

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 9, 2023

CarGurus, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-38233

(Commission File Number)

04-3843478
(IRS Employer
Identification No.)

2 Canal Park, 4th Floor
Cambridge, Massachusetts 02141
(Address of Principal Executive Offices)
(Zip Code)

Registrant's Telephone Number, Including Area Code: (617) 354-0068

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.001 per share	CARG	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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

Emerging growth company

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

Item 2.02 Results of Operations and Financial Condition.

On August 9, 2023, CarGurus, Inc. (the "Company") announced its financial results for the quarter ended June 30, 2023. The full text of the press release issued by the Company in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The press release attached as Exhibit 99.1 hereto is being furnished pursuant to Item 2.02 of this Current Report on Form 8-K and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.**(d) Exhibits.**

Exhibit 99.1 is furnished pursuant to Item 9.01(d).

<i>Exhibit No.</i>	<i>Description</i>
99.1	Press Release of CarGurus, Inc. dated August 9, 2023.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

CARGURUS, INC.

Date: August 9, 2023

By: /s/ Jason Trevisan

Name: Jason Trevisan

Title: Chief Executive Officer



CarGurus Announces Second Quarter 2023 Results

GAAP consolidated net income was \$13.8 million; Consolidated Adjusted EBITDA was \$45.2 million, exceeding high-end of guidance range

Digital Wholesale demonstrated ongoing efficiency in operating metrics

Digital Deal adoption reaches 2,900 dealers with over 250,000 digitally-enabled listings

Marketplace growth expected to accelerate for remainder of 2023

CAMBRIDGE, Mass., August 9, 2023 — CarGurus, Inc. (Nasdaq: CARG), a multinational, online automotive platform for buying and selling vehicles, today announced financial results for the second quarter ended June 30, 2023.

"We are extremely pleased with our second quarter results as we exceeded our forecasted consolidated adjusted EBITDA guidance for the quarter," said Jason Trevisan, Chief Executive Officer at CarGurus. "The strength of our results came from growth in our Marketplace business which was fueled by product adoption and enhanced monetization strategies targeting both new and existing dealers. Concurrently, we took measures to improve our Digital Wholesale operations to ensure the long-term viability of the advancements made in the first half of this year. We are pleased that our diligent efforts led to segment profitability and higher operating efficiency this quarter. Our progress this quarter underscores our ability to respond to dynamic conditions internally and externally, all while remaining steadfast in building an online platform that supports both consumer and dealer customers at every stage of the buying and selling journey."

Second Quarter Financial Highlights

- Total revenue of \$239.7 million, a decrease of (53)% year-over-year.
 - Marketplace revenue was \$171.0 million, an increase of 4% year-over-year.
 - Wholesale revenue was \$32.0 million, a decrease of (58)% year-over-year.
 - Product revenue was \$36.8 million, a decrease of (86)% year-over-year.
 - GAAP consolidated net income of \$13.8 million, a decrease of (23)% year-over-year; non-GAAP consolidated net income of \$33.8 million, a decrease of (24)% year-over-year.
 - GAAP net income attributable to common stockholders of \$16.4 million, or \$0.12 per fully diluted share, an increase of 259% year-over-year; non-GAAP net income attributable to common stockholders of \$33.0 million, or \$0.29 per fully diluted share, a decrease of (13)% year-over-year.
 - Consolidated Adjusted EBITDA, a non-GAAP metric, of \$45.2 million, a decrease of (26)% year-over-year.
 - Adjusted EBITDA, a non-GAAP metric, of \$43.7 million, a decrease of (19)% year-over-year.
 - Cash, cash equivalents, and short-term investments of \$453.6 million and an available \$399.3 million under its revolving credit facility.
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Second Quarter Business Metrics⁽¹⁾⁽²⁾⁽³⁾

- U.S. Marketplace segment revenue was \$158.4 million, an increase of 4% year-over-year. U.S. Marketplace segment operating income was \$24.6 million, a decrease of (13)% year-over-year.
- Digital Wholesale segment revenue was \$68.8 million, a decrease of (80)% year-over-year. Digital Wholesale segment operating loss was \$(6.3) million, an increase of 139% year-over-year.
- Total paying dealers were 31,097 as of June 30, 2023, roughly flat year-over-year. Of the total paying dealers as of June 30, 2023, U.S. and International accounted for 24,220 and 6,877, respectively, a decrease of (1)% and an increase of 3%, respectively, year-over-year.
- Quarterly Average Revenue per Subscribing Dealer ("QARSD") in the U.S. was \$6,110 as of June 30, 2023, an increase of 6% year-over-year. QARSD in International markets was \$1,610 as of June 30, 2023, an increase of 5% year-over-year.
- Website traffic and consumer engagement metrics for the second quarter of 2023 were as follows:
 - U.S. average monthly unique users were 31.9 million, an increase of 8% year-over-year.
 - U.S. average monthly sessions were 84.4 million, an increase of 5% year-over-year.
 - International average monthly unique users were 7.4 million, an increase of 12% year-over-year.
 - International average monthly sessions were 17.1 million, an increase of 15% year-over-year.
- Transactions were 20,793, a decrease of (68)% year-over-year.

(1) CarOffer website is excluded from the metrics presented for users and sessions.

(2) Effective as of the fourth quarter of 2022 the Company revised its segment reporting from one reportable segment to two reportable segments, U.S. Marketplace and Digital Wholesale. The change in segment reporting was a triggering event for an evaluation of goodwill impairment. As such, the Company evaluated for goodwill impairment on December 31, 2022, and did not identify any impairment to its goodwill. The change in segment reporting was made to align with financial reporting results regularly provided to the Company's chief operating decision maker ("CODM") to assess the business. The CODM reviews segment revenue and segment income (loss) from operations as a proxy for the performance of the Company's operations. The U.S. Marketplace segment derives revenues from marketplace services from customers within the United States. The Digital Wholesale segment derives revenues from Dealer-to-Dealer and Instant Max Cash Offer services and products which are sold on the CarOffer platform. The Company also has two operating segments which are individually immaterial and therefore aggregated into the Other category to reconcile reportable segments to the Unaudited Condensed Consolidated Income Statements. The Other category derives revenues from marketplace services from customers outside of the United States.

(3) For the year ended December 31, 2022, Digital Wholesale segment income (loss) from operations did not reflect certain Dealer-to-Dealer and Instant Max Cash Offer ("IMCO") related capitalized website development amortization incurred by the U.S. Marketplace segment. During the three months ended March 31, 2023, the Company updated Digital Wholesale segment income (loss) from operations to reflect certain Dealer-to-Dealer and IMCO related capitalized website development amortization incurred by the U.S. Marketplace segment and accordingly updated Digital Wholesale segment income (loss) from operations for the three months ended June 30, 2022 for comparative purposes.

Third Quarter 2023 Guidance

CarGurus anticipates total revenue, product revenue, non-GAAP Consolidated Adjusted EBITDA, and non-GAAP earnings per share ("EPS") to be in the following ranges for the third quarter 2023:

Total revenue	\$201 million to \$221 million
Product revenue	\$15 million to \$25 million
Non-GAAP Consolidated Adjusted EBITDA	\$36 million to \$44 million
Non-GAAP EPS	\$0.24 to \$0.27

The third quarter 2023 non-GAAP EPS calculation assumes 114.5 million diluted weighted-average common shares outstanding. This estimated number of shares outstanding excludes the potential dilution from CarGurus utilizing its equity as the sole form of consideration to purchase the remaining 49% interest in CarOffer.

The assumptions that are built into guidance for the third quarter 2023 regarding our pace of paid dealer acquisition, churn, and expansion activity for the relevant period are based on recent market behaviors and industry conditions. Guidance for the third quarter 2023 excludes macro-level industry issues that result in dealers and consumers materially changing their recent market behaviors or that cause us to enact measures to assist dealers. Guidance also excludes adjustments to the carrying value of redeemable noncontrolling interests resulting from potential changes in the redemption value of such interests, and any potential impact of foreign currency exchange gains or losses.

CarGurus has not reconciled its guidance of non-GAAP consolidated adjusted EBITDA to GAAP consolidated net income or non-GAAP consolidated EPS to GAAP consolidated EPS because the reconciling items between such GAAP and non-GAAP financial measures, which include, as applicable, stock-based compensation, amortization of intangible assets, impairment of long-lived assets, depreciation expenses, non-intangible amortization, other (income) expense, net, the provision for income taxes, income tax effects, and adjustments to the carrying value of redeemable noncontrolling interests resulting from changes in the redemption value of such interests, cannot be reasonably predicted due to, as applicable, the timing, amount, valuation and number of future employee equity awards, and the uncertainty relating to the timing, frequency, and effect of acquisitions and the significance of the resulting acquisition-related expenses, including adjustments to the carrying value of redeemable noncontrolling interests resulting from potential changes in the redemption value of such interests, and therefore cannot be determined without unreasonable effort. For more information regarding the non-GAAP financial measures discussed in this press release, please see the reconciliations of GAAP financial measures to non-GAAP financial measures and the section titled "Non-GAAP Financial Measures and Other Business Metrics" below.

Conference Call and Webcast Information

CarGurus will host a conference call and live webcast to discuss its second quarter 2023 financial results and business outlook at 5:00 p.m. Eastern Time today, August 9, 2023. To access the conference call, dial (844) 826-3035 for callers in the U.S. or Canada, or (412) 317-5195 for international callers. The webcast will be available live on the Investors section of CarGurus' website at <https://investors.cargurus.com>.

An audio replay of the call will also be available to investors beginning at approximately 8:00 p.m. Eastern Time today, August 9, 2023, until 11:59 p.m. Eastern Time on August 16, 2023, by dialing (844) 512-2921 for callers in the U.S. or Canada, or (412) 317-6671 for international callers, and entering passcode 10181700. In addition, an archived webcast will be available on the Investors section of CarGurus' website at <https://investors.cargurus.com>.

About CarGurus

CarGurus (Nasdaq: CARG) is a multinational, online automotive platform for buying and selling vehicles that is building upon its industry-leading listings marketplace with both digital retail solutions and the CarOffer digital wholesale platform. The CarGurus platform gives consumers the confidence to purchase and/or sell a vehicle either online or in-person, and it gives dealerships the power to accurately price, effectively market, instantly acquire, and quickly sell vehicles, all with a nationwide reach. The Company uses proprietary technology, search algorithms, and data analytics to bring trust, transparency, and competitive pricing to the automotive shopping experience. CarGurus is the most visited automotive shopping site in the U.S.¹

¹Source: SimilarWeb: Traffic Report, Q2 2023, U.S.

CarGurus also operates online marketplaces under the CarGurus brand in Canada and the United Kingdom. In the United States and the United Kingdom, CarGurus also operates the Autolist and PistonHeads online marketplaces, respectively, as independent brands.

To learn more about CarGurus, visit www.cargurus.com, and for more information about CarOffer, visit www.caroffer.com.

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Cautionary Language Concerning Forward-Looking Statements

This press release includes forward-looking statements. Other than statements of historical facts, all statements contained in this press release, including, without limitation, statements regarding our future financial and business performance for the third quarter 2023; our ability to quickly make transformations necessary for our business to achieve long-term goals; and the impact of macro-level issues on our industry, business, and financial results, are forward-looking statements. The words “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “goal,” “guide,” “intend,” “may,” “might,” “plan,” “potential,” “predicts,” “projects,” “seeks,” “should,” “target,” “will,” “would,” and similar expressions and their negatives are intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. You should not place undue reliance on these statements. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements, including, without limitation, risks related to our growth and our ability to grow our revenue; our relationships with dealers; competition in the markets in which we operate; market growth; our ability to innovate; our ability to realize benefits from our acquisitions and successfully implement the integration strategies in connection therewith; global supply chain challenges, increased inflation and interest rates, and other macroeconomic issues; the material weakness identified in our internal controls over financial reporting; changes in our key personnel; natural disasters, epidemics or pandemics; and our ability to operate in compliance with applicable laws, as well as other risks and uncertainties as may be detailed from time to time in our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q and other reports we file with the U.S. Securities and Exchange Commission. Moreover, we operate in very competitive and rapidly changing environments. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, we cannot guarantee that future results, levels of activity, performance, achievements, or events and circumstances reflected in the forward-looking statements will occur. We are under no duty to update any of these forward-looking statements after the date of this press release to conform these statements to actual results or revised expectations, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this press release.

Investor Contact:

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Vice President, Investor Relations
investors@cargurus.com

Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	As of June 30, 2023	As of December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 363,060	\$ 469,517
Short-term investments	90,490	—
Accounts receivable, net of allowance for doubtful accounts of \$807 and \$1,809, respectively	37,820	46,817
Inventory	541	5,282
Prepaid expenses, prepaid income taxes and other current assets	21,742	21,972
Deferred contract costs	10,078	8,541
Restricted cash	11,561	5,237
Total current assets	535,292	557,366
Property and equipment, net	48,243	40,128
Intangible assets, net	38,037	53,054
Goodwill	157,638	157,467
Operating lease right-of-use assets	189,905	56,869
Restricted cash	—	9,378
Deferred tax assets	51,888	35,488
Deferred contract costs, net of current portion	11,490	8,853
Other non-current assets	7,828	8,499
Total assets	\$ 1,040,321	\$ 927,102
Liabilities, redeemable noncontrolling interest and stockholders' equity		
Current liabilities		
Accounts payable	\$ 39,260	\$ 32,529
Accrued expenses, accrued income taxes and other current liabilities	36,367	39,193
Deferred revenue	21,267	12,249
Operating lease liabilities	13,870	14,762
Total current liabilities	110,764	98,733
Operating lease liabilities	193,184	51,656
Deferred tax liabilities	43	54
Other non-current liabilities	5,611	5,301
Total liabilities	309,602	155,744
Redeemable noncontrolling interest	29,865	36,749
Stockholders' equity:		
Preferred stock, \$0.001 par value per share; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Class A common stock, \$0.001 par value per share; 500,000,000 shares authorized; 97,426,273 and 101,636,649 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	97	102
Class B common stock, \$0.001 par value per share; 100,000,000 shares authorized; 15,999,173 and 15,999,173 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	16	16
Additional paid-in capital	346,494	413,092
Retained earnings	355,588	323,043
Accumulated other comprehensive loss	(1,341)	(1,644)
Total stockholders' equity	700,854	734,609
Total liabilities, redeemable noncontrolling interest and stockholders' equity	\$ 1,040,321	\$ 927,102

Unaudited Condensed Consolidated Income Statements
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue				
Marketplace	\$ 170,950	\$ 163,926	\$ 338,077	\$ 327,215
Wholesale	31,952	75,937	57,138	166,931
Product	36,835	271,366	76,485	447,691
Total revenue	239,737	511,229	471,700	941,837
Cost of revenue ⁽¹⁾				
Marketplace	15,474	13,257	31,007	25,466
Wholesale	24,428	46,518	46,496	104,700
Product	35,694	263,603	75,076	441,945
Total cost of revenue	75,596	323,378	152,579	572,111
Gross profit	164,141	187,851	319,121	369,726
Operating expenses:				
Sales and marketing	77,838	95,605	153,415	183,186
Product, technology, and development	37,391	31,354	73,998	62,007
General and administrative	27,267	33,514	52,186	66,635
Depreciation and amortization	3,907	3,836	7,725	7,697
Total operating expenses	146,403	164,309	287,324	319,525
Income from operations	17,738	23,542	31,797	50,201
Other income (expense), net:				
Interest income	4,333	311	8,076	348
Other income (expense), net	347	(467)	942	(623)
Total other income (expense), net	4,680	(156)	9,018	(275)
Income before income taxes	22,418	23,386	40,815	49,926
Provision for income taxes	8,601	5,325	15,132	13,027
Consolidated net income	13,817	18,061	25,683	36,899
Net loss attributable to redeemable noncontrolling interest	(2,596)	(1,223)	(6,862)	(2,295)
Net income attributable to CarGurus, Inc.	16,413	19,284	32,545	39,194
Accretion of redeemable noncontrolling interest to redemption value	—	29,620	—	111,620
Net income (loss) attributable to common stockholders	\$ 16,413	\$ (10,336)	\$ 32,545	\$ (72,426)
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.14	\$ (0.09)	\$ 0.28	\$ (0.61)
Diluted	\$ 0.12	\$ (0.09)	\$ 0.22	\$ (0.61)
Weighted-average number of shares of common stock used in computing net income (loss) per share attributable to common stockholders:				
Basic	113,438,057	118,390,641	114,392,961	118,211,975
Diluted	114,490,651	118,390,641	115,197,890	118,211,975

(1) Includes depreciation and amortization expense for the three months ended June 30, 2023 and 2022 and for the six months ended June 30, 2023 and 2022 of \$7,760, \$7,398, \$15,518, and \$14,722, respectively.

Unaudited Segment Revenue
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
<i>Segment Revenue:</i>				
U.S. Marketplace	\$ 158,443	\$ 152,753	\$ 314,064	\$ 304,642
Digital Wholesale	68,787	347,303	133,623	614,622
Other	12,507	11,173	24,013	22,573
Total	<u>\$ 239,737</u>	<u>\$ 511,229</u>	<u>\$ 471,700</u>	<u>\$ 941,837</u>

Unaudited Segment Income (loss) from Operations
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
<i>Segment Income (Loss) from Operations:</i>				
U.S. Marketplace	\$ 24,619	\$ 28,346	\$ 51,158	\$ 58,182
Digital Wholesale	(6,307)	(2,638)	(17,532)	(4,749)
Other	(574)	(2,166)	(1,829)	(3,232)
Total	<u>\$ 17,738</u>	<u>\$ 23,542</u>	<u>\$ 31,797</u>	<u>\$ 50,201</u>

Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating Activities				
Consolidated net income	\$ 13,817	\$ 18,061	\$ 25,683	\$ 36,899
Adjustments to reconcile consolidated net income to net cash provided by operating activities:				
Depreciation and amortization	11,667	11,234	23,243	22,419
Gain on sale of property and equipment	—	—	(460)	—
Currency loss (gain) on foreign denominated transactions	62	270	(136)	354
Unrealized loss on short-term investments	21	—	21	—
Realized gain on short-term investments	(5)	—	(5)	—
Deferred taxes	(4,490)	(10,373)	(16,411)	(23,464)
Provision (recoveries) for doubtful accounts	129	549	(171)	699
Stock-based compensation expense	14,603	13,432	29,507	27,579
Amortization of deferred financing costs	129	—	258	—
Amortization of deferred contract costs	2,866	2,758	5,603	5,564
Impairment of long-lived assets	9	—	184	—
Changes in operating assets and liabilities:				
Accounts receivable	6,383	(51,995)	13,241	(12,022)
Inventory	1,095	(692)	4,740	(2,028)
Prepaid expenses, prepaid income taxes, and other assets	(1,198)	(8,307)	3,454	(10,434)
Deferred contract costs	(4,600)	(2,749)	(9,738)	(5,746)
Accounts payable	(6,128)	12,230	4,140	8,168
Accrued expenses, accrued income taxes, and other liabilities	(8,633)	8,087	(4,091)	38,174
Deferred revenue	459	2,307	9,016	2,302
Lease obligations	3,150	(277)	7,603	(869)
Net cash provided by (used in) operating activities	29,336	(5,465)	95,681	87,595
Investing Activities				
Purchases of property and equipment	(1,857)	(1,431)	(4,255)	(2,661)
Proceeds from sale of property and equipment	460	—	460	—
Capitalization of website development costs	(3,943)	(2,996)	(7,432)	(5,502)
Purchases of short-term investments	(95,506)	—	(95,506)	—
Maturities of short-term investments	—	30,000	—	60,000
Sales of short-term investments	5,000	—	5,000	—
Advance payments to customer, net of collections	(2,601)	—	(2,601)	—
Net cash (used in) provided by investing activities	(98,447)	25,573	(104,334)	51,837
Financing Activities				
Proceeds from issuance of common stock upon exercise of stock options	10	25	29	705
Payment of withholding taxes on net share settlements of restricted stock units	(4,828)	(5,830)	(6,894)	(11,260)
Repurchase of common stock	(22,434)	—	(91,458)	—
Payment of finance lease obligations	(17)	(16)	(34)	(35)
Payment of tax distributions to redeemable noncontrolling interest holders	(10)	(4,172)	(38)	(12,691)
Change in gross advance payments received from third-party transaction processor	(552)	21,243	(2,674)	(2,363)
Net cash (used in) provided by financing activities	(27,831)	11,250	(101,069)	(25,644)
Impact of foreign currency on cash, cash equivalents, and restricted cash	(118)	(700)	211	(912)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(97,060)	30,658	(109,511)	112,876
Cash, cash equivalents, and restricted cash at beginning of period	471,681	330,498	484,132	248,280
Cash, cash equivalents, and restricted cash at end of period	\$ 374,621	\$ 361,156	\$ 374,621	\$ 361,156

Unaudited Reconciliation of GAAP Consolidated Net Income to Non-GAAP Consolidated Net Income and Non-GAAP Net Income Attributable to Common Stockholders

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
GAAP consolidated net income	\$ 13,817	\$ 18,061	\$ 25,683	\$ 36,899
Stock-based compensation expense	15,827	26,457	30,804	54,299
Amortization of intangible assets	7,507	7,672	15,041	15,377
Income tax effects and adjustments	(3,306)	(7,497)	(8,672)	(15,361)
Non-GAAP consolidated net income	33,845	44,693	62,856	91,214
Non-GAAP net income (loss) attributable to redeemable noncontrolling interest	853	6,679	(418)	13,752
Non-GAAP net income attributable to common stockholders	\$ 32,992	\$ 38,014	\$ 63,274	\$ 77,462
Non-GAAP net income per share attributable to common stockholders:				
Basic	\$ 0.29	\$ 0.32	\$ 0.55	\$ 0.66
Diluted	\$ 0.29	\$ 0.32	\$ 0.55	\$ 0.66
Shares used in Non-GAAP per share calculations				
Basic	113,438	118,391	114,393	118,212
Diluted	114,491	118,391	115,198	118,212

Unaudited Reconciliation of GAAP Net Loss Attributable to Redeemable Noncontrolling Interest to Non-GAAP Net Income (Loss) Attributable to Redeemable Noncontrolling Interest

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
GAAP net loss attributable to redeemable noncontrolling interest	\$ (2,596)	\$ (1,223)	\$ (6,862)	\$ (2,295)
Stock-based compensation expense ⁽¹⁾	675	5,127	896	10,498
Amortization of intangible assets ⁽¹⁾	2,774	2,775	5,548	5,549
Non-GAAP net income (loss) attributable to redeemable noncontrolling interest	\$ 853	\$ 6,679	\$ (418)	\$ 13,752

(1) These exclusions are adjusted to reflect the noncontrolling shareholder's 38% share of earnings and losses in CarOffer.

Unaudited Reconciliation of GAAP Consolidated Net Income to Consolidated Adjusted EBITDA and Adjusted EBITDA
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
GAAP consolidated net income	\$ 13,817	\$ 18,061	\$ 25,683	\$ 36,899
Depreciation and amortization	11,667	11,234	23,243	22,419
Impairment of long-lived assets	9	—	184	—
Stock-based compensation expense	15,827	26,457	30,804	54,299
Other (income) expense, net	(4,680)	156	(9,018)	275
Provision for income taxes	8,601	5,325	15,132	13,027
Consolidated Adjusted EBITDA	45,241	61,233	86,028	126,919
Adjusted EBITDA attributable to redeemable noncontrolling interest	1,590	7,265	913	15,001
Adjusted EBITDA	\$ 43,651	\$ 53,968	\$ 85,115	\$ 111,918

Unaudited Reconciliation of GAAP Net Loss Attributable to Redeemable Noncontrolling Interest to Adjusted EBITDA Attributable to Redeemable Noncontrolling Interest
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
GAAP net loss attributable to redeemable noncontrolling interest	\$ (2,596)	\$ (1,223)	\$ (6,862)	\$ (2,295)
Depreciation and amortization ⁽¹⁾	2,951	2,917	5,899	5,827
Impairment of long-lived assets ⁽¹⁾	—	—	67	—
Stock-based compensation expense ⁽¹⁾	675	5,127	896	10,498
Other expense, net ⁽¹⁾	540	444	888	880
Provision for income taxes ⁽¹⁾	20	—	25	91
Adjusted EBITDA attributable to redeemable noncontrolling interest	\$ 1,590	\$ 7,265	\$ 913	\$ 15,001

(1) These exclusions are adjusted to reflect the noncontrolling interest of 38%.

Unaudited Reconciliation of GAAP Gross Profit to Non-GAAP Gross Profit and GAAP Gross Profit Margin to Non-GAAP Gross Profit Margin
(in thousands, except percentages)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Revenue	\$ 239,737	\$ 511,229	\$ 471,700	\$ 941,837
Cost of revenue	75,596	323,378	152,579	572,111
GAAP gross profit	164,141	187,851	319,121	369,726
Stock-based compensation expense included in Cost of revenue	185	69	328	205
Amortization of intangible assets included in Cost of revenue	5,250	5,350	10,516	10,700
Non-GAAP gross profit	\$ 169,576	\$ 193,270	\$ 329,965	\$ 380,631
GAAP gross profit margin	68 %	37 %	68 %	39 %
Non-GAAP gross profit margin	71 %	38 %	70 %	40 %

Unaudited Reconciliation of GAAP Expense to Non-GAAP Expense
(in thousands)

	Three Months Ended							
	June 30,							
	2023				2022			
	GAAP expense	Stock-based compensation expense	Amortization of intangible assets	Non-GAAP expense	GAAP expense	Stock-based compensation expense	Amortization of intangible assets	Non-GAAP expense
Cost of revenue	\$ 75,596	\$ (185)	\$ (5,250)	\$ 70,161	\$ 323,378	\$ (69)	\$ (5,350)	\$ 317,959
Sales and marketing	77,838	(2,872)	—	74,966	95,605	(4,086)	—	91,519
Product, technology, and development	37,391	(6,034)	—	31,357	31,354	(6,151)	—	25,203
General and administrative	27,267	(6,736)	—	20,531	33,514	(16,151)	—	17,363
Depreciation & amortization	3,907	—	(2,257)	1,650	3,836	—	(2,322)	1,514
Operating expenses ⁽¹⁾	\$ 146,403	\$ (15,642)	\$ (2,257)	\$ 128,504	\$ 164,309	\$ (26,388)	\$ (2,322)	\$ 135,599
Total cost of revenue and operating expenses	\$ 221,999	\$ (15,827)	\$ (7,507)	\$ 198,665	\$ 487,687	\$ (26,457)	\$ (7,672)	\$ 453,558

	Six Months Ended							
	June 30,							
	2023				2022			
	GAAP expense	Stock-based compensation expense	Amortization of intangible assets	Non-GAAP expense	GAAP expense	Stock-based compensation expense	Amortization of intangible assets	Non-GAAP expense
Cost of revenue	\$ 152,579	\$ (328)	\$ (10,516)	\$ 141,735	\$ 572,111	\$ (205)	\$ (10,700)	\$ 561,206
Sales and marketing	153,415	(5,956)	—	147,459	183,186	(8,069)	—	175,117
Product, technology, and development	73,998	(12,323)	—	61,675	62,007	(12,519)	—	49,488
General and administrative	52,186	(12,197)	—	39,989	66,635	(33,506)	—	33,129
Depreciation & amortization	7,725	—	(4,525)	3,200	7,697	—	(4,677)	3,020
Operating expenses ⁽¹⁾	\$ 287,324	\$ (30,476)	\$ (4,525)	\$ 252,323	\$ 319,525	\$ (54,094)	\$ (4,677)	\$ 260,754
Total cost of revenue and operating expenses	\$ 439,903	\$ (30,804)	\$ (15,041)	\$ 394,058	\$ 891,636	\$ (54,299)	\$ (15,377)	\$ 821,960

(1) Operating expenses include sales and marketing, product, technology, and development, general and administrative, and depreciation & amortization.

Unaudited Reconciliation of GAAP Net Cash and Cash Equivalents Provided by Operating Activities to Non-GAAP Free Cash Flow
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
GAAP net cash and cash equivalents provided by (used in) operating activities	\$ 29,336	\$ (5,465)	\$ 95,681	\$ 87,595
Purchases of property and equipment	(1,857)	(1,431)	(4,255)	(2,661)
Capitalization of website development costs	(3,943)	(2,996)	(7,432)	(5,502)
Non-GAAP free cash flow	<u>\$ 23,536</u>	<u>\$ (9,892)</u>	<u>\$ 83,994</u>	<u>\$ 79,432</u>

Non-GAAP Financial Measures and Other Business Metrics

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

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

While a reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis without unreasonable effort due to, as applicable, the timing, amount, valuation and number of future employee equity awards, and the uncertainty relating to the timing, frequency and effect of acquisitions and the significance of the resulting acquisition-related expenses, including adjustments to the carrying value of redeemable noncontrolling interests resulting from potential changes in the redemption value of such interests, we have provided a reconciliation of non-GAAP financial measures and other business metrics to the nearest comparable GAAP measures in the accompanying financial statement tables included in this press release.

We monitor operating measures of certain non-GAAP items including non-GAAP gross profit, non-GAAP gross margin, non-GAAP expense, non-GAAP consolidated net income, non-GAAP net income attributable to common stockholders, and non-GAAP net income per share attributable to common stockholders. These non-GAAP financial measures exclude the effect of stock-based compensation expense and amortization of intangible assets. Non-GAAP consolidated net income, non-GAAP net income attributable to common stockholders, and non-GAAP net income per share attributable to common stockholders also exclude certain income tax effects and adjustments. Non-GAAP net income attributable to common stockholders and non-GAAP net income per share attributable to common stockholders also exclude non-GAAP net income (loss) attributable to redeemable noncontrolling interests. We define non-GAAP net income (loss) attributable to redeemable noncontrolling interests as net loss attributable to redeemable noncontrolling interests, adjusted to exclude: stock-based compensation expenses and amortization of intangible assets. These exclusions are adjusted for redeemable noncontrolling interest. Our calculations of non-GAAP net income per share attributable to common stockholders utilize applicable GAAP share counts as included in the accompanying financial statement tables included in this press release. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making.

We define Consolidated Adjusted EBITDA as consolidated net income, adjusted to exclude: depreciation and amortization, impairment of long-lived assets, stock-based compensation expense, other (income) expense, net, and provision for income taxes. We define Adjusted EBITDA as Consolidated Adjusted EBITDA adjusted to exclude Adjusted EBITDA attributable to redeemable noncontrolling interest. We define Adjusted EBITDA attributable to redeemable noncontrolling interest as net loss attributable to redeemable noncontrolling interest, adjusted to exclude: depreciation and amortization, impairment of long-lived assets, stock-based compensation expense, other expense, net, and provision for income taxes. These exclusions are adjusted for redeemable noncontrolling interest of 38% by taking the noncontrolling interest's full financial results and multiplying each line item in the reconciliation by 38%. The Company notes that it uses 38%, versus 49%, to allocate the share of income (loss) because it represents the portion attributable to the redeemable noncontrolling interest. The 38% is exclusive of CO Incentive Units, Subject Units, and 2021 Incentive Units (each as defined in the Company's Annual Report on Form 10-K as of December 31, 2022 filed on March 1, 2023) liability classified awards which do not participate in the share of income (loss).

We have presented Consolidated Adjusted EBITDA and Adjusted EBITDA, because they are key measures used by our management and board of directors to understand and evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. In particular, we believe that the exclusion of certain items in calculating Consolidated Adjusted EBITDA and Adjusted EBITDA can produce a useful measure for period-to-period comparisons of our business. We have presented Adjusted EBITDA attributable to redeemable noncontrolling interest because it is used by our management to reconcile Consolidated Adjusted EBITDA to Adjusted EBITDA. It represents the portion of Consolidated Adjusted EBITDA that is attributable to our noncontrolling interest. Adjusted EBITDA attributable to redeemable noncontrolling interest is not intended to be reviewed on its own.

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

We define a paying dealer as a dealer account with an active, paid marketplace subscription at the end of a defined period.

We define QARSD, which is measured at the end of a fiscal quarter, as the marketplace revenue primarily from subscriptions to our Listings packages and Real-time Performance Marketing digital advertising suite during that trailing quarter divided by the average number of paying dealers in that marketplace during the quarter. We calculate the average number of paying dealers for a period by adding the number of paying dealers at the end of such period and the end of the prior period and dividing by two.

For each of our websites (excluding the CarOffer website), we define a monthly unique user as an individual who has visited any such website within a calendar month, based on data as measured by Google Analytics. We calculate average monthly unique users as the sum of the monthly unique users of each of our websites in a given period, divided by the number of months in that period. We count a unique user the first time a computer or mobile device with a unique device identifier accesses any of our websites during a calendar month. If an individual accesses a website using a different device within a given month, the first access by each such device is counted as a separate unique user. If an individual uses multiple browsers on a single device and/or clears their cookies and returns to our site within a calendar month, each such visit is counted as a separate unique user.

We define monthly sessions as the number of distinct visits to our websites (excluding the CarOffer website) that take place each month within a given time frame, as measured and defined by Google Analytics. We calculate average monthly sessions as the sum of the monthly sessions in a given period, divided by the number of months in that period. A session is defined as beginning with the first page view from a computer or mobile device and ending at the earliest of when a user closes their browser window, after 30 minutes of inactivity, or each night at midnight (i) Eastern Time for our United States and Canada websites, other than the Autolist website, (ii) Pacific Time for the Autolist website, and (iii) Greenwich Mean Time for our United Kingdom websites. A session can be made up of multiple page views and visitor actions, such as performing a search, visiting vehicle detail pages, and connecting with a dealer.

We define Transactions within the Digital Wholesale segment as the number of vehicles processed from car dealers, consumers, and other marketplaces through the CarOffer website within the applicable period. Transactions consists of each unique vehicle (based on vehicle identification number) that reaches "sold and invoiced" status on the CarOffer website within the applicable period, including vehicles sold to car dealers, vehicles sold at third-party auctions, vehicles ultimately sold to a different buyer, and vehicles that are returned to their owners without completion of a sale transaction. We exclude vehicles processed within CarOffer's intra-group trading solution (Group Trade) from the definition of Transactions, and we only count any unique vehicle once even if it reaches sold status multiple times. Digital Wholesale includes Dealer-to-Dealer transactions and Instant Max Cash Offer transactions. We view Transactions as a key business metric, and we believe it provides useful information to investors, because it provides insight into growth and revenue for the Digital Wholesale segment. Transactions drive a significant portion of Digital Wholesale segment revenue. We believe growth in Transactions demonstrates consumer and dealer utilization and our market share penetration in the Digital Wholesale segment.
