



CarGurus, Inc.

Fourth Quarter and Full Year 2024 Earnings 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*

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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

Vincent Kardos, *Jefferies*

Ralph Schackart, *William Blair*

Rajat Gupta, *JPMorgan Chase & Co.*

Marvin Fong, *BTIG LLC*

Ryan Powell, *B. Riley Securities*

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

Operator

Good day, and welcome to the CarGurus Earnings Conference Call.

Please note, 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 am delighted to welcome you to CarGurus' Fourth Quarter and Full Year 2024 Earnings Call.

With me on the call today are Jason Trevisan, Chief Executive Officer; Sam Zales, President and Chief Operating Officer; and Elisa Palazzo, Chief Financial Officer.

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

Further, during the course of our call today, we will refer to certain non-GAAP financial measures. A reconciliation of GAAP to comparable non-GAAP measures is included in our press release issued today, as well as in our updated investor presentation, which can be found on the Investor Relations section of our website. We believe that these non-GAAP financial measures and other business metrics provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency as it relates to metrics used by our management in its financial and operational decision-making.

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

Jason Trevisan

Thank you Kirndeeep, and thank you to all who joined us today.

As I shared at the beginning of last year, the theme of intelligent acceleration was our North Star for 2024, and I am pleased to report that we achieved exceptional results in the past year. We delivered successfully on our business priorities, and our progress across the four drivers of value creation was fueled by outstanding execution resulting in key wins across the business in 2024.

Our full-year Marketplace revenue was up 14% YoY, and revenue growth accelerated progressively throughout the year. The sustained expansion of our business was fueled by key product innovations. The growing adoption of value-added products and services that deliver competitive intelligence and analytical insights paired with a consultative approach has deepened our partnership with dealers, which resulted in higher engagement, improved retention, and an increased rate of longer-term contracts. Our platform has been rated the best ROI by dealers in the industry, and this has allowed us to capture a larger share of dealer spend.

Our international business also saw significant acceleration, with annual revenue up 23% YoY and meaningful operating profit expansion. Strong operational and commercial execution, coupled with disciplined investment in growth, drove further margin expansion. We believe we will be able to replicate our domestic success and will continue to invest in these regions, introducing differentiated products such as Digital Deal and Dealer Data Insights.

Last, our OEM advertising business also returned to double-digit YoY expansion after several years of contraction. This reflects the ongoing replenishment of new car supply and our large consumer audience

as well as our ability to monetize demand through better consumer targeting. As a result, we achieved strong OEM renewal rates, renewing all existing customers YoY and winning business from new customers re-entering the market after a multi-year hiatus.

While 2024 was a year of growth and investment in new and existing products, our strong execution and disciplined approach to capital allocation enabled us to simultaneously achieve significant operating leverage and robust cash flow generation. Our annual Consolidated Adjusted EBITDA grew 26% YoY or \$51 million in the year, with margins expanding over 600 basis points YoY to nearly 28%. As previously highlighted, our marketplace business delivered exceptional results, reporting an annual consolidated adjusted EBITDA of \$266 million, up 35% YoY. In contrast, our Digital Wholesale segment ended the year with an \$18 million Adjusted EBITDA loss, reflecting declines in transaction volume. As noted in prior earnings calls, we are actively working to rebuild this segment, optimizing unit economics and driving operational efficiencies with the ultimate aim of returning the business to profitability.

We believe our success and ongoing investment in growth and innovation position us strongly for 2025. Moving forward, we will focus on further enhancing our value proposition as we plan to continue to introduce new products and services and integrate our offering more seamlessly into dealers' daily workflows, strengthening our market leadership and deepening our reach across the dealer ecosystem.

Now, similar to prior quarters, I will highlight the progress we have made across our four drivers of value creation.

One, provide more value to dealers.

We are dedicated to enhancing the way our dealer partners operate. Our intelligence-driven platform empowers dealers to source, price, market, and sell vehicles more effectively, with the aim of maximizing profitability across their workflow. Our relentless focus on innovation and providing the highest ROI has led to greater dealer engagement and retention on our platform.

In Q4, we concentrated our efforts on two key priorities: 1) leveraging our industry-leading data assets and AI to integrate value-added actionable insights throughout the dealer workflow, enabling more informed decision-making, and 2) enhancing our account management function to help dealers extract even more value from our platform. These initiatives delivered significant value, resulting in continued migration to premium subscription tiers, up 23% YoY in the fourth quarter.

Our Dealer Data Insights reports achieved exceptional adoption. In just over a year, Next Best Deal Rating expanded to over 14,000 dealers in the US, with over a thousand more in the UK and Canada. In Q4 alone, we recorded nearly 1 million price changes to the inventory we recommended a change on, up 33% from Q3, which drove faster turn times and significantly boosted dealers' ability to maximize their profits. Additionally, we saw strong growth across our other Dealer Data Insights reports. Of dealers who leveraged our Acquisition Insights report, 69% of them acquired the vehicles we recommended and 65% of the acquired vehicles sold within the estimated turn time. Our suite of data-driven, predictive analytics and actionable insights presents a compelling value proposition for our dealers, and we will continue to release new insights across the dealer's workflow.

As part of our commitment to deepening our partnership with dealers, we continue to invest in our account management function. Our in-person dealership-level training team has already demonstrated significant success and we plan to expand this nascent initiative further in 2025. This team works directly with dealers to implement best practices for lead handling, improving appointment and close rates, and enhancing overall spend ROI. Early adopters have seen compelling results including a 70% increase in Digital Deal close rates. Though small, our team plays a crucial role, especially with new product

introductions, like Top Dealer Offers. As our business becomes further integrated into dealer workflows, we believe the benefit of closer support will continue to grow.

The adoption of value-added products has risen steadily across our growing dealer network, which has led to higher engagement and stronger retention. Long-term contracts signed in Q4 accounted for over 40% of our new contract base, highlighting stronger durable partnerships with our dealers.

Two, build a better consumer experience.

In 2024, we focused on delivering a more personalized and seamless experience for our shoppers, ensuring each interaction was tailored to their unique needs. We also harnessed the power of AI to deliver smarter recommendations and more intuitive engagement, transforming how consumers interact with our platform.

In the second half of 2024, we enabled consumers to revisit vehicles they've previously explored and started providing tailored recommendations based on their search history. This personalization has resulted in a 10% increase in lead conversion for recommendations during our testing phase, highlighting the value of offering more relevant vehicle options.

With a 14% increase in direct traffic YoY and 30% of our leads coming from our app, it's essential that we continuously improve the experience across our owned channels. To support this, we introduced cross-platform syncing, allowing consumer activity to seamlessly transition between desktop, mobile web, and the app. We believe this integration coupled with other improvements have boosted shopper satisfaction throughout their journey, driving lead volume growth.

Last, leveraging AI, we've launched over 30,000 personalized car comparison pages, facilitating consumers' decision-making process based on individual needs. The impact has been significant, with users who engage with the new comparison page being twice as likely to visit the Vehicle Description Page vs the prior experience. This powerful tool has proven highly effective, and we plan on refining and scaling it further.

In summary, these changes have driven growth in direct traffic and boosted lead conversion, widening the traffic and lead quality moat that has enabled us to deliver one of the largest, most engaged audiences to our dealer partners.

Three, enable digital transactions.

The shift toward online car buying and selling continues to gain momentum, as consumer preferences keep evolving. Our 2024 Consumer Insights Report revealed that 80% of consumers surveyed prefer to complete more of the vehicle purchasing process from home. However, in-person interactions remain essential: 88% of buyers surveyed saw the vehicle they purchased in person before buying, and 69% preferred an in-person test drive. We believe this validates the market demand for Digital Deal, which seamlessly integrates online and offline engagement.

Digital Deal remains our fastest-growing product in the US. Its penetration further increased 13% QoQ and 105% YoY to 9,570 dealers. Digital Deal with Geographic Expansion, which enables our dealers to extend their reach beyond local markets, grew 10% QoQ and nearly 30% YoY. We have recently launched a new pilot in the US within Digital Deal that enables dealers to receive full shopper credit applications directly in their Finance Management System, providing full visibility into a shopper's financing eligibility and ability to activate hard-pull financing. Furthermore, in November, we rolled out Digital Deal in Canada, where early adoption has been strong, with hundreds of dealers leveraging the platform to engage with higher-quality leads, driving faster and more efficient sales.

Shifting to sourcing, just over a year ago, we launched Top Dealer Offers, a subscription-based product that enables dealers to source vehicles directly from consumers in their area. This is an important part of the dealer value chain and one of the largest drivers of unit economics. As we highlighted last quarter, our priority is to deliver an exceptional experience to both consumers and dealers to establish a solid foundation for scalable long-term expansion. To support this, we are onboarding dealers in a more strategic and intentional manner. Top Dealer Offers continued to experience strong consumer engagement with approximately half a million visitors to our Sell My Car page each month, 40% of whom were also actively looking to purchase a new car.

As we enter 2025, our focus remains on product innovation and exceptional customer experience, as we are committed to equipping our partners with the tools they need to transact seamlessly in a rapidly evolving digital landscape.

Four, rebuild and integrate Digital Wholesale.

In 2024, we focused on three strategic pillars to rebuild our wholesale platform: improving operations, refining our product-market fit, and reigniting our commercial engine.

Improving operations: in the fourth quarter we saw improvement in Dealer-to-Dealer transportation margins, while upholding our high-quality inspection process, resulting in smoother and more reliable operations. These advancements have ensured consistent vehicle quality as evidenced by an uptick in our NPS scores related to vehicle conditions, inspections, and timeliness.

Refining product-market fit: we recognize the need, in a volatile price and demand environment, to offer dealers a higher degree of confidence to drive more predictable and profitable purchasing decisions. With this in mind, we have prioritized updates that leverage real-time market insights to drive better outcomes. In January, we transitioned our insights-driven functionality from a pilot phase to full availability for all dealers, and early adopters have been engaging and transacting at higher rates.

Re-energizing our go-to-market motion: we leveraged AI and insights to simplify the customer onboarding process, reducing the time needed to update dealers' parameters from 60 minutes to just 10 minutes. Our 24-hour service, which enables dealers to view images and condition reports before purchasing vehicles, has also undergone significant improvements, offering dealers valuable data points through predictive analytics that increase their ability to transact confidently.

While we have made substantial progress across all these dimensions, this segment continues to incur losses. We will continue to work towards our goal of restoring profitability, which will involve continued cost optimization and a disciplined reinvestment in our product.

To conclude, in 2024 our marketplace business delivered exceptional financial performance, marked by strong growth and significant margin expansion. We made notable progress on our four drivers of value creation; we enhanced our platform's products, features, and data insights, while leveraging synergies between our retail and wholesale operations. At the same time, we continued to grow both the quantity and quality of leads, further expanding our market share.

We are pleased with our 2024 achievements and look forward to building on this momentum in 2025. As we look ahead, we will remain focused on strategic investments in growth and innovation, embedding our products deeper into the dealer workflow, further solidifying our leadership position across the consumer and dealer ecosystems, and setting the stage for durable growth in the coming years.

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

Elisa Palazzo

Thank you, Jason, and thank you all for joining us today. Similar to prior quarters, my commentary will cover a detailed overview of our fourth-quarter performance, followed by our guidance for the first quarter of 2025.

Fourth-quarter consolidated revenue was \$229 million, up 2% YoY, driven by double-digit expansion of our Marketplace business, partly offset by lower Wholesale and Product volumes.

Marketplace revenue was \$210 million for the fourth quarter, up 15% YoY and in line with the midpoint of our guidance range. The sustained acceleration of our Marketplace business was driven by ongoing strength in subscription-based Listings revenue, which grew \$25 million YoY, reflecting new and existing dealers subscribing at market rates, upgrades to higher subscription tiers, and greater adoption of value-added products and services.

Our global paying dealer count grew to 32,010 dealers, up 326 sequentially as we have continued to gain market and wallet share both in the US and internationally. The ongoing expansion in our active dealer base reflects our customer-centric approach, which has resulted in higher engagement and improved retention and has cultivated long-term, deeper relationships with our dealer partners.

The impressive growth in our International business continued in the fourth quarter, with revenue up 26% YoY, driven by expansion of our dealer base and QARSD growth, which were up about 11% YoY and 17% YoY, respectively. We believe there is a significant opportunity to expand in our international markets, and we plan to invest resources in 2025 that we believe will drive compelling returns across several years.

Wholesale revenue was \$10 million for the fourth quarter, down 55% YoY and down 19% sequentially, driven by a decline in Dealer-to-Dealer transaction volume as we have continued to prioritize unit economics.

Lastly, Product revenue was \$8 million for the fourth quarter, down 55% YoY and down 44% sequentially. This is in line with the commentary we provided last quarter, and reflects the fact that conditions across our origination channels reverted to normal.

I will now discuss our profitability and expenses on a non-GAAP basis.

Fourth-quarter non-GAAP consolidated gross profit was \$199 million, up approximately 14% YoY. Non-GAAP gross margin was 87%, up approximately 860 basis points YoY and up about 400 basis points sequentially. The meaningful margin expansion in both comparison periods was primarily due to the ongoing revenue mix shift toward our high-margin Marketplace business.

Marketplace non-GAAP gross profit was up 17% YoY, and non-GAAP gross margin expanded by about 120 basis points YoY to 93%, driven by a favorable product mix.

In our Digital Wholesale business, sequential non-GAAP gross margin improvement reflects lower amortization costs, primarily related to the discontinuation of the CG Buy Online pilot and other fully amortized projects.

Consolidated Adjusted EBITDA was \$76.4 million, up 25% YoY. Consolidated Adjusted EBITDA Margin was 33%, up approximately 600 basis points YoY and approximately 540 basis points sequentially, reflecting primarily the favorable mix shift to high-margin Marketplace revenue.

Marketplace Adjusted EBITDA grew 27% YoY to \$79.3 million, with margins up approximately 360 basis points YoY and approximately 330 basis points sequentially; the sequential uptick in margins was driven by seasonally lower media spend in the fourth quarter.

Digital Wholesale Adjusted EBITDA loss was approximately \$2.9 million, a \$2.4 million sequential improvement. The QoQ improvement was driven by a reduction in operating expenses, reflecting the reallocation of CG Buy Online-related resources to Marketplace, as well as CarOffer year-end expense accrual reversal. Excluding these items, Digital Wholesale's adjusted EBITDA would have been approximately flat sequentially in dollar terms despite a further reduction in transaction volumes, underscoring our focus on limiting losses and restoring profitability in this segment.

Moving to OpEx, our fourth-quarter consolidated non-GAAP operating expenses totaled \$129 million, up about 8% YoY and down about 2% sequentially, primarily reflecting the seasonally lower sales and marketing expenses I just mentioned, consistent with our expectations.

Non-GAAP diluted earnings per share attributable to common shareholders was \$0.55 for the fourth quarter, up \$0.20 or 57% YoY reflecting primarily the increase in consolidated adjusted EBITDA and lower diluted share count.

We ended the fourth quarter with \$304 million in cash and cash equivalents, an increase of \$57 million from the end of the third quarter. The higher cash balance was primarily driven by \$76 million in Consolidated Adjusted EBITDA, partially offset by \$14 million in CapEx and capitalized website development costs and \$5 million in other net cash outflows.

Throughout the year we repurchased a total of \$146 million worth of shares. As a reminder, the \$200 million 2025 share repurchase program we announced in November became effective in January.

Last, we are pleased to report that, as of December 31, 2024, we have remediated the material weakness at CarOffer.

I will now close my prepared remarks with our guidance and outlook for the first quarter of 2025.

We expect our first-quarter Consolidated Revenue to be in the range of \$216 to \$236 million, flat to up 9% YoY, respectively. We expect our first quarter Marketplace revenue to be in the range of \$209 to \$214 million, up between 12% and 14% YoY. We anticipate revenue to be slightly up sequentially at the midpoint, as we expect strong bookings to be offset by seasonal fluctuations in OEM advertising revenue, as OEMs typically ramp their ad spend in the fourth quarter and dial it down in Q1, and unfavorable currency impact quarter to date. Moving to Digital Wholesale, we expect first-quarter volumes to decrease sequentially, as we have introduced a number of changes in our offering and we are currently validating product-market fit; we remain focused on cost efficiency and unit economics with the aim of returning the business to profitability.

We expect our first-quarter non-GAAP consolidated Adjusted EBITDA to be in the range of \$60 million to \$68 million.

In the Marketplace segment, we expect margins to be up YoY but down sequentially as we ramp up our media spend in the first quarter due to the launch of our new brand campaign, called Big Deal. Going forward, we expect operating expenses to increase modestly through the third quarter, as we continue to invest in new products and innovation, and expand our international business, but to progressively decline as a percentage of revenue throughout the year.

For Digital Wholesale, we expect segment EBITDA losses to increase sequentially as we expect lower transaction volumes to be in part offset by lower operating expenses.

Finally, we expect first-quarter non-GAAP earnings per share to be in the range of \$0.41 to \$0.47, and diluted weighted-average common shares outstanding to be approximately 107.0 million.

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

Operator

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

The first question comes from the line of John Colantuoni from Jefferies. Please go ahead.

Vincent Kardos

Hey, it's Vincent Kardos on for John today. Thanks for taking my questions. One on Digital Deal. Maybe just digging a bit deeper on what the new financing functionality you're piloting adds for dealers, and any early observations on uplift to lead conversion, and how performance has compared to your expectations, for the feature thus far? Then one on the macro. Just if you consider a scenario in which tariffs wind up posing a material headwind to the affordability of new cars for consumers, just help us think about the potential secondary and tertiary impacts for the various components of your business, please? Thank you.

Sam Zales

Thanks. It's Sam Zales. I'll take the first one and turn it to Jason on the second one. Thanks for asking about Digital Deal. You saw in the prepared remarks, couldn't be more proud of that adoption, our fastest product adoption, close to 10,000 customers on that platform, not quite 10,000 yet. That is a sign that our customers are finding a down-funnel shopper. Those who are doing trade-ins, setting appointments, moving further down the sales funnel, to make a deposit. But this new capability we created—and I want to be clear, it's just in pilot right now—is what we call direct credit app, if you will. That's an internal way of speaking to it, which is allowing us to integrate into dealer financing systems, directly into the financial management system and allowing a dealer to say, if I have a set of financiers, who are different than the ones that CarGurus might work with on the soft-pull financing, here is a direct credit app process that funnels the consumer straight through that financial management system, with the lender they might be using. That dealer might be preference to or choose. We found that that is a really interesting pilot program.

We still have our hard-pull financing capability with our lenders that we allow the dealers to use. But this is now one extra step in the process of listening to our customers' needs, finding a better consumer experience, and then, importantly, creating more down funnel shopping that turns into the transaction. You saw in our remarks, 80% of consumers want to do more online. This is just one more step that brings a ready-to-buy purchaser into the hands of the dealers. We think that's going to continue to fuel—we hope that will continue to fuel better and better results in our Digital Deal product, by offering more.

Jason, you want to take part two?

Jason Trevisan

Sure. I mean, on tariffs, obviously, a lot still to unfold and see how it impacts midterm. We think there will certainly be a shift among new car brands based on the percent that is manufactured in the affected countries. But it's also about parts too. It will probably have an effect on nearly every car that's manufactured. There will be a shift among new, and we do think there will be a shift to used from new as well.

As the shift in demand goes to used, the key question then is, how quickly do those prices rise? If the prices rise significantly enough among dealers such that turn times go down—I'm sorry, such that turn times go up, then that tends to help our bookings in our subscription business, as it's harder for dealers to move cars. If prices don't adjust quickly enough, and the demand is there and turn times improve, then we don't think we'll see that tailwind that we otherwise would. A lot of factors at play, and we are in a wait-and-see mode, but we continue to serve dealers in good times and bad times, with a very ROI-focused sales model, as you know.

Operator

John, does that answer your questions?

Vincent Kardos

Yes. Appreciate the answers. Thanks, guys.

Operator

Thank you. Ladies and gentlemen, please limit yourself to one question and one follow-up question. We take the next question from the line of Ralph Schackart from William Blair. Please go ahead.

Ralph Schackart

Good evening. Thanks for taking the question. You had a really strong quarter in net dealer additions both in the U.S. and International. Maybe just give us a little bit more color on some of the drivers there in the quarter. Then just maybe more broadly, as we think about marketplace revenue growth in 2025, you're facing tougher comps. Obviously, the business is doing well. But maybe help us think about the drivers there and thoughts on sort of overall growth profile in 2025? Thank you.

Sam Zales

Thanks, Ralph. It's Sam Zales. I'll take the first and turn it over to Elisa for the second. We are really, really proud of the results we're attaining in both not just new customers, our retention of our customers and the QARSD growth that you're seeing in the business, which fuels all of that expanded revenue growth for our marketplace business.

I'd call it on a couple of things, Jason just said it. You start with the first, which is we're renowned now as the ROI provider in the market. You've seen that in our studies, and I think that delivery of that kind of ROI compels dealers, to say in good times and bad. The fourth quarter was sort of the surprisingly sort of strong market, for our dealers selling used cars, they wanted to be in the number one platform. They want to be on the ROI-delivering platform. Importantly, I want to be on the premium tiers of that platform.

We won those businesses, and retained them in that acquisition effort, because of those things. I think number two is we're providing insights that are completely different to dealers in the marketplace. What

Jason mentioned in the script on Dealer Data Insights, these are actions that literally help our new customers, and existing customers recognize how to get more exposure on our site.

With Next Best Deal Ratings, you're seeing customers make price changes that fuel profits for them, but get them more VDP views, our vehicle detail page views, more leads and quicker turn times. When you have that kind of insight that you can use for both existing and new dealers, it provides a differentiated customer experience and drives them onto our platform.

The last is we talked about our account management process. I think we're becoming renowned as not just the ROI provider, but a dealer who is providing differentiated experience to help dealers grow their business, to increase their profitability of the business. As I've heard from every customer in the marketplace, those who give me unique insights, I will give my biggest share of wallet to, and I think that's what's driving those results overall. I'm really proud that, we're not just selling the best product in the market.

I'll share one last point. Last week, we had our sales and service kickoff, and had a series of dealers come in, a set of dealers come in to speak to us about things we could do differently and better, and things they really appreciate from us. The comment I'll just share with you that was most prideful for me is that those dealers in unison said, this is a culture of an organization that continuously thinks, how can I help dealers create better results for their business, and that compels me to think about working with you long term. Those are all the reasons we're seeing those net acquisition results really expand both in the U.S., and our U.K. and Canada businesses.

Elisa, you want to take purchase?

Elisa Palazzo

Yes. Thanks, Sam, and thanks, Ralph, for the question. We are continuing to experience sustained and positive momentum in our marketplace business, and we anticipate growth to continue to be strong in 2025. For the first quarter, we guided for growth to be between 12% and 14% year-over-year. That is a sustained pace of expansion against a much tougher comp. For the rest of the year, we expect growth to taper down modestly, as comps get increasingly more demanding, particularly in the back half of the year.

Ralph Schackart

Great. Thanks, Sam. Thanks, Elisa.

Operator

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

Rajat Gupta

Great. Thanks for taking the question. Jason, I think, I noticed in your press release that you had a comment that dealers are consolidating spend towards high-yielding marketplaces. I was curious, if you could shine any stats around that. What percentage of your dealers today have like two marketplaces, versus maybe three before? Anything you can share on that front to help us understand like how this has evolved over the last few years, how your value proposition has evolved with those specific dealers? I have a quick follow-up.

Jason Trevisan

Sure. Thanks, Rajat. I don't have data on it. I would say there's a couple of things happening. One is there's two levels of consolidation. One is there's just consolidation—continued consolidation among dealers. Just here based in Boston, there's recent news of a large regional acquisition by Asbury, and that's just one example of many right now. It is a pretty active M&A market in dealer land right now. We view that as positive, because the more sophisticated the dealer group, the better they can understand, how to get the most out of our platform, and the better they typically tend to understand ROI, and we shine, we think, in both those dimensions. There's that consolidation.

Then at a given dealer group, from a spend and channel perspective, I think there's just a theme, and this is related to sophistication. But there's a theme of focusing, as you said, on the high-yield areas and on simplification. Again, you'll hear dealers to a person talk about the hundreds of opportunities that they are pitched on from a software and marketing perspective. It's just overwhelming, and I think coming out of COVID, a lot of them have said, we want to consolidate to a smaller set of channels, a smaller set of partners and service providers, and invest more deeply in them.

As the market leader from an audience perspective, and then as Sam mentioned, we're adding more and more tools. We're getting dealers to use our products, and our insights on a daily basis, instead of just accepting the leads into their CRM, and they are understanding and appreciating the ROI better. I would say anecdotally, we're hearing and we're seeing dealers say in U.S. and increasingly in Canada, and we're starting to hear in the U.K. too, for the first time, look, we have gotten comfortable that we can drop other partners and focus exclusively with you, CarGurus.

Rajat Gupta

Got it, got it. That's helpful. Maybe just a follow-up on Digital Deal, and you brought up Asbury. It came to my mind, like Asbury, for example, they're switching their DMS to a new partner, you might know. I'm curious with some of these changes are happening in the industry, is there any thought around you integrating CarGurus' platform, including Digital Deal, more closely with like the DMS systems, and also maybe like some of these new and upcoming DMS providers? Is that a value-added solution that you could provide over time, just to make the product more, I would just say just more—embed that product more into the dealer network? Thanks.

Jason Trevisan

Sure, I can take that as well. You've heard us, I'm sure, talk about the fact that we are becoming a broader product portfolio to dealers. You've also heard us talk about how we're orienting around the dealer workflow. The key stages or steps of that workflow are that dealers need to source cars, price them, manage the inventory, market them and sell cars. As we think about that workflow, we are now providing, at a minimum, insights to them on each of those steps, and at a maximum, functionality in each of those steps in some cases.

Incumbent on doing that, is integrating with other systems that they have. That might be another pricing tool, or an inventory management system. It's certainly a CRM. Sam gave the example in Digital Deal. It's our financing platform. Occasionally, it is a DMS as well. Integration, as we expand our product portfolio, integration is a growing component of what we're doing. We know that dealerships are unique in how they operate, but they're reliant on a core set of CRM, and IMS and DMS. In order to be part of their daily workflow, which we're now becoming, which we used to not be, we do need to be integrated into those.

Rajat Gupta

Got it. Makes sense. Thanks for taking the questions and good luck.

Operator

Thank you. The next question comes from the line of Marvin Fong from BTIG. Please go ahead.

Marvin Fong

Great. Good evening. Thanks for taking my questions. Just sort of to build on the earlier question about the macro, I'd just like to focus on the dealer side of that. You had a great quarter in terms of dealer adds. But as we sort of moved into January and February, are dealers at all pausing or being hesitant, in terms of the volatility in the headlines? I know Jason, you just mentioned that, this could actually turn out to be CarGurus' benefit, but just curious if it's making any of the sales discussions, changing that dynamic at all.

Then second question, just on CarOffer, I know the turnaround effort continues, and you continue to build that out. I guess just maybe in very simple terms, what inning would you say we are in terms of the time, or bringing that platform to the point, where you feel ready that you can sort of, unleash that in a full body way? Thanks a lot.

Jason Trevisan

Thanks, Marvin. I'll take the first, and then I'll let Sam take the second. The short answer—in Q4, I would say, and we had shared this, in Q4, we did hear a little bit of hesitation among dealers related to the election, and then that came and went in Q4. We won't speak much to Q1 at all really. But I would say, anecdotally, we and others have seen that, dealers are not very reactionary right now, to potential tariffs. I think most of that part of the industry is simply in a wait-and-see mode, and as you wait and see, just go about your sort of normal operations. But embedded in that are the themes that I just shared in terms of consolidation, to the largest and most sophisticated platforms.

But I do think that there are other trends created by some of the macro factors that do affect dealers. For instance, in Q4, retail sales were up really nicely, about 10% roughly year-over-year. New inventory was up really big year-over-year, and days on market, as a result, went up significantly. I think those are more of the day-to-day factors that dealers are dealing with. They're trying to run a hectic, and active business in the moment, and what's going to be much more pressing to them is if they have cars piling up in their lot, not if there might be future tariffs.

Sam Zales

Marvin, I'll take part two. Gosh, it's a good question. I love sports, I wish I could give you an inning reference for CarOffer. I'd probably say early innings still. Why I say that is that we are reimagining the platform. Let's step back to our bigger premise here, which is we believe that sourcing vehicles, as part of what Jason just said, source, price, market, sell is an exceptionally important and probably the number one pain point, for 100% of the dealers that are out there today.

How do I acquire inventory? How do I acquire late model inventory? How do we make it profitable for my business so I can turn times, and move them quickly? Because we have unique sets of data, we've got the consumer demand data that we're matching to pricing data, where we see both retail and wholesale, and the ability to tie that into a transaction capability, we believe CarOffer has a unique and unparalleled opportunity to make success in the marketplace long-term.

What we're doing right now is focused on those areas that we've mentioned on previous calls. First is we're managing our OpEx. We've got to be smart and thoughtful about what the operating expenses are of that business, given that we have a slow transaction volume right now.

Number two, is we're improving the operating margins of our business, by improving our transportation times. Still improving our inspection that we're really proud of is, the operating margin of that operations capability, and the inspection and condition of vehicles is a positive. It's growing more positive for our customers, and our NPS scores. Most importantly is that we're working on our product-market fit. That would be something that, you've known for years looking at our business. The instant trade platform works great in some environments and for some segments of the market, it works better at other times, when the market pricing is going down, for other sets of the market.

What we think we found though, is something truly unique. We talked about it. It's very early stage, I don't want to get ahead of ourselves. But the insights capability we're providing to dealers, we're showing them, and recommending based on their particular vehicle history, and turn times in their market, the consumer demand in that local market. Think of us being the player in the market, show them what vehicles are selling more in that market, or in highest demand, making recommendation then for the sourcing, or disbursement of vehicles, depending on what is that market demand, and helping them improve their turn times and profitability.

We're seeing in the early stages of launching this new insights capability to a small set of our customers, that they are finding this to be a better path to engagement on the platform, a better retention of them buying regularly, and we think that holds promise for us, for future product development and go-to-market needs. When we take that to our new customers, and I say that to you that knowing that, many of our CarGurus customers have never been on that CarOffer platform, to give it to the ideal larger customers, and let them see this capability and the insights and the unique data that we're providing for them and making recommendations on which purchases to make, we're finding that those customers are saying I've never seen anything like this before in the market. I'd love to take a look and try.

This gives us promise. It's been several quarters. We're continuing to work on that. It will take us several quarters going forward to continue to improve this process. We believe we'll run a profitable business longer term, but we've got that early innings to get us to where we want to go.

Marvin Fong

That's great color, guys. Thanks, Jason and Sam, appreciate it.

Operator

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

Ryan Powell

Hi. This is Ryan Powell on for Naved. Thank you for taking my question. We wanted to ask on OEM adds. Obviously, in the letter, you talked about being up double-digits year-over-year. Just we're wondering about trends through quarter-to-date, and also like what you guys are thinking about for 2025. Thank you.

Sam Zales

Thanks, Ryan. It's Sam Zales. I'm not going to talk about quarter-to-date. I'd just say that we're really, really proud of the advertising business for a number of reasons. One is when you look at the growth in our visitor base, and the position that we're in, in the market of continuing that growth pace in the market, that is very hard for an OEM not to recognize this is the largest consumer audience that, they have an opportunity to market to. Number two is we continue to refine our advertising operations to provide better targeting. You'll know that we are not like our competitors, and that there are not a significant number of

ads on a page. They're not competing with other places on the site that are pulling eyeballs away. They look at that as a preference.

Then most importantly, our team. We've got an incredible team of client managers that has worked with these OEMs through hard times in the last several years. There's not a lot of inventory there. They're not going to be advertising. But in, as Jason said, the run-up of more new inventory available, incentives become more important, and they want consumers to take a look at their new vehicles. I'm really, really proud to say we retained, as we said in our remarks, retained all of our customers, and brought back new ones, who had stepped outside of the advertising arena and said, we're not doing anything for a couple of years, and brought them back.

That said we're very confident. We're really proud of what we're doing, and I hope that gives you a sense of, without telling you numbers in the first quarter, where we stand, we're optimistic and hopeful that will continue.

Ryan Powell

Thank you.

Operator

Thank you. The next question comes from the line of Nick Jones from Citizens JMP. Please go ahead.

Nicholas Jones

Great. Thanks for taking the questions. As we think about, I guess, industry normalization, and you guys are driving leverage in the model, how should we be thinking about your sales and marketing plans, or advertising plans? Are there certain channels that are becoming more appealing? We've heard a lot of folks, kind of leaning into social and CTV, away from maybe search and linear. Is there any insights on how you're thinking about marketing, from here? Then I have a separate question around AI.

Jason Trevisan

Sure. Thanks Nick, it's Jason. You've heard us talk a lot about our direct audience and our direct traffic to our site and the growth in our app, from both an audience and customer satisfaction and lead generation perspective. A lot of that is—it's a function of both product and marketing. But from a marketing perspective, it's largely driven by us doing a better job, communicating a brand that is more memorable and differentiated, to our consumers. That type of marketing execution is largely done in channels like television, like online video and less around what would traditionally be known as performance marketing. It's also frankly driven by better execution in relationships, and consumer life cycle marketing, once we have attracted a consumer initially to the site.

You've heard us talk about us doing more personalization, more synced experiences across platforms, and all of that feeds into a more engaged customer that stays with us longer, and then is more what we would then put into the bucket of direct traffic. The channel shift that is underpinning that is one that is intentional one that is more towards things like online video, endorsement opportunities, television rather than traditional performance marketing.

Nicholas Jones

Got it.

Jason Trevisan

Then you said you had a question on AI?

Nicholas Jones

Yes. There's a lot of focus on Agentic AI and OpenAI's operator. Just curious, the focus, as large as it's been, I think, on the travel industry and maybe booking reservations. But it would seem kind of a friction point for folks trying to buy cars is scheduling appointments. Some people may not know the car they want out the gate. Maybe they know they want an SUV, but they don't know which one. I mean, how do you see a place for Agentic AI in the auto industry? How do you feel CarGurus is positioned to be a top player there?

Jason Trevisan

Yes. We think it's a huge opportunity, frankly. You've heard us talk about thinking about AI applications in three ways. One is improving existing products, the other is creating entirely new products, and the third is improving the productivity of our own team. You've also heard us talk about how we've built our own OEM gateway and our engineering and product teams, in particular, are adopting a lot of AI companion technologies, in order to think in a more agentic way.

I would say the most direct application, based on what you're describing is a pilot that we've talked about. It's like a virtual assistant. It's like an agent, and it allows a user to engage with our own data in a conversational way to not just find the car that is best for them, once they already know the make and model, which is typically and traditionally how consumers have used our site. But instead, it helps them, when they're in an upper funnel mode, to identify what type of car, what type of make and model they would want, and then point them to the right actual car or the best car for them.

There are two benefits to that. One, it helps us capture users when they're earlier in their shopping journey. Two, it allows us to gather and collect a lot more information, self-supplied information from that consumer, to give them better personalized sort, but then also to appropriately share that with the dealers, because when you're giving the dealer much more information on the thought process of the consumers, they're going to be able to serve that lead better, and convert that lead better. We're seeing—it's early for us, but when users are given the opportunity to engage with an agent, they are engaging really deeply. Then they're a much more qualified lead, by the time they get to a dealer, let alone the benefits that we're able to give them in terms of personalizing the sort and search.

We are firm believers of it. We're seeing the traction in some of our early work. I don't know how to compare it necessarily to travel, but I think you're right to say, and we think about the fact that there are a lot of parallels.

Nicholas Jones

Got it. Thanks a lot, Jason.

Operator

Thank you. The next question comes from the line of Chris Pierce from Needham & Company. Please go ahead.

Chris Pierce

Hey, good afternoon everyone. On your Slide 4, the better consumer experience, I think you had a product called Featured Listing. The personalized comparison pages or the personalized search recommendation, is that something you're monetizing now, or could monetize through dealer listings? Or right now, it's just to drive a better consumer experience?

Jason Trevisan

Let me try to clarify, Chris. From what I could hear you talk about comparison pages, personalized search results, and then also features?

Chris Pierce

Yes. Is there a way to take these personalized recommendations, and show specific cars, to have dealers sort of be part of this program, and then monetize that? Or right now, it's just about the consumer side of the world?

Jason Trevisan

I understand, okay. I would think about the dealer side sort of product-level monetization of it, as still largely if not exclusively, in our featured and featured priority model. The personalized and AI-enhanced search results in sort order, you can think of that in the, call it, organic listings. But what it's doing is resulting in more engagement from consumers, and then them being more likely to be a lead to a dealer. Then most importantly, it's also improving the quality of our leads to dealers because consumers are submitting themselves as leads on a more likely unit.

We're tracking this all the way through. It's not just conversion off our site. It's also about conversion all the way to the dealer. When we talk about lead quantity and lead quality, and striking that balance, personalized sort and search results are feeding and helping improve both of those.

Chris Pierce

Okay. Thank you. Then just lastly, you shared some stats, 69% or 65% of the vehicles you recommend to dealers, they're buying and they transact in a certain amount of time, that's positive. Are you recommending vehicles that you're seeing on other wholesale platforms, because of the retail/wholesale data that you have? I just wanted to make sure I understand the recommendations you're able to make.

Sam Zales

Thanks, Chris, Sam Zales. No, we're not recommending a specific vehicle for them to buy. We're giving them a make and model they should buy to drive their profitability. We're seeing tremendous adoption of this acquisition insights report, in terms of how it creates an impetus to say, I want to grow my profits. My biggest problem right now is sourcing inventory. Here are the vehicles you should be looking to purchase, because they will be successful in your local market.

We're able to track those VINS and watch them through the process, and seeing them then sell and resell, and looking at the turn times for those and the profits and saying, wow, our dealers are reaching out to us saying this is a tool I haven't seen before. It's a premium product so we're offering it with our premium capabilities. But we're seeing that kind of engagement that once you give me the recommendations, I'm going to go out and purchase. You're going to see it in my inventory feed, and then they're able to turn those vehicles more effectively.

This is all this concept of putting data together with sourcing, marketing and selling. If we're providing that kind of insight to dealers, we think that's a really sticky initiative for them.

Chris Pierce

Okay. Thanks. Thanks both.

Jason Trevisan

Then you can imagine—just to finish out that point, you could imagine then, Chris, as part of the vision that Sam just referenced that, we then point them to actual cars, that sit and sell on CarGurus.

Chris Pierce

I figured you'd put that in there. I appreciate it. Thank you.

Operator

Thank you. The next question comes from the line of Doug Arthur from Huber Research Partners. Please go ahead.

Douglas Arthur

Yes, I'll save my question for the follow-up. Thanks.

Operator

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

Tom White

Great. Thanks for slipping me in here. Just a question on the account management enhancements that you discussed. Sounds interesting and maybe it's kind of a logical evolution for a marketplace like yours. I mean, do you envision—I guess I'm just trying to think about how this evolves over the next couple of years. Like do you envision having to hire more folks if this expands? Are we moving towards a day, when the dealers that opt in for this enhanced account management, and start handling the leads, the best optimized way that you guys kind of point them to, etc., are they going to get kind of a significantly larger share of overall platform leads sent their way, because it will have a better consumer experience? Just kind of trying to understand, the sort of how this evolves. Thanks.

Sam Zales

Hey, Tom, it's Sam Zales, and I'll turn it to my colleagues, for more color if needed. I think we're looking to make every customer more successful and reap more profits out of our lead management program. I think it may help some dealers, who adopt some best practices get more share and grow, and continue to have more investment to make, to find a bigger share. But our hope is this works universally. At some point, it's productized to allow all customers to take these best practices and make their lead management process as effective as possible on CarGurus.

We're doing three things. The first is just the general account management effort. I'd love to call out, since I have a minute just to say how effective our account management organization has been at retaining and growing our customer performance with us. As an example, we changed our onboarding process to look

at the retention of customers in their first 90 days in the platform. For many customers, it's a process management change, to take our leads in and do something different with them, than they might not do with any other partner in the marketplace. We went officially and aggressively after that and saw tremendous results in our retention of that early stage of our customer base to do that.

The second is we're enhancing, using the DDI processes, the Dealer Data Insights. Those four reports we've talked about, Next Best Deal Rating, max margin, merchandise health and acquisition, insights reporting, taking those and using that as a natural part of our consultative selling process, and we wanted to make sure that changes the way those partners of ours in the dealer community look at us as a consultant, not just a provider of leads going forward.

The final is that new account organization we've started at very small scale, really incredible group of people who've worked in retail, and they are now going out to a broad set of our customers and taking best practices from across our dealer base and providing one-on-one consultation with those customers, not only in the new products we've offered like Digital Deal and Top Dealer Offers, but in general, how to optimize your lead management system.

You're asking a good question. We think that can grow. We're looking at, we believe, internationally that could be really helpful as well longer term. But more importantly, it is something we want to productize—and not say we're going to hire an army of people—we'll take this process we've learned, templatize it, and give it to as many customers as possible long term. Hope that gives you some sense of how proud we are of the account management process.

Tom White

Thank you.

Operator

Thank you. The next question comes from the line of Ron Josey from Citi. Please go ahead.

Jamesmichael Sherman-Lewis

Hi. This is Jamesmichael on for Ron. Just a quick one from me. In the prepared remarks, you alluded to investing more in 2025 to drive international growth. What form will those investments take? How should we think about the long-term payback, or impacts to marketplace margins?

Elisa Palazzo

Thanks, James. We see a very compelling opportunity to continue to invest and gain market share in our international geographies. We are focused primarily on two areas, go-to-market and marketing, in order to continue to better serve our customers and provide more value to them. We believe that, that is an investment that will pay off and is very, very compelling, not only financially, but also in terms of future growth and truly market leadership.

Operator

Thank you. The next question comes from the line of Joe Spak from UBS. Please go ahead.

Zachary Walljasper

Hi. It's Zach Walljasper for Joe Spak today. Two for me. First is around capital allocation. Free cash flow margin, free cash flow conversion all seemed quite strong and have been growing past few quarters. Like how should Investors think about capital location? I was surprised that there were no share repurchases in the quarter. Or is the team maybe looking to expand or how does the team think about expanding even organically? Then my second question is just around from headlines a few months ago, but Amazon entering the automotive dealer space with Hyundai. Granted it's only one OEM and there's more yet to be seen, but how do you think like the CarGurus platform is positioned for maybe a potential Amazon entrance? Thank you.

Elisa Palazzo

Thank you, Zach, for the question. You asked about margins and capital allocation. First on margins, we anticipate margins to be sustainable in 2025 on an annual basis despite a significant level of investment in growth and innovation. We just underwent a very thorough planning process, and we have identified three areas of investment. The first one is product innovation, the second one I just spoke about it is expansion in our international market is extremely compelling. The third one, Jason spoke to this, is brand virality, which over time should also continue to drive our efficiency in our marketing spend.

Coupled with that planning process, also comes together capital allocation, so we constantly evaluate all the investment opportunities in three buckets, organic internal, organic external, and then returning capital to our shareholders. We currently have a repurchase program for 2025 is \$200 million. That will remain active for the next 12 months. We will buy back shares as we see fit in the next few months. But again, it's constantly considering the more compelling opportunity. Currently, we are investing in our business, because we're seeing very, very compelling returns there for the long term as well.

Jason Trevisan

On Amazon, this is Jason. Yes, as you pointed out, they're new-car focused with one OEM only. Their flow, which I'm sure you've probably gone through, the consumer still goes to the dealer. Used cars versus new cars are just a different beast for a lot of reasons. The consumer shopping habits are very different. But I would say the bigger difference is on the dealer side. You need to integrate with dealers, not OEMs. Rather than 10 OEMs, 12 OEMs that matter, you've got 40,000 dealers. You need to integrate with them appropriately, and that's hundreds of integrations, and it's just a very fragmented audience, where you need their trust in order to believe that the leads you're sending and that the data you're giving is accurate.

Look, I would never ever discount or underestimate Amazon as a formidable competitor. But we think it's understandable, and sensible that they're focused on new to start. That's a cleaner market and value chain, and we think used is quite different, and we think our leadership position in used in a two-sided marketplace is a really good point of strength to build off.

Zachary Walljasper

Great. Thank you so much, guys.

Operator

Thank you. As there are no further questions, I would now hand the conference over to Jason Trevisan for his closing comments.

Jason Trevisan

Thanks very much. We'd just like to thank everyone for joining. As always, thank you very much to our shareholders and customers as well, and most importantly, thanks to our employees for their hard work, dedication and passion that is allowing us to achieve such outstanding results. Have a good night, everyone.

Operator

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