CarGurus, Inc.

Third Quarter 2024 Earnings Results Conference

November 7, 2024

CORPORATE PARTICIPANTS

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

Jason Trevisan, *Chief Executive Officer*

Elisa Palazzo, *Chief Financial Officer*

Sam Zales, *President and Chief Operating Officer*

CONFERENCE CALL PARTICIPANTS

Marvin Fong, *BTIG LLC*

Nicholas Jones, *Citizens JMP Securities LLC*

Rajat Gupta, *JPMorgan Chase & Co.*

Douglas Arthur, *Huber Research Partners*

Zachary Walljasper, *UBS*

PRESENTATION

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 Kirndeep Singh, Vice President and Head of Investor Relations. Please go ahead.

Kirndeep Singh

Thank you, Operator.

Good afternoon. I'm delighted to welcome you to CarGurus third quarter 2024 earnings call.

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

During the call, we will be making forward-looking statements which are based on our current expectations and beliefs. These statements are subject to risks and uncertainties which could cause our actual results to differ materially from those reflected in such statements. Information concerning those risks and uncertainties is discussed in our SEC filings which can be found on 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, Kirndeep, and thanks to all of you for joining us today.

We're extremely proud of our third quarter results. Our marketplace revenue growth further accelerated, and our impressive revenue performance, combined with flat operating expenses, drove consolidated Adjusted EBITDA above the high end of our guidance range. We are executing well against our strategic priorities as we have continued to provide increasingly more value to our dealer partners. As a result, we are outperforming our competitors and gaining market share in the broader auto marketplace industry.

We continue to build a transaction-enabled platform that leverages our unique and extensive consumer data to deliver actionable insights, tools and functionalities for our dealer partners, supporting them in their daily decision-making processes. Simultaneously, we are deepening our connection with consumers and enhancing the shopper experience across our channels. Together, these efforts are growing our wallet share among dealers while leveraging our existing cost base to increase operational efficiency.

Importantly, our strong execution this quarter allowed for continued robust investment in innovation and a new product pipeline while we delivered ongoing earnings growth.

In the third quarter, we continued to strengthen our executive team, attracting exceptional talent to CarGurus. In September, we welcomed Jennifer Hanson as our new Chief People Officer and Mike O'Hanlon as our new Chief Revenue Officer. We are thrilled to have Jennifer and Mike join us and contribute their expertise to our team.

Like last quarter, I'll begin with a high level summary of our financials, followed by updates on the progress we've made across our four drivers of value creation. We ended the third quarter at the high end of our forecasted revenue range and exceeded consolidated Adjusted EBITDA guidance range. Our non-GAAP consolidated Adjusted EBITDA grew 33% year-over-year, and margin expanded about 590 basis points year-over-year to 28%.

Marketplace revenue accelerated again this quarter, delivering 15% year-over-year growth or $26 million year-over-year expansion, despite comparisons to prior year results getting increasingly difficult. Growth was driven by ongoing expansion in revenue from new dealers adds globally, migration towards higher subscription tiers and greater adoption of value-added products and services. Marketplace EBITDA grew

36% year-over-year, with margins expanding approximately 540 basis points versus the prior year period to 34%.

Our international business was again a great contributor to our performance, as we continued to experience strong momentum with revenue growing 23% year-over-year. In Canada, we further expanded our traffic share and continued to experience session growth ahead of our competitors. We grew our dealer base and market share in both geographies and replicated our domestic playbook to introduce new products such as digital deal and next best deal rating.

Finally, our OEM advertising business delivered two consecutive quarters of double-digit year-over-year revenue growth as the level of new car supply continued to normalize. New cars' days on lot is increasing, and OEM advertisers are ramping up their efforts to target in-market shoppers for both traditional and electric vehicles.

The strong results we achieved in the third quarter highlight the ongoing progress across our four key drivers of value creation, a dedicated focus on delivering greater value to our dealer partners, consistently enhancing the consumer experience, enabling online transactions, and rebuilding and integrating our wholesale business.

I'll now share more details on each. Provide more value to dealers. Core to our DNA is relentless product innovation, as we seek to enhance the value proposition we offer to our dealer partners, enabling them to source, market and sell cars efficiently and effectively. In yet another third-party survey, CarGurus was ranked number one among dealers surveyed for providing the best ROI. Nearly three times as many dealers in the same survey ranked CarGurus number one in ROI versus our next competitor. We're confident that offering an integrated platform with tools, insights, and services across the transaction lifecycle will continue to drive adoption, boost engagement and increase retention.

In the third quarter, we concentrated our dealer efforts across three key areas. One, enhance our existing product offerings, resulting in greater engagement across our dealer base. Two, deliver more reports and functionalities that increase the adoption of our dealer data insights products. Three, introduce new services that deliver value beyond leads to our dealer partners. As a result, our listings revenue grew by 15% year-over-year, driven by net dealer adds at market rates, migration toward higher subscription tiers, and greater adoption of value-added products and services.

Starting with our existing products, in the third quarter, we launched a major feature for Highlight, one of our longstanding products that allows dealers to promote their inventory at the top of search result pages. With the most recent product update, dealers have the flexibility to optimize for multiple variables, including market factors like most days on lot, newest inventory or model, market day supply, and many more. Since implementing this update, we've seen an increase in dealer adoption and engagement.

In our Dealer Data Insights initiative, we have released several reports and functionalities in recent quarters. Next Best Deal Rating, Acquisition Insights Report, Maximized Margin, and Merchandising Health report. Nearly half of our eligible paying dealers in the U.S. utilize insights from Next Best Deal Rating, and our average dealer adjusted prices based on our recommendation 70 times during last quarter. Since its launch in Q4 2023, we have observed over 1.7 million price adjustments based on our recommendations.

We also recently introduced Next Best Deal Rating to our international paying dealer base, and early engagement has been tracking similarly to the rapid uptake we have seen in the U.S.

Last, our partnership with dealers extends well beyond the high volume of leads we deliver. We have become a strategic consultative partner, collaborating with our customers throughout more stages in their workflow. In fact, we have a dedicated team focused on direct in-person dealership level training and engagement, which helps dealers implement best practices for lead handling, resulting in higher lead conversion rates, improved close rates, and better ROI on their spend.

To conclude, our dedication to providing more value to dealers and embedding our services into their workflow has led to increased spend, stronger retention, and willingness to establish longer-term contracts. More than half of the dealers who have been with us for more than two years have increased their spend with us through listings upgrades and adoption of value-added products globally has increased by 60% during the last two years. Additionally, approximately 40% of all contracts signed this quarter were six months or longer.

Build a better consumer experience. Improving our consumer experience throughout the entire vehicle buying and selling journey remains a top priority for us. We're making strides to deliver an experience that truly meets consumers' needs every step of the way. This past quarter, we focused on enhancing our website and mobile app to give consumers a faster, more seamless journey to find the right car. The results show that our efforts are resonating, as we saw a double-digit increase in direct app and website sessions, and conversion has increased across owned channels.

Our mobile app, which is now rated an industry-best 4.9 stars on iOS, continues to be a powerful tool for consumers, driving nearly 30% of our leads and showing very deep engagement with two times the conversion relative to web. Recent updates have made browsing even more intuitive, with swipable photos in search and an upgraded lead submission experience, including streamlined options that make connecting with dealers faster and more intuitive than ever. These updates, along with a growing user base, reflect our dedication to delivering an app experience consumers love and rely on in their car search.

Beyond the app, we're delivering an improved website experience that keeps consumers coming back. In the third quarter, we formally launched a new homepage along with rebranded key pages, including search results, vehicle detail and post lead pages to address key pain points identified through extensive consumer research. These changes bring a new level of consistency and ease of use, boosting consumer satisfaction and confidence in their car search.

We've increased personalization features, so we're helping returning users pick up midstream where they left off with tailored recommendations and relevant vehicles. This personalized experience is resonating with shoppers, driving a 10% increase in lead conversion on recommendations, a testament to the value consumers are finding through a more tailored search experience. With these updates, we're not only helping consumers find the right car faster with greater confidence, but we're also helping them connect with dealers more effectively, as seen in higher lead volume and growth and other high intent leads.

These efforts underscore our ongoing commitment to creating an automotive marketplace that's as easy and enjoyable for our consumers as it is effective in buying and selling for our dealers. We ended the quarter as the number one visited listing site, with 58% more average monthly visits than our closest competitor. With the largest dealer network and widest inventory selection, we continue to attract our market leading high intent audience, achieving a monthly average of 20% more unique visitors than our nearest competitor.

Enable digital transactions. The transaction elements of car buying and selling continue to shift online, and we are enhancing and expanding our digital capabilities to empower our dealer partners to compete on a broader scale beyond their local presence, while sourcing and selling inventory more efficiently online. Digital Deal is our fastest growing product in the U.S., and we are very pleased with its continued strong adoption and elevated customer satisfaction. Digital Deal penetration has grown approximately 14% quarter-over-quarter and nearly 150% year-over-year to 8,474 dealers. In Q3, nearly 20% of a dealer's overall leads came from Digital Deal, a compelling value proposition for dealers as these leads close up to three times higher than email leads.

Similarly, Digital Deal with geographic expansion doubled year-over-year as dealers are eager to service shoppers outside of their local demographic area, and consumers in more rural areas are leveraging digitally enabled listings to find their desired vehicle and complete more of the shopping journey online.

With increasing demand for more digitally enabled solutions from both consumers and dealers, we see significant opportunities to replicate the success of our transaction enablement playbook as our international business continues to mature and gain share. Recently, we launched Digital Deal in Canada, now live across thousands of vehicle listings, helping hundreds of participating dealers connect with higher converting leads for faster, more efficient sales. We are excited to introduce new products and solutions to our international dealer partners that we believe will empower them to serve consumers in ways that best meet their needs while prioritizing high intent, ready to purchase shoppers.

In the area of sourcing, Top Dealer Offers our subscription-based consumer vehicle sourcing product, powered by our digital wholesale matrix technology, has expanded to 80 metro areas with approximately 500 dealers participating in the program, growing nearly 30% quarter-over-quarter. We remain focused on ensuring it's an exceptional user experience, which includes onboarding and training dealers on how to manage the leads they receive and leveraging the intake tool to ensure customer service consistency.

We are committed to partnering with dealers to develop tools that support their processes and streamline their operations. Given the importance of sourcing within the dealer value chain, we will ensure that this part of the workflow is optimized before we scale more rapidly. Top Dealer Offers has many synergies with our marketplace business. With 50% of trade-in consumers in the market for a new vehicle, we are able to send high intent shoppers to dealers. Over 60% of individuals who submit a lead using Top Dealer Offers are also visiting search results pages for a new purchase and 53% of lead submitters visit the vehicle detail page, highlighting a key trade-in opportunity for dealers.

Rebuild and Integrate Digital Wholesale. I'd like to close by highlighting the progress made in our digital wholesale business. Our goal is to create a user experience that delivers market insights directly into wholesale buying and selling decisions. This empowers dealers to identify the most profitable opportunities and execute transactions within a data-driven wholesale platform. As previously shared, execution efforts are underway to one, improve operations, two, refine our product market fit, and three, reignite the commercial engine.

We have been focused on improving our operations for several quarters, driving consistency and predictability in our wholesale operations. In an effort to ensure a more reliable and improved experience for our dealers, we have reduced our transaction fulfillment times by nearly 12% year-to-date, significantly improved transportation margins, and we continue to enhance our customer experience with the aim of improving unit economics over time. To improve our product market fit, we are piloting enhanced matrix functionalities that create programmatic buying rules based on pre-selected parameters.

Leveraging real-time market trends and insights from CarGurus' extensive retail and consumer data, leading indicators, and localized competitive intelligence, the platform provides each dealer with a unique inventory grading system. The system is designed to automate recommendations based on dealer-specific criteria to maximize profitability.

Finally, on the commercial side, our performance managers have become more effective using these same insights to help dealers build data-driven fulfillment strategies, optimize inventory acquisition and disposal, and streamline operations. Performance managers work closely with dealers using precise touch points to refine vehicle preferences, optimizing for the best fit for their inventory needs. While early days, pilot dealers are experiencing better-than-average satisfaction scores and greater engagement.

Overall, we have continued to execute our key priorities and remain thoughtful and disciplined in our investments to revitalize our digital wholesale business, which we believe is instrumental to our vision of building a transaction-enabled platform. Over the long term, we see more than just data synergies on our platform, as dealers piloting insights on CarOffer could over time join CarGurus' marketplace and benefit from the value of our integrated suite of products.

To conclude, we are proud of our strong performance as we are driving growth within our marketplace business and at the same time expanding EBITDA margins on a year-over-year basis. While our platform has continued to perform exceptionally well, we are also focused on laying the groundwork for sustainable growth and future innovation. By executing on our drivers of value creation, we are enhancing our platform to better serve both our dealer partners and consumer audience through ongoing product innovation and offering transaction capabilities across the car buying and selling lifecycle.

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.

My commentary will cover a detailed overview of our third quarter performance, followed by our guidance for the fourth quarter.

Third quarter consolidated revenue was $231 million, up 5% year-over-year, driven by double-digit expansion of our marketplace business, partly offset by lower wholesale and product volume versus prior year. Marketplace revenue was $204 million for the third quarter, up 15% year-over-year, and in line with the high end of our guidance range.

The sustained acceleration of our marketplace business was driven by continued strength in subscription-based listings revenue, which grew $25 million year-over-year, reflecting net dealer adds at market rate, greater adoption of value-added products and services, as well as upgrades to higher subscription tiers. Our global paying dealer count was up 332 dealers this quarter, as we have continued to gain market share in a consolidating industry. This is a reflection of our customer centric approach, which drives engagement and retention, and fosters long-term relationships with our dealer partners.

The impressive growth in our international business continued in the third quarter. Revenue was up 23% year-over-year, driven by expansion of our dealer base and QARSD growth, which were up 4% and 20% year-over-year, respectively. Wholesale revenue was $12 million for the third quarter, down 44% year-over-year, and down 8% sequentially, driven by a decline in dealer-to-dealer transaction volume, as we continue to optimize unit economics and focus our efforts on improving transportation operations and customer experience.

Lastly, product revenue was $15 million for the third quarter, down 23% year-over-year, but up 46% sequentially. We saw stronger volume in the third quarter due to favorable market conditions related to one of our origination partners. Volumes have normalized in October, and we expect fourth quarter activity to be slightly below the second quarter. As a reminder, product volumes have an outsized impact on revenue, but a minor impact on our gross profit and EBITDA.

I will now discuss our profitability and expenses on a non-GAAP basis. Third quarter non-GAAP consolidated gross profit was $192 million, up 13% year-over-year. Non-GAAP gross margin was 83%, up from 77% in the prior year quarter, and approximately flat sequentially. The meaningful year-over-year expansion in non-GAAP gross margin was primarily due to the ongoing revenue mix shift toward our high-margin marketplace business. Marketplace non-GAAP gross profit was up 17% year-over-year, and non-GAAP gross margin expanded by about 170 basis points year-over-year to 93%, driven by favorable product mix and higher OEM advertising revenue.

In our wholesale business, sequential non-GAAP gross margin improvement reflected better unit economics and transport costs optimization, while sequentially higher product volume and lower cost base drove improved gross margin. Consolidated Adjusted EBITDA was $64.9 million, up 33% year-over-year. Consolidated Adjusted EBITDA margin was 28%, up approximately 590 basis points year-over-year and 265 basis points sequentially, reflecting the continued momentum in marketplace revenue and high flow-through margins.

Marketplace Adjusted EBITDA grew 36% year-over-year to approximately $70 million, as we gained leverage across our operating cost base while revenue growth continued to accelerate. Digital wholesale Adjusted EBITDA loss was approximately $5.2 million, a modest sequential improvement driven by higher non-GAAP gross profit and margin.

Per quarter non-GAAP operating expenses totaled $132 million, up 5% year-over-year and flat sequentially, highlighting our ability to continue to leverage our fixed cost base. OpEx trends are in line with our initial guidance and consistent with seasonal cost fluctuations within the year. During the quarter, we recognized a $16.8 million non-cash impairment charge in our digital wholesale segment, related to the discontinuation of CG Buy Online pilot, one of the initiatives that allowed consumers to purchase dealers' vehicles on our site. This charge is reflected in our GAAP financials, and we booked $9.8 million under cost of revenue and $7 million under operating expenses.

We periodically assess our invested capital base to ensure that we are optimizing resource allocation based on a number of criteria, including financial returns, strategic fits, execution capabilities, and end market demands. Although we decided, after careful review, to discontinue CG Buy Online and redeploy resources internally to other growth and innovation initiatives, this decision does not affect our commitment to continue to build a transaction-enabled platform going forward, as exemplified by our growth in Digital Deal and Top Dealer Offers.

Now back to our quarterly results. Non-GAAP diluted earnings per share attributable to common Shareholders was $0.45 for the third quarter, up $0.11 or 32% year-over-year, reflecting the increasing consolidated Adjusted EBITDA and lower diluted share counts. We ended the third quarter with $247 million in cash and cash equivalents, an increase of $31 million from the end of the second quarter. The higher cash balance was primarily driven by $47.1 million in non-GAAP net income, partly offset by CapEx and capitalized costs for approximately $15 million, related in part to the build-out of our new headquarters and other cash flow items.

We moved into the new headquarters at the end of September, and we expect the construction-related cash outlays for the rest of the year, net of tenant improvement allowance, to be minimal and to be completed by year-end.

During the third quarter, we repurchased 164,000 shares for an aggregate purchase price of $3.7 million. As of September 30, we had repurchased a total of $146 million worth of shares in 2024, and approximately $104 million remaining available for share repurchases under the 2024 program. Additionally, I am pleased to share that our Board has authorized a $200 million share repurchase program effective January 2025, as we expect strong cash flow generation to continue into the new year. This highlights our commitment to return value to our Shareholders.

I will now close my prepared remarks with our guidance and outlook for the fourth quarter. We expect our fourth quarter consolidated revenue to be in the range of $219 million to $239 million, down 2% and up 7% year-over-year, respectively. We expect the momentum in our marketplace business to continue in the fourth quarter, with revenue expected to be in the range of $208 million to $213 million, up between 14% and 17% year-over-year, driven by strong bookings and continued growth in OEM advertising.

Comparable period results will get increasingly difficult into 2025, as our business has continued to perform well, and we start lapping a year of double-digit growth. As mentioned previously, we look at revenue expansion in dollar terms, rather than on percentage points.

Moving to Digital Wholesale, we expect fourth quarter volume to decline sequentially, as wholesale activity is typically slower in the fourth quarter. We expect our fourth quarter non-GAAP consolidated Adjusted EBITDA to be in the range of $72 million to $80 million. In the marketplace segment, we expect further margin expansion in the fourth quarter, driven by continued operating leverage and lower media spend during the holiday season.

As a reminder, following the seasonal reduction in the fourth quarter, we typically ramp up marketing spend significantly in the first quarter. For digital wholesale, we expect segment EBITDA losses to improve modestly on a sequential basis, due to better unit economics, partly offset by lower volumes.

Finally, we expect fourth quarter non-GAAP earnings per share to be in the range of $0.50 to $0.55, and diluted weighted average common shares of spending to be approximately $106 million.

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

Operator

We will now begin the question-and answer-session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. Please limit yourself to one question and one follow-up. If you have further questions, you may re-enter the question queue. Once again, that was star, then one to ask a question. At this time, we will pause momentarily to assemble the roster.

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

Marvin Fong

Great. Thanks for taking my questions. Congratulations on the quarter. Yes, I'd just like to start, clearly the business is doing very well, especially the core marketplace, and throwing off a lot of cash. Could you just update us on how you're thinking about investing in the brand? I think you had some various brand campaigns, but should we think about you possibly in next year leaning back into more brand marketing to generate more consumer awareness and create a flywheel effect there?

A second question, I would just like to dive a little bit deeper into the decision to discontinue CG Buy Online. Was it something about the construction of the product, or was it concern about dealer acceptance or any other factors that will add some more color on what you saw there that didn't seem like it was going to work? Thanks.

Jason Trevisan

Thanks, Marvin. This is Jason. I'll take the first one. From a brand perspective, and I would say more broadly marketing perspective, you heard in Elisa's remarks that there is seasonality to it, and so you can expect an increase at the New Year. We are getting more and more sophisticated with our marketing and our advertising as we think about capturing bigger audience at different parts of the funnel, so to speak, of their shopping journey. We have historically been very low funnel-oriented, and a lot of our brand effort is to go mid-funnel and higher funnel, and that's to grow our brand awareness.

That's also supported or complemented by the fact that our product portfolio keeps growing, and you heard also in the prepared remarks a number of ways in which we're improving the user experience on our site. It's not just advertising to pump out a message, but it's actually supported by the user experience with the product itself.

Then lastly, I'd say we're trying new channels all the time, and we found some success in a number of new brand channels that we're really excited about. We're going to continue to try to build brand as best and as quickly as we can so that we're not as focused in a handful of performance channels.

Elisa Palazzo

Yes, and I will take the financial part of CG Buy Online. Marvin, we have a very disciplined capital allocation process and approach. We periodically undergo a review of our invested capital base, and we assess opportunities based on a number of criteria, including financial returns, strategic fit, our ability to execute in a differentiated way, and end-market demand. In the third quarter, after careful consideration and a very detailed analysis, we concluded that it was appropriate for us to redeploy the resources of CG Buy Online pilot to other projects.

Marvin Fong

Okay, got it. Thanks so much. I'll get back in queue.

Operator

The next question comes from Nick Jones of Citizens JMP Securities. Please go ahead.

Nicholas Jones

Great. Thanks for taking the questions. I guess, two, just around QARSD. As we think about QARSD over time, how should we think about maybe the algorithm to driving growth here? What amount can you take, maybe annually as it relates to inflation? Can you kind of do 100, 200 bps above inflation with folks? I guess, can you maybe speak to the product pipeline as also part of a way to continue to drive attach rate to introduce new products? Do you feel like you have a robust enough product pipeline? To the extent that folks maybe aren't adopting certain things as quickly, is there still a mechanism to keep taking price up there over time? Thank you.

Elisa Palazzo

Thank you, Nick. I will comment on, you know, the growth pipeline that we are seeing at the moment. As the business performs well and continues to grow, comps are going to get more difficult into 2025. This said, we feel very good about the quality of our growth as we believe that the drivers of expansion are durable. We are seeing higher dealer engagement. They use more of our products and more frequently, and so they are increasing their level of spend with us.

We are seeing higher adoption of value-added products and services and data insights that really help dealers run their business better on a daily basis. This is resulting in stronger retention and also long-term contracts becoming more prevalent. Even if—we don't expect the business to accelerate further in 2025, we do expect growth to be strong, and we have visibility into that growth pipeline.

Maybe Sam or Jason wanted to comment on the product.

Jason Trevisan

Sure. Hey, Nick, it's Jason. From a product standpoint, it's both products and features, and we do feel really good about our pipeline. I would think of it in two buckets, upsells and cross sells from a product standpoint. From an upsell perspective, we, as you know, continue to pack more and more value and features into our higher tier packages. That's things around dealer data insights and brand exposure on our site and new marketing channels in our marketplace and off-site as well.

From a cross sell perspective, there's a lot of other marketing products that we have introduced already and will continue to introduce those. But I think what is even more exciting than that, though, is that as we're leveraging data more and more to inform dealers how they can run ever-improving dealerships, we're starting to help them with more aspects of their workflow beyond just marketing. That is stretching as early as sourcing in their workflow with Top Dealer Offer and CarOffer and so forth, but also now includes insights around pricing, merchandising, clearly more and more around marketing, and then also selling, so that they can convert the leads that we deliver them even better.

As we're getting our foot in the door in those different aspects of their workflow, that opens up opportunities for us to introduce new features and products there as well.

Nicholas Jones

Great. Thank you both.

Operator

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

Rajat Gupta

Great. Thanks for taking the question. I had a couple of quick ones on the international business, pretty good sequential improvement there in the QARSD, as well as dealer count. Maybe if you could speak to the initiatives in the region a bit more, what innings of growth would you say the Company is in? How should we think about the growth trajectory? I also noticed that the OpEx went up a little more than revenue sequentially. I don't know if it's if it's just more leaning into marketing, to accelerate growth there. Any color you can give on that as well would be helpful. I have just one follow-up.

Sam Zales

Rajat, it's Sam Zales. I'll take the first part of the question. We couldn't be more proud of the results in the international businesses, both the UK and Canada, growing fast, profitable, and adding to our bottom line. It's no longer de minimis. These are big businesses for us, and we're really proud of where we are on that front. We're following the playbook from the U.S., which is we gain adoption of dealers because we go in at a price point that we know versus the very large competitors in their market, are adaptive, and we're winning customer acquisition.

As you can see, those numbers going up in new dealer counts tremendously in the international markets. Then we're following that same playbook of QARSD growth. You know that QARSD growth comes from the factors of that new business coming in at the right price points, upselling those dealers to our premium packages, cross-selling products to them, and then doing our ABR process for those dealers who are underpriced.

All of those motions are working effectively and driving that growth in that market, in both of those markets. Then you heard that we launched some of the products in the U.S. into the Canada market with Digital Deal being launched. Think about transaction-enabled platform. You want to be able to drive the consumers down the funnel. Then your dealers are saying those are tremendous high close rate consumers coming down the funnel, and either providing some financial information, in many cases trade-in information or appointment setting.

Those are just tremendously high value actions for our dealers to close business with. We launched Next Best Deal Rating, the first of the dealer data insights to those customers, which leads to better retention of your customers and a differentiated offering that is a profit maximization platform dealers can use to price more effectively. With all of those tools in the markets, we're finding both new customer growth, QARSD growth, and the retention of our customers at record rates for us and that's driving both revenue growth and profitability in those markets.

Elisa Palazzo

Rajat, on the OpEx, we have a one-off related to sales tax in Canada, which is causing the OpEx to step up this quarter. It should normalize going into the next quarter. We are seeing a lot of traction in terms of traffic share gains. We are also investing in the international business.

Rajat Gupta

Got it, got it. Yes, that's clear on the tax impact. Then maybe just on your dealer count, I think in the past you've indicated that the mix of franchise dealer customers has trended higher on the platform. Could you maybe elaborate on just incremental monetization opportunities or any low-hanging fruit opportunity available with the manufacturers as the marketplaces get gradually transformed in terms of the dealer count mix? Thanks.

Sam Zales

Rajat, it's Sam. On the dealer count, I'm assuming you're talking globally or U.S.-focused. In the U.S., we've led, all of the dealer segments are moving well for us. We've had tremendous growth in the franchise arena that's been really strong and driven. Some of that QARSD growth you've heard about, you know that we have small dealers because we offer a broader set of inventory to our consumers than any of our competitors in the market.

For those consumers who are searching for the $5,000 or $8,000 vehicle, we want to serve that market for both our consumers' and dealers' success. All of those segments have been successful for us, both independent and franchise. But franchise, the larger dealers, have been more and more successful for us. You see us taking more wallet share, and both wallet share, and market share is both winning customers and having plus net dealer ads and growing QARSD and doing that faster than the rest of the market.

You also asked about the OEM customer base. You see growth in our advertising business. That's really nice to see. It comes—two quarters worth of double-digit growth. It comes because supply is coming back in the new car arena. Days on market is lengthening. For both EVs and ICE vehicles, they're turning to the best down-funnel shoppers and saying, this platform is the one to work for. We've won back both domestic and import brands when the last couple of years have been slow for their investments in the market. We'll always be focused on leads more than advertising, but we're really proud of the highly profitable advertising business we have. Some of those OEM relationships drive a lead generation program for their dealers. It's a win-win and synergistic opportunity for us, and we're really proud of that growth.

Rajat Gupta

Got it. That makes sense. Thanks for all the color.

Operator

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

Douglas Arthur

Yes, thanks. This question may have been asked in a slightly different form already, but Jason, obviously the QARSD numbers have been terrific really for the last five or six quarters. When you think about the comparison for QARSD in 2025, are you confident that the value-added, the new products, the digital deal, penetration, et cetera, will continue to drive that at a pretty stout rate, or are you going to face a tough comp there?

Jason Trevisan

Sure. As you heard Elisa say, we do have tougher comps, no question, in 2025. But I mean, I think if you look at the drivers of QARSD, you see that—and I'll just quickly tick through some examples, you see that they don't really have an imminent ceiling in any way. The more value that we pack into higher tiers with insights that we have a really robust pipeline on, that's going to continue to entice dealers to move up because they are able to be much more successful on our platform when they have access to those insights. That is unlimited because we can just keep adding more insights there.

Other products, I spoke about those just a few minutes ago in terms of some of the other cross-sell opportunities that we have that start to span across dealer workflows and are not just limited to marketing, which is where we've kind of lived in the past. Lead quality, in addition to lead quantity, but lead quality, I think, is probably an underestimated factor for a lot of dealers that are looking at QARSD, rather, that a lot of dealers really focus on. While it's hard to measure exact quality and attribution, we work very hard at making sure that the quality is better so that the ROI is better for dealers so that they can be excited about investing more with us.

We're very focused on these different levers of QARSD. It's all predicated on ensuring that we deliver a great ROI, and so we're never going to get over our skis on that. You heard us talk about even more surveys that validated that. We feel pretty good that as long as we're ROI focused, we will have a runway in QARSD.

Douglas Arthur

Great, thank you.

Operator

The next question comes from Joseph Spak of UBS. Please go ahead.

Zachary Walljasper

Hi, it's Zach Walljasper on for Joe Spak today. I have just two quick questions. One is, how does pricing work in the business? Is it a seasonal aspect or is it linear, especially I heard a comment earlier about customers signing longer-term contracts, something like in six months. Is there opportunity to price the middle or kind of wait to the end? How do we think about that? Then just a quick follow-up, versus 90 days ago, you know, how would you assess the health of the consumer and activity you're seeing at your dealer customers? Thank you.

Sam Zales

Hey, Zach, it's Sam Zales. I'll try to take the first and can weigh in with thoughts on the consumer. Jason, you may have more for that one.

Pricing works in a way that we look at our lead volume and the quality of our leads and assess the value we think we're going to drive to that dealer from the extensive years of experience we've had now growing that business and producing for our customers. I want to reference that market probe survey with customers saying that we're by far the number one provider in ROI in the market and almost three times chosen over our closest competitor.

With that, it gives you more price leverage. We're looking at our close rates, knowing what we think we can drive to that dealer. It's not seasonally based. It's based on their inventory and the expected volume of leads and what the close rate we've known has been at the success rate we've had. That drives the price point for those dealers.

Those numbers, as we've said, are moving all in the right direction. QARSD grows first because we bring in dealers at the right price point in the market and a higher price point. Over time, you've heard us talk about our ABRs, our annual business reviews, that's taking the dealers who are underpriced against the market and raising those over time. We're really proud of what we're doing on that front that's driven that QARSD growth.

You asked about consumer demand. I think the third quarter was interesting. We saw a stronger used retail market and wholesale market, partly because we know interest rates came down at the very end of the quarter. But the third quarter is typically down for the industry in used car sales, and it was a little bit stronger. I hope the interest rates will help that continue to be a success for our dealer community. We still know that inventory is sitting on lots longer than it has previously, and so we hope our product we know is the best ROI in the marketplace. Dealers are saying, I have to be on the CarGurus program. That's my biggest and fastest way to get to that consumer who's in the market.

Q4 is typically more weak, the weakest time of the four quarters in terms of used vehicle sales. In those times when it's hard to sell, dealers will turn first to the biggest audience, the most down funnel audience, and the largest quantity and quality of leads, and that makes us the first choice.

I hope that answers your question.

Zachary Walljasper

Thank you so much.

Operator

This concludes our question-and-answer session. I would like to turn the call over to Jason Trevisan for any closing remarks.

Jason Trevisan

Thank you very much. We'd just like to thank everyone for joining us this evening, and as always, want to thank all of our colleagues at CarGurus for your dedication and passion and these outstanding results. I hope everyone has a nice evening.

Operator

The conference is now concluded. Thank you for attending today's presentation, and you may now disconnect.