights that help dealers make faster, smarter decisions and achieve stronger outcomes.

These dynamics reinforce two durable advantages, scale and data intelligence. Scale delivers reach and liquidity. With the broadest dealer network and deepest inventory, our Marketplace offers car shoppers unmatched selection and transparency, attracting the largest consumer audience and, in turn more dealers. That flywheel has supported faster growth and share gains from our primary competitors.

Data intelligence transforms that scale into smarter products. We believe our growing size generates the most comprehensive retail demand and pricing signals in the markets where we operate, which we productize into solutions that improve dealer profitability. For example, our retail demand analysis recommends vehicles aligned with local shopper interest, and when dealers follow those recommendations, we've proven their inventory turns faster.

Our pricing models enable dealers to price with precision, improve margins and outperform competitors, while behavioral and intent data enriches leads to improve conversion and ROI. This creates a virtuous cycle in which scale drives richer data and intelligence derived from that data improves dealer performance and the consumer experience, which, in turn, we believe drives ever-increasing adoption and engagement.

Building on our position is the number one most visited automotive Marketplace. We've continued to expand our platform with software and data products that help dealers make more intelligent decisions across four key workflows: Inventory, Marketing, Conversion, and Data. We've already introduced a variety of offerings in each of these four pillars.

In Inventory, products like Sell My Car, Acquisition Insights, and Next Best Deal Rating help dealers source the right vehicles, merchandise, and price each inventory unit with precision. In Marketing, solutions such as our core listings packages, Highlight, RPM and New Car Exposure connect dealers with high-quality, ready-to-purchase shoppers efficiently and generate significant dealer awareness and walk-in traffic. In Conversion, offerings like LeadAI, our in-person engagement team, and Digital Deal help dealers convert leads into sales, driving better attribution and higher close rates. In Data, our Dealer Data Insights suite delivers local market intelligence that powers smarter, more profitable decisions.

Over the past few years, we have built a strong foundation and garnered dealer engagement across these pillars and are now advancing from add-in features in these areas to differentiated software and data products, each with a clear value proposition and measurable ROI. We believe these products will expand our addressable market from the current \$3.5 billion spent by U.S. dealers on Marketplaces by roughly an additional \$4 billion U.S. dealers spend on software and data products in these segments.

We believe that our growing product suite positions CarGurus as an intelligence-driven partner that helps dealers optimize every stage of their workflow beyond simply Marketplace. We plan to deepen monetization across these pillars through scalable software and data solutions, and we're excited to share that we've begun that this quarter with our newly launched PriceVantage, which I will cover shortly. Much like we've done for our dealer partners, we're expanding our offerings along the consumer journey, continuing to lead the market in trust and transparency while broadening our role more upstream with research and downstream to purchase.

With the largest selection and a seamless online to offline experience, shoppers can research with confidence, connect with dealers and complete the transaction on our platform or at the dealership in the

way that works best for them. We believe this expansion of our product suite on top of our market-leading Marketplace will continue to reinforce our scale and data intelligence flywheels and result in us capturing more dealer wallet share and deepening consumer engagement to support long-term growth.

With that context, I'll now walk through our progress across our three drivers of value creation. Driver number one, expanding our suite of data-driven solutions across dealers' workflows to help them drive more profitable businesses. Core to our mission of helping dealers make more profitable decisions, we recently launched PriceVantage, a major machine-learning-based evolution of our pricing tool. It is the only used vehicle pricing solution powered by real-time consumer demand from the number one most visited car shopping marketplace, giving dealers an edge to predict the market rather than just react to it, enabling smarter pricing, faster turns and improved profitability.

Built on the industry's largest data set of shopper behavior and market supply, PriceVantage leverages AI to deliver VIN-level activity, turn-time predictions, lead potential, market-days supply, and visibility into comparable listings, all within a single, unified workflow that directly syndicates into dealers' inventory management systems. It translates live market dynamics into data-driven pricing recommendations aligned with each dealer's goals, giving dealers greater speed, control and confidence in every pricing decision.

Early beta results demonstrate the power of the software. The most engaged dealers using PriceVantage saw a 5x improvement in turn-time compared to their top five competitors on CarGurus. Taking price drop recommendations drove a 68% median increase in daily VDP views, and 77% of recommendations met or exceeded predicted sales velocity outcomes.

We launched a Chrome-based browser extension that embeds these insights into the platforms where dealers already operate, such as their IMS or auction sites. Dealers can access real-time price recommendations without leaving their workflow, with future releases planned to extend into sourcing and merchandising.

PriceVantage is the latest and most substantial addition to CarGurus' expanding suite of dealer intelligence software solutions. Other offerings continue to grow, especially our Dealer Data Insights suite, which strengthens dealers' predictive capabilities, delivering greater efficiency and faster sales.

Next Best Deal Rating is now used by nearly 20,000 dealers, growing over 70% year-over-year. Merchandising Insights adoption grew to 9,791 dealers, while Max Margin Insights adoption rose to 5,032 dealers. In the third quarter alone, dealers made over 700,000 price changes through Next Best Deal Rating. We've seen a median 48% increase in VDP views and faster turn times for vehicles using our recommendations. Engagement remains high, with Next Best Deal Rating driving nearly 50 price changes per dealer in Q3, and Dealer Data Insights reports overall driving 75 price and inventory changes per dealer. Over two-thirds of recommendations we send to dealers are being opened and read, indicating the value of these insights.

Last quarter, we also introduced New Car Exposure to give dealers more sophisticated control of their new vehicle marketing. New Car Exposure continues its rollout across markets, now reaching 94 DMAs and brand combinations. To-date, it has driven 31% of New Car VDP views and 13% of New Car Leads, with participating dealers capturing a greater share of New Car Leads than those relying solely on organic placements.

Innovations like this are deepening dealer engagement by enabling smarter decisions across Inventory, Marketing, Conversion and Data. Dealers are upgrading into premium tiers more frequently, they're adopting our products and solutions at higher rates, and they're signing long-term contracts. Together, we believe these factors support our ability to grow QARSD.

QARSD growth has been manifesting in three trends. First, customers who remain on our platform consistently increase their spend over time. Second, new customers are joining at higher average order sizes than in prior years. Third, newer customers are ramping their spend faster than prior new customers

did. On all these observable dimensions, we're seeing clear evidence that the growing quality and breadth of our products have been driving measurable QARSD growth.

Driver number two, meeting the evolving needs of car shoppers by powering a more intelligent and seamless journey. As I said earlier, we're expanding the CarGurus experience across the full car buying journey, from research through consideration and purchase. This quarter, we advanced two key innovations that bring that vision to life.

First, consideration. We expanded CG Discover, our GenAI-powered shopping assistant. Unlike others that use GenAI to repackage traditional filters, Discover uses conversational understanding and real-time reasoning to interpret a shopper's intent and curate the best-fit vehicles from millions of listings. It helps consumers refine choices and explore inventory with greater speed and clarity, while giving CarGurus richer demand signals and pricing insights to strengthen the data intelligence flywheel.

Early engagement has been strong, and we have since expanded Discover to our homepage and app, creating more prominent entry points that have driven higher traffic into the experience. Research shows 80% of consumers are open to using AI in their car buying journey, underscoring the scale of this opportunity. Traffic to CG Discover has nearly tripled quarter-over-quarter, and leads have grown 3.3x. Discover VDP-to-lead conversion is 6,000 basis points higher than standard VDP-to-lead conversion. As Discover scales, every interaction generates signals and insights, making the platform smarter and strengthening both dealer and consumer experiences.

Next, purchase. Car shoppers want confidence at every step, from discovery to purchase. Research shows consumers feel the hardest part of car buying happens in the dealership, when shoppers feel anxious about pricing, alternatives and making a rushed decision. Our goal is to reduce that anxiety with transparent dealership ratings and reviews, and by extending the CarGurus experience into the dealership where support matters most.

We're excited to introduce Dealership Mode, a major innovation in the purchase step, designed to deliver real-time support at the exact moment shoppers need it. When a CarGurus user visits a participating dealer lot, the app activates through geofencing and push notifications to provide VIN-level pricing and ratings, reduce payment anxiety with a financing calculator, compare cars on the lot or highlight alternatives at the dealership, and surface reviews to validate quality. Dealership mode gives consumers clarity and confidence at the most stressful point of the process.

For dealers, Dealership Mode strengthens attribution and ROI. While we already maintain significant attribution on closed sales data through DMS integrations and third-party data providers, Dealership Mode now enables us to close the purchase loop more fully, connecting online engagement to in-store activity, which we believe demonstrates clearer ROI and higher quality leads.

With millions of monthly app users making hundreds of thousands of lot visits, we believe the opportunity is significant. Based on an early analysis, 56% of consumers who see Dealership Mode in the app navigation have clicked into the experience, and over half of our users have opted in for push notifications. Over time, we expect Dealership Mode will drive even greater app adoption, build consumer trust, and help dealers convert more sales.

By improving the consumer experience and extending our brand awareness, we are giving shoppers more reasons to start and end with CarGurus. This deeper engagement is translating into higher intent activity, with CarGurus-led sales growing year-over-year the past two years.

Separately, as we implement changes to comply with cookie consent regulations across markets, reported uniques and sessions are expected to decline as some users do not opt in to tracking. This represents a change in how traffic is measured, rather than an indication of an underlying change in site traffic or in the leads and connections we believe we're delivering to our dealer partners.

Driver number three, enabling dealers and consumers to complete more of the transaction online, streamlining the final steps of the deal. In the third quarter, we advanced our transaction capabilities through continued progress across Digital Deal and Sell My Car. These offerings are delivering a seamless online-to-offline journey for shoppers. Digital Deal adoption surpassed 12,500 dealers this quarter, with over 1 million listings digitally enabled.

With more Digital Deal listings and improved user experience, we have driven 45% year-over-year growth in high-value actions, such as financing applications, appointment scheduling, and deposits. Users who complete these high-value actions close at up to a 3x higher rate than standard email leads. In fact, our strongest close rate comes from reservations. Reservations close at nearly 16x the rate of standard leads for out-of-market shoppers and 9x for in-market shoppers.

Appointments are up approximately 20% year-over-year. Financing adoption is also strengthening, supported by direct credit applications, pre-qualification and SRP filters that surface vehicles consumers are already approved to finance. Digital Deal leads with a financing element have grown 77% year-over-year. We also embedded high-value actions into the core site experience. This quarter, we introduced a post-lead high-value action menu that surfaces additional steps, such as scheduling an appointment or submitting a deposit, immediately after a shopper submits a core lead. This creates a natural ramp for consumers and provides dealers with even stronger intent signals.

Alongside a broader redesign of the Digital Deal experience, initial testing shows several hundred thousand incremental leads from the new experience. We now expect that by year-end, nearly 30% of a Digital Deal-enabled dealer's email leads will come through Digital Deal. These leads include verified contact information, full name, email, and phone number, and around 45% of them historically carry at least one high-value action.

Beyond enabling more of the transaction online, we're helping dealers source inventory with greater efficiency. Sell My Car adoption has continued to grow and is now live in 115 markets, reaching roughly 75% of our eligible traffic. Lead quality and conversion have continued to strengthen. A growing share of Sell My Car acquired vehicles are listed on our Marketplace soon after purchase, demonstrating that these are high-quality, retail-ready leads.

Collectively, these advancements are streamlining the transaction for both dealers and consumers, improving lead quality, accelerating conversions and reinforcing our ability to meet customers wherever they are in their journey.

Across all of our value creation levers, I'd like to discuss the accelerating use of agentic AI. AI has been foundational to CarGurus since our inception and continues to power innovation across the platform. We're embedding agentic AI in numerous places throughout our products and systems to create smarter, faster, and more intuitive experiences for both consumers and dealers.

CarGurus Discover, our conversational GenAI-powered shopping assistant, uses large language models to help consumers refine choices and explore inventory with greater speed and clarity. In our mobile app, Dealership Mode activates when a shopper visits a participating dealership lot, providing AI-generated comparisons and summaries of vehicles. In our dealer dashboard, PriceVantage extends these capabilities to dealers by using predictive AI and real-time demand data to deliver VIN-level pricing insights, turn-time forecasts, and competitive benchmarking directly into their workflows.

We also continue to scale AI-driven content and quality improvements across the platform to drive consumer traffic and reduce operational overhead across internal teams. SEO content generation, powered by generative AI and guided by our editorial expertise, has expanded high-quality content roughly tenfold across CarGurus and our core channels, driving a 60% increase in top and mid-funnel sessions year-to-date. Pricing compliance monitoring now also uses AI to identify inconsistencies and ensure data integrity across millions of listings.

Internally, AI is transforming how teams work. Over the past year, we've deployed numerous solutions that have improved speed, precision and efficiency across nearly every function. Our GenAI sales tools have provided account summaries, tailored recommendations and predictive insights that have helped teams identify opportunities to strengthen retention and deepen dealer relationships. Nearly 80% of managed leads in October, chat and text, were handled and closed by AI. This automation has enabled us to reduce the outsourced team by over 40%, driving meaningful efficiency gains and cost reduction.

Engineering productivity has risen by nearly 25% in the past year through the use of AI coding tools and code review agents. Our LLM gateway democratizes LLM integration, allowing teams to embed new use cases directly into workflows and bring ideas to market faster, while our enterprise LLM-based search platform enhances knowledge retrieval and workflow automation. AI also strengthens fraud detection and prevention, enhancing data integrity and platform trust. Adoption is broad and disciplined. Ninety-one percent of employees report using AI weekly, driving faster execution, sharper insights, and greater collaboration across the Company.

Looking ahead, we believe that the combination of proprietary data, machine learning, predictive analytics, and agentic AI positions CarGurus to deliver new levels of intelligence, automation, and efficiency to both dealers and consumers. AI remains central to how we innovate, operate and lead in automotive technology.

In Q3, we delivered strong revenue growth, healthy margins, and disciplined execution. We advanced products that give dealers greater control, efficiency and intelligence, while creating more confidence and clarity for consumers. These innovations are expanding our reach beyond the \$3.5 billion U.S. Marketplace segment into an additional \$4 billion dealer software and data products TAM, which we believe broadens our long-term growth opportunity.

Innovation remains at the center of this progress. We're extending our platform across each of our four pillars, Inventory, Marketing, Conversion and Data, with scalable software and intelligence solutions that address more of the dealer workflow and consumer journey. These advancements reinforce our leadership as a data and technology-driven company, which we believe unlocks new sources of growth and value creation.

Across every initiative, our focus remains on measurable value, capturing more dealer wallet share, deepening consumer engagement, and strengthening our platform's foundation. With that momentum, we believe that we're scaling solutions that reinforce our leadership, support durable growth, and create long-term value for our customers and stockholders.

Now let me walk through our third quarter financial results, followed by our guidance for the fourth quarter and full year 2025. Third quarter consolidated revenue was \$239 million, up 3% year-over-year. Marketplace revenue was \$232 million for the third quarter, up 14% year-over-year, toward the high end of our guidance range. Marketplace revenue growth was driven by strength in our subscription-based listings revenue.

In the third quarter, U.S. QARSD grew 8% year-over-year, and we added 1,182 paying U.S. dealers year-over-year, marking our seventh consecutive quarter with positive net dealer adds and our fourth straight quarter of accelerating year-over-year dealer count growth. We continue to expand our footprint while taking greater wallet share in our growing base, driven by upgrades, broader adoption of add-on products, like-for-like price increases, and higher lead quantity and quality.

Our international business had yet another strong quarter, with revenue up 27% year-over-year and international QARSD up 15% year-over-year, the ninth consecutive quarter of double-digit year-over-year international QARSD growth.

Wholesale revenue was approximately \$2 million for the third quarter, and product revenue was roughly \$5 million for the third quarter, as we ceased facilitating transactions in the quarter as a result of our decision in August to wind down the CarOffer transactions business. As a reminder, we expect to account for the

wind-down of CarOffer as a discontinued operation in the fourth quarter. As such, we do not expect there to be revenue associated with digital wholesale going forward.

I'll now discuss our profitability and expenses on a non-GAAP basis. Third quarter non-GAAP gross profit was \$214 million, up 11% year-over-year. Non-GAAP gross margin was 90%, up about 650 basis points year-over-year. Marketplace non-GAAP gross profit was up 13% year-over-year, and non-GAAP gross margin was stable at 93%. On a consolidated basis, Adjusted EBITDA was approximately \$79 million, up 21% year-over-year. Adjusted EBITDA margin was 33%, up about 490 basis points year-over-year.

Marketplace Adjusted EBITDA grew 18% year-over-year to approximately \$82 million, above the midpoint of our guidance range. As a reminder, we guided to Marketplace EBITDA only this quarter as we sunset the CarOffer transactions business. Margin rose about 120 basis points year-over-year to 36%, but declined slightly quarter-over-quarter due to investments in new product innovation and sequentially higher sales and marketing expense.

Digital wholesale Adjusted EBITDA loss of approximately \$4 million was modestly higher quarter-over-quarter, as expected. The sequentially larger loss was driven by lower volumes due to the cessation of transactions in the third quarter as a result of our decision to wind down the CarOffer transactions business.

Moving to OpEx, our third quarter consolidated non-GAAP operating expenses totaled \$142 million, up 7% year-over-year and 4% quarter-over-quarter, reflecting sequentially higher sales and marketing expense and investment in new product innovation, as I mentioned earlier. During the third quarter, we incurred \$3.8 million in one-time cash restructuring charges, and we expect remaining cash restructuring charges of \$2 million in the fourth quarter. Accordingly, we have narrowed our previously estimated range from \$5 million to \$7 million to \$5 million to \$6 million. We still expect to substantially complete the CarOffer wind-down by year-end, with total wind-down-related charges expected to be in the range of \$13 million to \$15 million, which is lower than the original range of \$14 million to \$19 million.

Non-GAAP diluted earnings per share attributable to common stockholders was \$0.57 for the third quarter, up \$0.13 or 30% year-over-year, reflecting primarily the increase in Adjusted EBITDA and lower diluted share count. We continued to generate strong free cash flow, and we ended the quarter with \$179 million in cash and cash equivalents, a decrease of \$52 million from the end of the second quarter, primarily driven by \$111 million in share repurchases in the quarter, partly offset by higher Adjusted EBITDA. As of September 30, we have approximately \$55 million remaining on our share repurchase authorization.

I will now close my prepared remarks with our guidance and outlook for the fourth quarter and full year 2025. As a reminder, due to the wind-down of CarOffer, last quarter we stopped guiding to consolidated revenue and consolidated Adjusted EBITDA, and instead will guide to Marketplace revenue and Marketplace Adjusted EBITDA, as that is representative of our go-forward operations. We expect our fourth quarter Marketplace revenue to be in the range of \$236 million to \$241 million, up between 12% and 15% year-over-year, respectively. We expect full year Marketplace revenue to be in the range of \$902 million to \$907 million, up between 13% and 14% year-over-year, respectively.

For the fourth quarter, we expect our non-GAAP Marketplace Adjusted EBITDA to be in the range of \$83 million to \$91 million, up between 5% and 15% year-over-year, respectively. We expect full year Marketplace Adjusted EBITDA to be in the range of \$313 million to \$321 million, up between 18% and 21% year-over-year, respectively. We expect to meet the discontinued operations criteria in the fourth quarter. As a result, we expect our full year guidance, similar to the third and fourth quarters, to reflect Marketplace absorbing approximately \$1 million in ongoing quarterly CarOffer expenses as a result of the wind-down. Accordingly, we've included about \$2 million of first half costs that we expect to be recast to continuing operations once the criteria are met. These estimates are preliminary and subject to change.

The midpoint of our Q4 guidance implies a full year Marketplace EBITDA margin of approximately 35%. We're pleased with the strength and growth of our Marketplace and excited by the early results of our various new product investments. That innovation has delivered growing adoption across more dealer

pillars and deeper consumer engagement across their shopping journey. That success reinforces our confidence to continue growing our investments in new, primarily AI-centric innovation across our dealer and consumer product suites that we believe will drive long-term growth.

We expect fourth quarter non-GAAP consolidated earnings per share to be in the range of \$0.61 to \$0.67, up between 13% and 24% year-over-year, respectively, and full year consolidated earnings per share to be in the range of \$2.19 to \$2.25, up between 29% and 32% year-over-year, respectively. We expect fourth quarter and full year diluted weighted average common shares outstanding to be approximately \$97 million and \$101 million, respectively.

With that, let's 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, 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 would 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. We request participants please limit to one question and one follow-up. Ladies and gentlemen, we will wait for a moment while we poll for questions.

Our first question comes from the line of Chris Pierce with Needham & Company. Please go ahead.

Chris Pierce

Hey, good afternoon, everyone. Thanks for taking the question. I'm looking at the deck on Slide 5, I think you have a stat that you shared for the first time that may or may not be right, but it says 25% of CarGurus dealers only pay for CarGurus. Is there a way to think about where that stat was a year ago, two years ago, and some sort of upper bound as maybe you guys drive separation versus peers?

Jason Trevisan

Hey, Chris, it's Jason. Thanks for the question. I don't think we've given a trend on that stat, but what we have seen is that in serving dealers, the dealers use fewer and fewer Marketplace partners. In fact, over the last few years, I don't remember the exact years, but it's gone from about an average of using three to using under two, around 1.8. There's consolidation and concentration with those that typically offer the best ROI. That's the sort of macro trend on that dynamic, but we haven't given a trend number on the 25%.

Chris Pierce

Okay. Then on the ROI that you were talking about, specifically on digital deals, are you seeing dealers more willing to engage here given there seems to be an acceptance that fully digital transactions are growing within the industry? What would be the right time to flex pricing power here given the conversion metrics you cited? And do dealers need to do something specifically on their end to accept these leads or is it just kind of easy housekeeping on their end and a customer can walk in, have their loan in place, take their test drive and leave the dealership within, call it an hour, something like that?

Sam Zales

Hey, Chris, it's Sam here. Thanks so much. We have constantly spoken about the research we've done showing 80% of consumers want to do more online, but still want to touch and feel the car and come in for a test drive. We think we've got a perfect product in that regard. You've seen that we've got 12,500 customers now on the program. It is packaged into one of our premium tiers. The dealers who get access to Digital Deals have to pay more. I see your point that as that trend continues to move, that's an opportunity

for us. But I think the thing we're most excited about is more and more of our consumers doing what we call high value actions.

Taking a process to either set an appointment, to put a deposit down, to look at financing and try to provide some information on their credit ability that we think is driving a higher quality lead, a further down funnel lead, and we believe that's driving further and further ROI for our dealers. Long term, it gives us the opportunity, as you said, to say, how much more will that continue to grow? That gives you an opportunity for pricing power, and we'll consider that as we go forward.

Chris Pierce

Okay. Thank you and good luck.

Operator

Thank you. Our next question comes from Marvin Fong with BTIG. Please go ahead.

Marvin Fong

Good evening. Thanks for taking my question. I just had a question just on the international car trade and international in general. It's doing so well; very good growth there across the board. I just wanted your thoughts on how much faster and higher do you think QARSD can grow? Obviously, you can look at in the U.K., the dominant player there, and generally (phon) revenue per dealer (audio interference).

Operator

Sorry to interrupt you there, Marvin. Marvin, we are unable to hear you clearly. Could you please use your handset?

Marvin Fong

Is this better?

Operator

Yes, please. Go ahead. Thank you. Much better.

Marvin Fong

Okay. Sorry about that. Yes, I just wanted to ask about QARSD, particularly the International segment. I believe the incumbents in the U.K. and Canada target a lot more than you are right now, and we're seeing very nice QARSD growth in International. Just wanted your thoughts there on how quickly you can pull that lever and close that gap.

Sam Zales

Thanks, Marvin. It's Sam Zales. We're really, really proud of the international markets and what we're doing there. You'll recall that we're competing against two big players who had monopoly power in those markets. But I think what we're showing is two things. When you drive lead quality and lead quantity in an aggressive amount, it makes dealers stand up to say—and you price at a lower price point, it makes dealers stand up and say, the ROI is better, and we've shown you the research in the markets to show that our ROI is advantaged versus our competitors. I think though, we're still in a market zone of adoption right now.

We're keeping our prices at a lower level because we are winning more and more customers. You saw we added 800 plus customers in the international market. Our goal there is to say, let's be smart about pricing.

Let's price to the value that we're offering to our dealers, and we know we can always grow that over time, but we're looking to build more market share. You may have read in Canada that one of the largest dealers in a press release that was out, AutoCanada, converted by saying, I'm no longer going to be on the AutoTrader program, and I want CarGurus as my preferred partner in that regard.

Those are the kinds of things that will give us that opportunity to continue growing not only dealers, and that leads to other dealers picking up their heads and saying, I might do the same thing. It allows us to keep growing our customer base, but also growing QARSD, the 15% growth we're really proud of. We'll continue to push in that direction, but we don't want to get too aggressive on that front at a time we're still signing more dealers in both Canada and the U.K. That will replicate, if we can, the market experience we had here in the U.S.

We started with lower pricing. We got the largest base of dealers to our franchise and joined us, and then we raised prices over time, and we think that's a good model to try to take on in that arena. Thank you for recognizing 27% growth in International. We're really proud of it and excited to try to push forward.

Jason Trevisan

If I may, I'd just add to that and echo something that was said in the call. International QARSD is about a third of the U.S., and the levers that drive QARSD in the U.S., upsell, cross-sell, lead growth, lead quality, pricing, those are all available to us in International, and they're all much earlier and less mature, and so they all have more runway in International, but the other thing I'd point to from the script is to just call out some of the trends we're seeing in U.S. QARSD, which I think we have every reason to believe will exist in International. That's among our—it was three themes from the script. Among our paying dealers, they increase their spend the longer they stay with us. The second trend is new dealers are joining at higher AOS than old dealers. The third is that despite joining at a higher AOS, they're actually ramping their spend faster than prior cohorts ramped their own spend.

We're seeing that in the U.S., which is a much more mature market, and we're incredibly proud of that, and International has all of those available and earlier stage.

Marvin Fong

Those are terrific insights, and maybe a follow-up question. Just maybe, Sam, this is up your alley, but Jason referenced that you're really attacking, I believe you said, \$4 billion solutions market. Is that how you're presenting it to dealers? I know that dealers like to think about things in a cost per sale, but are you actually kind of talking to them about these new analytics in a sense, like now you don't have to pay for vendor A or vendor B? Is that how dealers are thinking about it, and is it kind of clear to them that you're presenting both a listing service as well as a solution, software solution?

Sam Zales

Marvin, I'll jump in and let Jason add color. I think what we're doing every day is talking to customers about driving profit maximization, and that can come from our Marketplace business. But as we spoke about in the call, you start to build solutions like DDI that we've talked about previously, which helps dealers convert more of the leads that they're getting today, helps them increase their profitability, and then you—from product-led growth, you're seeing customers adopt those products, so our pricing tool led us to build this software product called PriceVantage. What we're doing for dealers with that product is simply helping them grow their profitability by reducing their turn times and allowing them to price as most effectively to manage their inventory.

It all comes out of the Marketplace business that then leads to other products, as we said, Inventory, Marketing, Conversion and Data. They all work together with the value proposition that says we're going to help you, Mr. or Mrs. Dealer to grow your profitability by utilizing our marketing tools, our data, and now

software that lets you run your business more efficiently that leads to QARSD growth that leads to retention of our customers long term. Jason, anything to add?

Jason Trevisan

Just that it's—they are all connected. The dealer historically has thought of them as steps in the workflow, and as such has allocated different wallets to those different steps, and these products are allowing us to start to tap into those new wallets, but what makes them particularly compelling is we're not selling a standalone product here and a standalone product there. When Sam talks about them being tied together, for something like PriceVantage, it's saying if you do this to a price, this is exactly—or this is what will happen from a leads perspective, from a turn time perspective. It's giving them recommendations and the ability to act on those with a strong forecast of the results because the results are what occur on our Marketplace.

Marvin Fong

Okay. That's terrific. Thanks. Thanks, both of you.

Operator

Thank you. Our next question comes from John Colantuoni with Jefferies. Please go ahead.

Vincent Kardos

Hey, guys. Thanks for taking the question. This is, this is Vincent on for John. Just one with a few parts for me. It looks like some of the investments you've talked about in recent quarters really paying off, given both U.S. and international dealer rooftops saw accelerated growth during the quarter. At the same time, QARSD growth slowed, a little bit across those geographic segments, despite the traction you called out for the product suite. Maybe talk a bit about what the growth algorithm between rooftops and QARSD ought to look like going forward, touching a bit on the drivers of slightly slowed QARSD growth, as well as the relative contributions of improved dealer retention versus net new adds to rooftop growth. Thanks.

Jason Trevisan

Sure. Hey, Vincent. It's Jason. The relationship between—thank you for acknowledging the investments paying off. We are incredibly excited about a bunch of the things that we shared with you all tonight in terms of new launches. The relationship between rooftops and QARSD is math in so much as QARSD is revenue divided by the average active rooftops. What happens is when we grow rooftops much faster that's a natural math-based headwind or depressant to QARSD.

This past quarter, QARSD was up about 8% year-over-year. Rooftops were up about 5% year-over-year. If you add those two together, you actually get something close to our total Marketplace revenue growth for year-over-year, around 13%. If you look at the last several quarters, you'll see that type of relationship. It's not perfect, but I think it illustrates the math pretty well and how the math works.

In terms of retention versus adding, we've talked about our retention has been improving nicely over the last set of quarters, even a couple of years. That's a function of a number of things. We've invested in account management, as you've heard, but I would say a lot of it is through the investment in product. A lot of that product is in Dealer Data Insights and things that we're adding to our core Marketplace and thus far haven't really been charging for a good portion of them. Between better account management, between more feature functionality, between more insights that help them perform better on our Marketplace, our in-dealer partnership team that helps them perform better, so much of what we build here is to just help them perform better on CarGurus. When they do that they tend to stay.

Some of the cohort information I just gave shows that they're, in fact, ramping even faster. Then as you heard about some of the adoption numbers from the script, we're getting really broad adoption of a lot of these things.

Operator

Thank you. Our next question comes from Ron Josey with Citigroup. Please go ahead.

Jamesmichael Sherman-Lewis

Good afternoon. This is Jamesmichael Sherman-Lewis on for Ron. Thank you for taking my questions. First here, on CG Discover, now more deeply embedded, can you help us understand how this new car buying journey and purchase funnel differs from traditional car buying? Clearly, we're seeing traffic and conversion ramp. But curious how you see user engagement in this channel's contribution evolve longer term.

Jason Trevisan

Happy to. This is Jason again. Discover is definitely a new experience and one that is getting great traction, as we talked about, sort of explosive growth. Granted, it's early, but explosive growth. The key thing to recognize is that it's outside of the structure of the SRP, or search results page. Think of it more as a conversation versus a filter-driven one-time query. You and I—I'm sure, I encourage you to use it and try it if you haven't. But you can ask questions naturally. You'll get explanations and follow-ups. You can then continue those follow-ups and ask questions that build on prior questions.

The Discovery goes beyond listings. It actually reasons with the shopper. It explains why cars are ranked the way they are. It offers side-by-side comparisons. It offers contextual intelligence, market value, ownership costs, confidence scores, YouTube videos, side-by-side comparisons of different makes and models that we offer. It also offers things that would be outside of a search. Whereas a typical search might offer just sedans, this may offer, based on your inputs, some small or mid-size SUVs that would solve some of the things you're looking to solve that aren't a sedan. It's actually making recommendations outside of what you're specifically prompting.

It creates a ton of opportunities for us on our platform. It also offers opportunities, though, for dealers because they're going to learn a lot more about the consumer and what they're looking for through the information that we share on the dialogue. It really is a two-way conversation. What it's leading to is shoppers who use it, do almost three follow-up prompts. It is a conversation. It's converting from a vehicle detail page to a lead at much, much higher rates. Then those leads are much richer to the dealer because we're passing along a lot of that information.

It really does—it helps the consumer, it helps the dealer, and it helps us. It's built for agentic expansion. The architecture of it allows very easily things like personalized deal alerts, watch lists, comparison across trims and markets as new cars come out. It's beginning to and will easily act on behalf of the consumer for future opportunities created by what the consumer has given to the agent. We're really excited about it.

It is not by any means a glorified filter, which some other folks are doing. We think that it's going to be a really big opportunity for us that can scale nicely.

Jamesmichael Sherman-Lewis

That's helpful color. Thank you. Follow-up, if I may. As we look out to 2026, can you impact the key investment areas across Product, International, brand or other areas, and any changes to relative investment intensity versus 2025's investment year? Thank you so much.

Jason Trevisan

Thanks. I wouldn't say there's change to relative intensity. I think what we're really excited about, we said a couple of quarters ago that we were going to increase investment. I think this quarter in particular is showing a lot of the benefits of that. We have shown a really quick speed to market with a lot of our introductions. We're showing much deeper engagement, PriceVantage, new car exposure, Dealership Mode, Discover. We're going to continue to invest in, as you said, Product, Go-to-Market, International, and focus on getting adoption of those across the four dealer pillars and across deeper consumer engagement.

I would say, if anything, this sort of reinforces our confidence to continue growing our investments in mostly AI-centric innovation across both dealer and consumer. But we're going to be smart about it. I think we've proven the ability to be really disciplined and to prove execution has to follow innovation. We pride ourselves on being a company that balances long-term sustainable growth, high-quality revenue with margin.

Operator

Thank you. Our next question comes from Ryan Powell with B. Riley Securities. Please go ahead.

Ryan Powell

Great. Hi. Thank you for taking my question. It's Ryan on for Naved. I wanted to ask on Dealership Mode. Obviously, you mentioned some good metrics on initial adoption. What kinds of consumer insights are you able to generate from users engaging with Dealership Mode? Does this have anything to do with improving recommendations for users? Then I have a follow-up. Thanks.

Jason Trevisan

Sure. Well, number one, to maybe state the obvious, it's giving us a lot of information about who actually goes to the dealership, which may seem like a basic thing, but prior to this, that was oftentimes something that we had to triangulate into. This gives us a lot more fidelity on that. Number two is it helps us and it helps the dealer, frankly, probably more than us, understand what other cars a consumer is interested in to compare. It helps the dealer cross-sell. A good percentage, I think a lot of times, a surprisingly high percentage of consumers who buy a car through our platform at a dealer end up buying a car that is different from the one that they submitted a lead on. This helps the dealer in that regard.

It helps us, and again, the dealer understand financing needs. Having a calculator there, looking at financing options is really valuable because the dealer wants to get them in the right loan. It just allows them to—that's a primarily AI-built tool, and the consumer can engage with that. All of the things that I just talked about with Discover are happening in Dealership Mode. Again, we call it lead enrichment here, but it keeps enriching and enhancing our leads. We just capture more and more data on the consumer.

Consumers often cite the in-dealership experience as a time when they're trying to comprehend a lot of data, understand a lot of different things thrown at them, and this helps them do that. But it also helps the dealers, and you need to be a paying dealer to be part of this. It helps the dealers understand their customers much, much better.

Ryan Powell

Great. That's very helpful. Thank you. Then, secondly, on CG Discover. It was also live in the second quarter. What do you think led to the pretty significant increase in adoption amongst users?

Jason Trevisan

The biggest thing is we made it more available. It was in testing mode, an earlier form of testing mode as we gained more confidence and saw the increased engagement of consumers, saw all the stats that we shared on improved conversion rate, all the rich data that we were getting, we made it more available and realized pretty quickly that it was helping both consumers and dealers. I would say that's the primary one.

It's definitely improved. We continue to work on it. It's gotten better. But I would say the biggest thing is just exposure to our audience.

Like this quarter, we released it in the app. It had not been in the app before. App is our fastest-growing channel. Putting it on that really accelerated things.

Ryan Powell

Makes sense. Thank you.

Operator

Thank you. Our next question comes from Rajat Gupta with JPMorgan. Please go ahead.

Rajat Gupta

Great. Thanks for taking the question. I want to ask a little bit, zooming out on the industry backdrop. Clearly, there have been some signs of stress on profitability at some large used car dealers, some stress at smaller independents as well. We're also seeing some of the, at least the publicly listed franchise dealers, seeing some profit pressure in the near term. But cyclically, it looks like inventory is going up, which should be supportive for your business. I'm just curious, what are you hearing from customers in terms of budgets? In response to an earlier question from Chris, you mentioned maybe they're consolidating their vendors. I'm just curious, like, what's the latest that you're hearing on their planning as we head into '26? I have a quick follow-up.

Jason Trevisan

Yes, I can start, Rajat, and Sam may add to it. We oftentimes will try to distill down macro factors into just a few key points. We've also said that our business as a subscription business and dealers need to sell cars in good times and bad, is pretty resilient to a lot of the cyclical trends that exist, even seasonal trends. Furthermore, as the largest Marketplace with dealers consolidating spend, we're, I think, even more immune and sound. Then lastly, I would say used cars tend to fluctuate far, far less than new cars. We're in a bit of a sheltered harbor in that respect, too. We do, though, try to acknowledge macro factors.

Number one, retail sales for used cars are up mildly. Number two, days on market—days on market are down a little bit, but frankly, call them flat. They're actually rising sequentially right now, but they're pretty steady year-over-year, rising a little bit right now. Pricing is up a little bit, not very much. Inventory, as you just said, is up significantly. It's up double digits, year-over-year, it's up 10%. I think though, the biggest thing in all of that is that consumer sentiment is down. Interest rates, granted, they dropped recently, but they still remain pretty high on a relative basis.

Consumer sentiment down, interest rates still elevated, pricing not having come down, and inventory up. You've got dealers that need to move cars and need to sell cars. Oftentimes, it's better for them to market smarter than it is for them to drop prices. We are the largest scale and typically surveyed or frequently surveyed as the best ROI. They may have some profit pressure. Their advertising spend has steadily climbed year-over-year, based on the public's anyway. We tend to be gaining—no, we are gaining share every quarter. We don't face a lot of pressure, despite what dealers may be facing as margin pressure.

Sam Zales

Rajat, I'll just add. (Multiple speakers) sorry, I'll just add that the other immunity to short-term pressure, as Jason mentioned, is the breadth of our dealer base. We appeal to the small independent, to the multi-sized independent and franchise dealer and those national accounts you speak to. Our consumer base will buy from all of those types of dealers. Our breadth—and we're not tied to one particular segment. We have the largest base of dealers that continues to grow.

I'll just add again, the new car exposure product that we launched just in the last quarter was of relevance to dealers saying it is a high price point for new cars. Can you help us be more profitable selling those new cars? Giving them an opportunity to win their make in a local market, convert consumers who are coming in saying, I might want a used car, I might want a new car. Oh, my payments might be similar on both. I'm going to buy that new car. We're helping them create the profitability in a market trend that we saw coming very quickly and built a product to get there and make them more profitable. I think it's that breadth of dealer base that also adds to the immunity of short-term impacts and our constant growth through those cycles in the macro environment.

Rajat Gupta

Understood. That makes a lot of sense. Just one quick follow-up here, a reiteration of the double-digit revenue growth exit rate, unless it was meant to be just a fourth quarter number when you mentioned that last call. Can you just give us an update on that? Then how should we think about, as we head into '26, the trade-off between growth and margins like you had in the last two quarters, three quarters? Thanks.

Jason Trevisan

Rajat, I got the second part of the question, relationship growth and margins in 2026. Can you repeat the first part of the question about Q4?

Rajat Gupta

It was not a Q4 question. I think you mentioned on the last two earnings calls that you expect to exit the year at double-digit revenue growth for Marketplace. I wasn't sure if that was an implied fourth quarter number or you meant exiting the year into 2026 with double-digit revenue. I did not hear an update on that today, so I'm just curious if that is still on track.

Jason Trevisan

Yes, I think that my hunch is that the comment made was in reference to Q4 being a Q4 year-over-year revenue growth rate. But then if you look at what that implies for a full year, the math would illustrate that I think is also a year-over-year or a full year year-over-year double-digit growth rate. The Q4 guide sort of answers both of those questions. We obviously haven't commented on '26. From a growth and margin standpoint, I would probably cite back to comments we've made in the past couple of quarters and this quarter around our enthusiasm around the investments, the growth they're driving, the QARSD trends we talked about, and the speed with which we're introducing new products.

Operator

Thank you. We move to our next question from Andrew Boone with Citizens. Please go ahead.

Brianna Diaz

Hi, this is Brianna on for Andrew Boone. Thanks so much for taking my question. You mentioned that 80% of managed leads in October, chat and text were handled by AI and that 91% of employees are using AI internally, which has reduced reliance on outsourced teams. Where do you see still the biggest friction points, either internally or across dealer workflows, where AI can further improve efficiency within business? How should we see that coming through on the margin? Thanks so much.

Jason Trevisan

Is your question related to friction in our business or at dealers' businesses?

Brianna Diaz

Within dealer businesses.

Jason Trevisan

Within dealer businesses. Well one of the biggest areas of opportunity in the dealers' business—two dimensions. One is how all of their different steps of their workflow tie together. You've heard us talk about that, and that's what we're focused on, is how can they source smarter, price smarter based on retail signals that they're seeing? Dealers have for a long time been making purchase and appraisal decisions based on wholesale data, and that's just not as useful to them. They're more interested in retail data. What can they sell the car for? How much demand does that car have today? Same with conversion.

How all of the steps of their workflow tie together is one area. The second area is around predictability. I can use the same example, which is not only were they using wholesale data, they were using wholesale data for appraisal that was 30 days or 60 days old. Using AI, a lot of our insights and our PriceVantage tool and other things that we're providing them now are about predicting what the environment will be, what the implications will be 30 days from now once they have the car and once they price the car and merchandise it, et cetera. Those would be the two dimensions.

Internally, it's about speed of development and execution and quality of product. I think that shows up in a lot of different ways in product and engineering, but also in other parts of our company. It shows up in how well we serve our customers with our sales team and account management teams, knowing exactly what they should be talking about with our customers. I don't think it's friction internally. I think it's just how quickly we can build the internal agents and the internal products to be faster.

At the dealer, I think it's those two vectors and how quickly they can change behavior to capitalize on those vectors. That's what we're trying to help them do with account management. How that translates—you asked how that translates into the results. I think that's about growth and speed of growth for us. That's how we're thinking about it, more so than a margin enhancer in the near term.

Brianna

Thank you.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session for today. I would now like to hand the conference over to Jason Trevisan for closing comments.

Jason Trevisan

Thanks. I would just like to thank all of our colleagues, certainly here at the Company, all of our customers, and everyone who joined us on this call tonight. Have a great evening.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.