CarGurus, Inc.

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PRESENTATION

Operator

Good day, and welcome to the CarGurus, Inc. Second Quarter 2024 Earnings Results Conference Call.

All participants will be in a listen-only mode. Should you need assistance please signal a conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star, then one on a touchtone phone to retrieve your question please press start, then two. 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' second 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 are very pleased with our second quarter performance. Our subscription-based marketplace business continued to accelerate. Our margins expanded sequentially and we executed well against our growth strategy. We further strengthened our partnership with dealers by embedding our services more deeply into their daily decision-making processes and deepened our connection with consumers by empowering them to complete a larger portion of their transactions online, enabled by the continued progress we made in upgrading and scaling our end-to-end transaction-enabled platform.

Similar to last quarter, I will provide a high-level overview of our results and will then highlight the progress we made across our four drivers of value creation. We ended the second quarter at the high end of our forecasted revenue and above our Adjusted EBITDA guidance range. Our non-GAAP consolidated Adjusted EBITDA grew 23% year-over-year and margin expanded about 650 basis points year-over-year to 25%.

Our marketplace business accelerated for the fifth consecutive quarter, delivering 14% year-over-year growth and marketplace EBITDA grew 49% year-over-year with margins expanding 735 basis points versus the prior-year period. In the second quarter, we achieved the highest quarterly revenue increase since 2021 driven by growth in our global dealer base, increased adoption of add-on products, and migration toward higher subscription tiers.

Notably, in the U.S., our customer base has increasingly shifted toward larger dealers with higher advertising budgets who have a greater demand for data insights and analytics. We are also seeing a sustained increase in wallet share across our dealer base as more dealers adopt additional value added products, whether purchased à la carte or included in premium packages. This is evidenced by our double-digit year-over-year revenue growth while long-term advertising budgets for publicly traded dealers have increased at a mid- to high-single-digit rate.

We continue to experience strong momentum in our international business, which grew revenue 21% year-over-year with gross profitability in line with our domestic business. The outperformance was driven by sustained growth both in the U.K. and Canada, where we further expanded our traffic share and dealer base.

Lastly, I am pleased to report that our OEM advertising business delivered strong year-over-year growth in the quarter as new vehicle inventory levels continue to recover and the number of impressions on our website further increased. The impressive results we achieved in the second quarter reflect our ongoing progress against our four drivers of value creation; a steadfast commitment to delivering greater value to our dealer partners, continuously improving the consumer experience, further advancing transaction enablement and rebuilding and integrating our wholesale business, providing more value to dealers.

This quarter, we further enriched our platform by expanding our predictive analytics product suite and leveraging our market-leading consumer audience to deliver increased lead and non-lead value to our dealer partners. Our efforts led to 15% year-over-year growth in listings revenue.

As we strive to provide greater value to our dealer partners, the quality and quantity of our leads remain crucial drivers. In the second quarter, our platform delivered strong year-over-year lead growth and traffic to lead conversion rate also went up sequentially as we focused on engaging high intent shoppers and improving our lower funnel efficiency. In addition to our high intent audience leadership, we continue to invest in new tools and services that offer our dealers enhanced data with actionable insights supporting their day-to-day decision-making process and automotive lifecycle needs.

This quarter, we made significant advancements across three of our key data insights offerings. First, Next Best Deal Rating. This was our initial dealer data insights initiative and has achieved remarkable adoption with over 9,200 dealers in just three quarters since its launch. When dealers adjust their listing prices as suggested by our report, they experienced a median increase of 40% in daily vehicle description page views, and decrease the turn time for these vehicles by 35%. Engagement remains strong within nearly 50% weekly open rate and approximately 55% of dealers making at least one recommended price change within seven days.

Second, our newest product, Maximize Margin, leverages similar data as Next Best Deal Rating to inform dealers how much they can increase the price of a vehicle without jeopardizing the current deal rating and associated VDP views and leads. This is especially important for vehicles with limited availability and in high demand.

Third, Acquisition Insights Report, which informs dealers about which vehicles to acquire to meet market demand is now live with dealers in Featured Plus and Featured Priority Plus. We've developed a proprietary CarGurus index that measures demand based on our visitor searches and availability of inventory with the aim to ultimately help inform a dealer's inventory list on CarOffer.

By prioritizing lead quality and quantity and pursuing relentless innovation to deliver unparalleled ROI, we are establishing ourselves as long-term partners for our dealers, capturing a greater share of the overall auto digital advertising market. Approximately 50% of our dealers who have subscribed to our services for more than a year have increased their spend with us through add-on products, listings upgrades, and renewals motions. Thirty-six percent of all contracts signed this quarter were six months or longer, 54% of our renewals motions resulted in longer term contracts and 22% resulted in add-on products or higher listings tier migration. Long-term contracts yield higher retention rates and predictable revenue from our customer base while facilitating new renewal opportunities at term end.

Better consumer experience. This quarter, we continued to invest in elevating our consumer app, which contributed 28% of our leads. We simplified the vehicle search process and customized the experience for our returning users by offering more tailored results that incorporate elements from their previous sessions. This personalization provides continuity to the shopping journey and increases content relevance. As we've made these continuous app improvements, we saw the one-month app use retention rate increase by 16%.

Enhancing the consumer experience goes beyond our mobile app. This quarter, we continued to progress on our AI initiatives. We are leveraging AI and consumer content generation, conversational search, vehicle recommendations, and much more to streamline the shopping journey and provide consumers with key information and data at their fingertips. The investment in the app and AI are just two examples of our broader commitment to improving the consumer experience and engaging with our market-leading consumer audience throughout their vehicle lifecycle.

We ended the quarter as the most visited automotive marketplace with 56% more visits than our closest competitor. Additionally, 47% of our monthly unique visitors did not visit our leading competitors' websites, highlighting our strong market leadership among consumers and the unique and unrivaled audience we offer our dealers. These metrics do not factor in our sizable and highly engaged app user base, which primarily comes from organic channels. If we factor app in, our audience would likely be even larger.

Enabling digital transactions. Our vision is to build an end-to-end transaction-enabled platform that supports consumers and dealers throughout the entire car ownership journey, facilitating transacting online. As we have continued to advance and innovate our online retailing capabilities, we are becoming the digital partner of choice for dealers, enabling them to compete on a vast scale outside of their local demographic area and expand their reach.

In the second quarter, we deepened the penetration of our digital retail product suite, which enables consumers to complete more of the shopping journey online and advanced Top Dealer Offers, which allows dealers to source high-quality cars from local consumer inventory. These efforts drove the adoption rate of add-on products up by 37% year-over-year in the U.S.

In the second quarter, we saw continued strength in digital deal adoption, which has grown 22% quarter-over-quarter and 157% year-over-year to 7,451 dealers. In a little over two years since its launch, digital deal has been adopted by 30% of our U.S. paying dealers. High value actions such as financing can close up to 3x higher than traditional leads, providing dealers with ready-to-purchase shoppers.

With days on lot remaining elevated, dealers are especially interested in broadening their inventory's reach beyond local demographics, resulting in growth in digital deal with geographic expansion. With 238,000 deliverable vehicles, we offer consumers one of the largest selections of deliverable inventory with the greatest selection of options and prices that best meets their needs.

In the second quarter, we also made progress on Top Dealer Offers, our subscription-based consumer vehicle sourcing product powered by CarOffer's matrix technology. We expanded the offering to 68 metro cities with 388 dealers participating in the program, and we rolled out our vehicle intake tool to all dealers, fostering greater transparency between dealers and consumers in the appraisal process.

Since our launch, we found that dealers are eager to access fresh consumer trade-ins, and nearly 35% of individuals who submit a lead to sell their car are actively looking to purchase, representing an important trade-in opportunity for dealers.

Rebuilding and integrating digital wholesale. I will conclude by sharing the progress we've made in our digital wholesale business. In the last few months, we have been rebuilding CarOffer's leadership team and optimizing our go-to-market strategy in order to re-energize our commercial engine. We have also been further integrating wholesale and retail insights to enhance matrix functionality.

In Q2, we strengthened our salesforce leadership to overhaul CarOffer's commercial strategy, build an analytical backbone to inform decisions and actions and implement an execution playbook that will advance sales effectiveness and efficiency. This will better equip our sales representatives to build stronger relationships with our dealer partners.

We also recently bolstered our senior operations team to refine our logistics and inspection capabilities and elevate our dealer experience. We are focused on enhancing performance by improving consistency in the transaction experience and driving profitability in our operational capabilities. Our goal is to provide a better dealer experience, optimize conversion, and reduce churn in the transaction funnel.

Another key area of investment is data. CarOffer is leveraging the largest collection of consumer retail data from CarGurus to generate actionable insights for profitable buying and selling strategies. Metrics like Market Days supply, turn time, and profit per day empower dealers with greater control and confidence to bid competitively on ideal vehicles.

Each dealership has access to a vast amount of curated data presented in a simple, easy to navigate dashboard. Dealers can now create matrix rules based on these insights to optimize their bidding strategies. Our performance managers are using this data along with the matrix analyzer to help dealers adjust their bidding strategies and make recommendations to stay competitive in a dynamic pricing wholesale environment.

Furthering our matrix functionality, we also re-engineered the matrix to be more targeted and accurate across an expanded set of vehicle options. Combined with the release of CarGurus-powered Market Insights, CarOffer is giving dealers increased confidence to buy and sell programmatically.

As a result of these collective changes, dealer NPS has risen and we expect these enhancements to increase customer retention and unlock new growth opportunities over time. While we are making significant strides and optimizing key aspects of our business, it is a slower rebuild than we anticipated it would be when we assumed control of the business in December, 2023.

The new leadership we've brought in is refining and elevating our commercial and operational initiatives, and we have made exciting product enhancements to integrate retail data with wholesale functionalities in ways that don't exist elsewhere in the market.

Although the process has taken several quarters, we continue to believe in the value of combining wholesale and retail capabilities to offer a differentiated end-to-end transaction-enabled platform that allows dealers to predict, source, market and sell cars with our integrated data and correspondingly elevated sophistication.

To conclude, we are extremely pleased with our marketplace results and the progress we made against our strategic goals. Each quarter through our value creation drivers, we have consistently introduced new products, valuable data and insights and features that enhance our end-to-end capabilities delivering even greater value to our customers.

Our services are becoming an integral part of the dealer's daily workflow, increasing their engagement and long-term retention. We believe this will lead to continued earnings growth and a robust pipeline of products that will support sustained market share expansion over time.

At every stage of our growth, we remain committed to prudent financial management, operational excellence, and efficient capital allocation. We believe these principles are key to driving greater profitability and creating lasting value for our shareholders.

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 second quarter performance, followed by our guidance for the third quarter of 2024. Second quarter consolidated revenue was $219 million, down 9% year-over-year, driven by lower wholesale and product volumes, partly offset by double-digit expansion of our marketplace business.

Marketplace revenue was $195 million for the second quarter, up 14% year-over-year and above 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 $23 million year-over-year, reflecting increasing adoption of add-on products such as Top Dealer Offers, dealers upgrades to premium tiers, and the addition of new dealers at current market rates. We grew our dealer count by 255 dealers year-over-year and 177 sequentially, putting our global paying dealer base at the highest level since the first quarter of 2020.

The strong momentum in our marketplace business, which has historically outperformed against the market and competitors, reflects our relentless focus on product innovation and our unwavering commitment to enhance the value proposition offered to our dealer partners.

The strength of our international business continued in the second quarter. Revenue grew 21% year-over-year, driven by an expansion in our dealer base with new and existing dealers subscribing at current market rates, driving international QARSD up 20% year-over-year.

We continued to gain traffic and wallet share internationally with sessions and unique visitors up 19% and 21% year-over-year, respectively. Wholesale revenue was $13 million for the second quarter, down 59% year-over-year, driven by a decline in dealer-to-dealer transaction volume as we continue to focus on rebuilding our commercial pipeline and reinvesting in our product in a disciplined manner with the ultimate aim of returning to profitable growth.

Lastly, product revenue was $10 million for the second quarter, down 72% year-over-year, reflecting declining Instant Max Cash Offer revenue as a growing number of consumers and dealers continue to shift to Top Dealer Offers, a complementary subscription-based product that allows dealers to source vehicles directly from consumers. The combined impact of declining Instant Max Cash Offer revenue and increasing Top Dealer Offers revenue is accretive at the consolidated gross profit level.

I will now discuss our profitability and expenses on a non-GAAP basis. Second quarter non-GAAP consolidated gross profit was $183 million, up 8% year-over-year. Non-GAAP gross margin was 84%, up from 71% in the prior year quarter. The meaningful year-over-year expansion in non-GAAP gross margin was primarily due to the ongoing revenue mix shift towards our high-margin marketplace business.

Marketplace non-GAAP gross profit was up 17% year-over-year in dollar terms and gross margin expanded about 230 basis points year-over-year to 93%, driven by favorable product mix. Digital wholesale non-GAAP gross margin was down approximately 17 percentage points year-over-year as the lower transaction volume was not sufficient to cover our fixed cost base.

Consolidated Adjusted EBITDA was $55.6 million, up 23% year-over-year. Consolidated Adjusted EBITDA margin was 25%, approximately 650 basis points higher year-over-year. The strong performance was driven by sustained growth in marketplace revenue and high-flow through margins.

Marketplace Adjusted EBITDA grew 49% year-over-year to approximately $61 million as we gained leverage across our operating cost base while revenue growth continued to accelerate. Digital wholesale Adjusted EBITDA loss was approximately $5.7 million, sequentially lower as the declining of gross profit was partly offset by lower operating expenses.

Second quarter non-GAAP operating expense was $132 million, up 3% year-over-year and nearly flat sequentially, demonstrating our ability to effectively leverage our cost base as we continue to grow our topline. As digital wholesale volumes continue to decline in the second quarter, we updated our financial forecast and conducted a review of goodwill and other assets value.

Accordingly, we recognized a non-cash goodwill impairment charge of $127 million associated with the CarOffer business. We recognized the goodwill in connection with the initial acquisition in 2021 when digital wholesale activity was at its peak and corporate valuations work at much higher levels. This charge does not impact our cash flow, liquidity or ongoing business operations. We do not believe this changes our outlook on the long-term strategic merit of owning a digital wholesale assets and the synergistic value of combining wholesale and retail data to offer unique sourcing capabilities that differentiate our end-to-end transactional-enabled platform.

Non-GAAP diluted earnings per share attributable to common shareholders was $0.41 for the second quarter, up $0.12 or 41% year-over-year, reflecting the increase in consolidated Adjusted EBITDA and lower diluted share count. We ended the second quarter with $216 million in cash and cash equivalents, a decrease of $30 million from the end of the first quarter.

The lower cash balance was primarily driven by $61 million spent on share repurchases in the quarter and approximately $26 million in CapEx, primarily related to the build out of our new headquarters. As a reminder, we expect to move into the new headquarters at the end of September and we expect related cash outlays to normalize by year end.

I will now close my prepared remarks with our guidance for the third quarter of 2024. We expect our third quarter consolidated revenue to be in the range of $212 million to $232 million. We expect the momentum in our marketplace business to continue in the third quarter with revenue expected to be in the range of $199 million to $204 million, up between 12% and 15% year-over-year.

For digital wholesale, we expect third quarter volumes to decline sequentially. This outlook reflects the current transaction run rate and seasonality in the second half of the year. We expect our third quarter non-GAAP consolidated Adjusted EBITDA to be in the range of $56 million to $64 million.

In the Marketplace segment, we expect further margin expansion in the third quarter driven by continued operating leverage. In digital wholesale, we expect EBITDA losses to increase modestly on a sequential basis due to lower volumes and disciplined reinvestment in product, operations and data analytics with the aim of returning to growth over time.

As guided at the beginning of the year, we expect third quarter non-GAAP operating expenses to remain roughly flat sequentially in dollar terms, but to decline as percentage of revenue driving further expansion of our consolidated EBITDA margin.

Finally, we expect non-GAAP earnings per share to be in the range of $0.38 to $0.44 and diluted weighted average common shares outstanding to be approximately 105 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 touchtone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw you question, please press star, then two. We ask that you please limit yourself to one question and one follow-up. At this time, we will pause momentarily to assemble our roster.

The first question comes from John Colantuoni with Jefferies. Please go ahead.

Vincent Kardos

Hey. This is Vincent on for John. Thanks for taking the question. Two for me, please. First, maybe just help us size the impact of the CDK outage on revenue and EBITDA in 2Q and 3Q, if any? And then maybe second on CarOffer. What still needs to be done there and how should we be thinking about the timing at this point to a ramp in volume? Thanks.

Elisa Palazzo

Thanks for your question. I will address your CDK one. We have not seen any impact from the CDK outage on billing, nor on the amount we have been able to collect, and most importantly, we don't anticipate any carryover impact expected for the third quarter.

Jason Trevisan

Thanks, Elisa. And John, I can take the—this is Jason. I can take the CarOffer question. So what needs to be done there is as you've heard us talk about, we are restructuring the sales organization and the go-to-market motions. And, we are also investing in and making really exciting improvements in the product specifically around data and how we're integrating data into the CarOffer matrix creation and matrix management to ensure that our customers there have confidence and in the types of buys and sells that they're doing.

In terms of timing on your question, we've not given a timeline. Just as we said in our prepared remarks, it's taking longer than we thought when we estimated it back in Q4 of '23. But we now have with the new leadership there, our arms around things in a much better way. And we remain disciplined in how we're investing to operate the business and to aim to re-grow volumes.

Vincent Kardos

Okay. Thanks.

Operator

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

Nicholas Jones

Great. Thanks for taking the questions. I have two. So, you're seeing some higher adoption of the add-on products kind of driving marketplace strength. Can you speak to, I guess, what you're learning through this higher adoption? I mean, is this helping you build out maybe a more robust product pipeline? And is there a lot more kind of wood to chop to drive deeper integrations based on the success you're seeing here? And then maybe a follow-up to this is, you mentioned the customer base is shifting towards larger dealers with higher advertising budgets. What does this mean? I guess, what's driving this? Is it more effective for CarGurus? Are there kind of lower type self-serve solutions that could be added to the product roadmaps? Maybe revisit some of these smaller dealers with lower budgets? Thank you.

Jason Trevisan

Sure. This is Jason. So, the increasing penetration of other products is really a function of us—I mean two things. We're developing more insights and products and analytics that not only support a more sophisticated view into the market for dealers, but also more sort of ammunition for them to use our platform better and to get more out of our platform. And so, as we arm dealers with those, those dealers that are using them well are seeing better results. A great example of that is what you heard us talk about with the Next Best Deal Rating. Dealers who are using that insight product are generating more vehicle detail pages. They're generating more leads. They're turning their cars faster. And so, we often talk about it as customers who adopt more are running better dealerships because they're so much more effective on our platform, and our platform is the largest in the market by quite a bit.

And so number one is that we're developing those insights to products. Number two is I think we're doing a much better job explaining to our customers and educating them on how to use them and helping them tie usage of them to results on our platform to results in their dealership. So, you've heard us talk about how we're more consultative than we ever have been before. We're engaging with our customers more. The combination of having the insights in products, explaining them better is leading to the better adoption.

I'll let Sam talk just a little bit about the profile of the dealers and why we are seeing a mix evolution toward larger dealers.

Sam Zales

Thanks, Jason. And Nick, thanks for the question. We are proud of the results we're seeing. Exceptionally proud of the results we're seeing in our marketplace business, as you can tell from the numbers. It starts with the consumer experience, and we talked about the incredible growth of both our leads and our sessions in the business from a consumer perspective, that's because we cover the widest array and the largest source of inventory from the smallest dealers up to the largest dealers. We're always going to have a broad mix there to serve our consumers and have this incredible 56% larger share of sessions than our closest competitors.

But I think the shift on the dealer side is to more sophistication and the customers that are looking at ROI. You know that every customer and the dealer community today is trying to figure out how to make more profit. I think we are viewed now as the profit maximization platform for their business. So when they look at that, you've got those customers who are more sophisticated, typically the larger franchise dealers, and in some cases the larger and mid-size independents as well is the effort to say, I'm watching my profits. I'm going to spend more on your platform because I know it can grow faster.

So, we get more spend and we retain it better with the larger customers. They're not typically going out of business quickly. They're not typically having trouble making their payments. So that sophistication in that larger dealer audience has been great for us. It leads them to buy more products from us. So, Top Dealer Offer will not be sold to every one of our customers. To serve the consumer well in a Sell My Car capability, we want the larger and more sophisticated customers to participate in that.

Digital Deal, remember, you're bringing consumer further down the funnel of shopping. They're going to put their financing information in there. You want the dealer who can serve them, serve that consumer with more of that complex sale process, and close that business as we said, up to 3x faster because of an action like telling you what their prequalification is. We're running the business to grow that and that's helped us continue to grow this marketplace QARSD, which has been phenomenal for us. And it's on the backs of having all of those dealers small and large, but traditionally, the more sophisticated larger dealers retain with us longer and spend more with us, and really proud of that growth.

Nicholas Jones

Thanks, Jason. Thanks, Sam.

Operator

The next question comes from Jed Kelly with Oppenheimer. Please go ahead.

Jed Kelly

Hey, great. Thanks for taking my question. Managing multiple calls, I missed some of the opening remarks. But can you just talk about sort of what's driving some of the momentum with pricing you're seeing from dealers. And then, just how is your inside salesforce doing sort of kind of trying to help you guys tie the wholesaling relationships with the marketplace? Thanks.

Jason Trevisan

Sure. Hey, Jed, it's Jason. So, the pricing momentum, I assume you're referring to QARSD?

Jed Kelly

Yes.

Jason Trevisan

When you say pricing. Yes. Consistent drivers that we've talked about in the past that are continuing to keep up and even grow momentum. So, we are signing on dealers at higher rates than we have in the past. I think that's a function of the market recognizing the value and the volume of the leads that we provide at the core of our product. But also a growing suite of what we sometimes here called non-lead value. So, in addition to just the customers, they're getting a lot more in the form of tools and insights.

The second is upgrading dealers to higher tiers. Historically for us that really was a means by which they can get more leads and certainly get more branding. But increasingly through smarter bundling, it's also now being driven by dealers who are looking for access to some of these insights that are only available to higher tier products. That's a really key point, and I think that's one that we're really pleased with how well that's working.

You heard the examples in the script, or if you missed it, you said, you may have missed it. You will read about them. But examples we're getting really tremendous adoption both in terms of just the volume of dealers that are signing up for these, but then their usage of them. And so, they're using these on a daily and weekly basis.

Next is additional products. Again, we have continued to invest in innovation and we're seeing that through adoption of other products like highlight and digital deal and so forth.

Then the last is just pricing. We continue to do that through a variety of different renewal motions. But we still believe we're priced under the market that's reflected in a better ROI. So, that's a lever that we have been able to pull on in the last year or plus.

And then I'd be remiss to not also mention just lead quantity. Our traffic has grown. We remain incredibly focused on lead quality as well. We're not going to sacrifice that. But we've seen really nice lead volume growth.

Sam, do you want to talk about the second question?

Sam Zales

Sure. Thanks, Jed. Jason hit it all on the real success we've had. When you asked about our sales team thinking about supporting CarOffer, they're busy right now growing the marketplace business, 14 plus percent our best quarter we've had in four years. So we're really, really proud of those results.

But you're right to hit the point that acquisition of inventory, particularly last four years of inventory. So, the 2020 models to 2024 are hard to come by in the market today. So, it's a pain point and inventory turns are slow, and so dealers are trying to figure out how to source inventory effectively. So, we're being very targeted about what we're doing with our sales team building back up the CarOffer acquisition, customer acquisition business. As Jason mentioned before, our focus at CarOffer, and it's taking us longer than we expected is on the operations of the business. Their go-to-market team has completely been revamped. We have new leadership in there, new analytics, new approach, new incentives to how they're running that business day-to-day. It took longer than we thought to get there, and we have more work to be done. The operations of the business, focusing on logistics and inspections, we've upgraded with new leadership there as well.

The focus right now is ensuring a product-market fit for our customers. You heard Jason talk about the analytics we've now put into the matrix. We're now putting CarGurus demand data, consumer demand data in a local market and matching that to inventory turns for a dealer to predict for them when they'd be most successful sourcing inventory and upgrading the automation of our matrix. When that is done, we will be turning on our sales team to say, get CarOffer on to your next sales call. But what we're doing in a targeted way is saying, for example, those dealers who are in Top Dealer Offer, that's not a huge percentage of our customer base. It's growing really, really well. Let's take that customer base and teach them. They can use the D2D matrix, the dealer-to-dealer matrix to go use the CarOffer platform to be even more successful. So we're targeted. Once we get the operations working as well as we want to, we will turn on much more of that CarGurus to CarOffer lead generation process.

Jed Kelly

Thank you. Helpful.

Operator

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

Rajat Gupta

Great. Thanks for taking the question. I wanted to follow-up on like a couple of the questions earlier, just around network effects. I mean, clearly, there's seasonality in the business. We know that. But it seems like, the margin expansion that you're seeing, just sequentially 1Q to 2Q, 2Q to 3Q and also like year-over-year, it's pretty material. I was just curious, if you could help us understand that cadence a bit more. And then why is this taking off right now? Is it just that the incremental sales and marketing efforts are starting to become a lot more efficient in order to attach that extra product or the extra customer get them on board? I was just curious, if this flywheel is likely to just continue to inflect here going forward. I have a quick follow-up. Thanks.

Jason Trevisan

Sure. Thanks, Rajat. It's Jason. I think it's—so, we agree. We think there's a lot of momentum and relative to market growth rates and competitors growth rates, we're clearly gaining share anecdotally from customers. We hear a lot more enthusiasm and commitment to what we're doing than we ever have before. So, I think it's driven by a number of things. But I don't think any of them are revolutionary. I think it's just a compounding effect of us doing a lot of things well.

I think post-COVID dealers didn't need to invest much in marketing channels, and now they do. Over the past one to two years, they've really had to increase that. I think they're looking at what they were doing pre-COVID, which was spending on a lot of different channels, and now they're saying, okay, if I'm going to come back, I'm going to come back to the ones that deliver volume and really work. And I don't need to go on as many as I was before. So, I think that's number one.

Number two, I think, we just have continued to innovate and I think you hear that and you're seeing that with some of the various products. The innovation is not just to sell them something else that they might be buying elsewhere. But help them, as we've said a few times on this call already, to help them perform better on our platform and to help them run better dealerships. That might be that they turn cars faster, or it might be that they get more margin in their cars, or it might be that we're helping them source cars more intelligently. It's a number of ways, but it is totally aligned with them and running a better dealership.

I think that's translating into not only ROI from just the leads on our platform. I had also mentioned its exposure to an audience that they can't get on other platforms that you heard us say that almost half the consumers on our site don't go to our competitor's sites. But it's also touching more people at their dealership to run a better operation. I do think marketplaces tend to be a winner take most model over time. I think as we're having both sides, both audience, consumer audience as well as dealers start to gravitate more and more to us. I do think that is in fact a flywheel effect.

Rajat Gupta

Understood. That's very clear. Just a quick follow-up. I know you mentioned you didn't have any impact on CDK. But you do have a decent chunk of your customers that are franchise dealers as well. I was curious like, first of all, like I was surprised that you did not see any impact. But we're just looking medium term given the experience these dealers had with the outage and the challenges that they were facing, I was curious like what's—how could CarGurus, in a way take advantage of the situation in terms of offering some of the solutions to them because you already pretty much integrated with these dealers for a lot of other stuff. So, just wondering like if there's an opportunity for you here medium, long-term to get into those channels? Thanks.

Sam Zales

Rajat, it's Sam Zales. I'll take it. And if Jason or Elisa wants to add on, we can. We did grow right through the CDK outage. It really—we didn't see a blip. There's certainly customers who said, I want to consider something like Top Dealer Offer, which is new to us when they were very large, as you said, franchise players who might have said, I'm going to put off for a little bit of time to make that decision. I think that bodes well for a pipeline for us as we go forward. But we grew through it.

We certainly heard of the challenges on the financial side of invoice payments and others, but Elisa's already covered. We didn't see any challenges to our results on that front. I think what you're seeing is Jason's point on the flywheel effect, when an industry outage occurs, I think customers are going to focus on the partner who brings them not only the most new business and the most return on investment, but those who are partnering them with them as what I've called the profit maximization platform.

These new tools that Jason is talking about, literally gives a dealer predictive analytics and AI tools to say, how do I grow my business by sourcing, marketing and selling my vehicles as effectively and efficiently as I can? So, I can't speak more to the fact that there's no question. We heard from dealers that they've got this challenge in the market. We sold them through the process and continue to do so. And our hope is that we even have a pipeline built up for some of those who just couldn't make a decision on something until the CDK outage was done. So, we're really proud of that continued marketplace growth and we're excited about where we go in the future.

Rajat Gupta

Question on the DMS side of things, that your platform can allow you to easily build upon and to offer to these dealers eventually beyond just the core marketplace offering?

Sam Zales

I think you'll see us and Jason chime in if you want to lead the product initiatives. But I think you'll see us do more Rajat in the work to provide analytics. I think you can think of us as not only the largest consumer marketplace who provides the most down-funnel leads in quantity and quality to our dealers and our dealer partners, also the online and digital experiences as well. We're using that platform to say what data and predictive analytics would be most important to our dealers. Today, most of them will say to me and our team, how do you provide me with information to make me continue growing faster. We had big profits coming out of COVID and we'd love to sustain those. So data, I think is the first element. You heard about some of those new tools we're providing.

I think where we go going forward is how do you—yes as you said, integrate into the tools they're using day-to-day. Whether that's their CRM solution and being able to say, this digital deal consumer came further down the funnel. They set up an appointment. They put down a deposit. They've given you their pre-qualification for financing. Be ready to accept that, and you don't need as many sales resources because you can turn that down-funnel shopper into a closed sale as quickly as possible. So yes, it's data integration and integration into the systems they're using. But I think it starts with the consumer audience and our down-funnel shopper and then the data we're providing on top of it.

Operator

The next question comes from Naved Khan with B. Riley Securities. Please go ahead.

Ryan Powell

Hi. This is Ryan on for Naved. Thanks for taking my question. Two, if I may. So I was hoping to get a little more clarity on OEM ad revenue in the quarter. And then also wondering about marketing spend in the second half? Thanks.

Sam Zales

Hey, Ryan, Sam Zales. I'll take the first one. And on the OEM advertising, we're very, very proud of what we've done in that business. Growing it this year and really proud to do so. Obviously in the market right now, the OEMs—there's new inventory, new car inventory, so OEMs are now excited to advertise those to their customers. I think what we've seen is a move to the strongest endemic platform in the marketplace. Our down-funnel shopper, and we talked about our numbers 56% more minutes than our closest competitor, and 47% of our consumers don't go to other competitive sites. So that's known in the market and that's what's helping fuel our growth and we're really, really proud of that. Advertisers moving from programmatic buys coming to us and saying, I want to buy direct from you. That means a lot to us. Our programmatic partners always know of our endemic success. But the partners saying I want to buy from you directly has really fueled that growth.

Let me be direct to say, as great as our advertising team is doing and growing that business, and as great as we want to serve that OEM population, our priority will always be the consumers coming down-funnel to create transactions with our dealer partners. So, leads and digital transactions will always be the priority for the Company. So, compared to others in the market, we're not going to flood our site with ads and spaces to allow OEMs to run the page full. That's what I think you're seeing in our lead growth, in our marketplace growth and our business and the QARSD growth is because we're driving that as our priority and having the additional benefit of our advertising team growing their business as well. So we're really proud of that. That's great margin to our business.

Elisa, I think you'll talk next to the marketing side.

Elisa Palazzo

Yes, absolutely. Thanks, Sam. Thanks, Ryan. What we've got it for in terms of OpEx and in general is to stay, to remain constant in dollar terms between Q1 and Q3, but to go down as percentage of revenue and then we do expect marketing expense to go down in the fourth quarter because typically we spend less in media in the fourth quarter.

Ryan Powell

Awesome. Thank you.

Operator

Next question comes from Marvin Fong with BTIG. Please go ahead.

Marvin Fong

Great. Good evening. Thanks for taking my questions. First one on Top Dealer Offer, I think you said, 388 dealers are on that, which is fantastic. I was just curious, is growth being limited by CarOffer and the fact you're not leaning into growth there yet, or because you might get too much traffic or should we kind of see that as growing at its own pace? Because I think, we recall that CarOffer touched out some point north of 10,000 dealers, which would seem that you have ample runway in your Rolodex to kind of continue to call on dealers. So just kind of address how you should think about the growth trajectory of the dealer account for that product? Then I have a follow up.

Sam Zales

Marvin, it's Sam, I'll take it. There's really not a connection to CarOffer, if you will. We have mentioned when we've talked about Top Dealer Offer. We want an exceptional consumer experience and an exceptional dealer experience. So we are being—remember we've been out for a quarter and a half, I think, with the product at this point and in full broad national or close to national coverage.

So, we're going to be working with our largest, most sophisticated dealers who have a process to manage these, Sell My Car leads. I will tell you that just this week I heard from a dealer council member who's been with us since 2014. Since I was here, who said to me, you're crushing the market in your Sell My Car leads. That doesn't tell me the whole market is working that way. But he is a large, sophisticated multi-store retailer who has the processes to take these leads in and effectively work with the consumer.

We needed to use an intake tool that we now have out with all of our dealers on the Top Dealer Offer platform, who are utilizing that tool to make sure the appraisal matches the consumer experience. So the consumer walking in knowing that the vehicle had a different price on it because we saw these dents or scratches has to know why. And, we're hoping for that great NPS or consumer experience to do that. So you'll see this product not be launched to thousands of our dealers, we're going to launch it. So, the 388 to me doesn't matter as much as are we growing the marketplace revenues as effectively as possible, we're charging a premium price for it. It's an incredible lead, as I talked about pain point in the market is how do I acquire inventory. You know that gold to a retailer is consumer inventory. So, we're going to see not sending these leads out to hundreds and there are tens of thousands of dealers. It'll be a smaller base of our sophisticated dealers who are ready to take on that consumer experience. They're happy with the program, we're really happy with the growth and that's part of the fuel of QARSD growth for the business.

Marvin Fong

Great. Thanks, Sam. Then my follow-up, just kind of maybe a nitpick on the guidance. But it's a pretty wide range and it's kind of hard to imagine that you could know surprise to the upside purely on the marketplace. So, are you kind of leaving some wiggle room in case a product or wholesale revenue comes in a lot better than expected? Or, you could just kind of talk about what would it take to kind of reach that 230 to reach the upper end of your revenue guidance? Thanks.

Elisa Palazzo

Thanks, Marvin. So, for the wholesale, the digital wholesale business is a transaction-based business. So, the best indicator is the current run rate. And so, we feel that this range is actually appropriate for given the current level of transactions that we're seeing in the business.

Marvin Fong

Okay. Perfect. That's fair. Thanks a lot.

Elisa Palazzo

Thank you.

Operator

The next question comes from Tom White with D.A. Davidson. Please go ahead.

Tom White

Great. Thanks. Just one for me on CarOffer. Maybe coming at it a different way. Jason, would you say that the build out of the team there and sort of the most pressing kind of needed product improvements and enhancements are largely kind of behind you and maybe the main thing to getting volumes back up is just kind of rebuilding trust and maybe credibility with some dealers that had maybe not the best experience before with the product. If that's an accurate characterization, just curious to hear your thoughts about how you accelerate that kind of trust rebuilding, particularly, if some dealers maybe shifted to other kind of competing digital platforms over the last several quarters? Thanks.

Jason Trevisan

Sure. Dealers will always use multiple sources to get cars on their lot. So, it's not a—there's not high switching costs for them to add a channel. So, I actually don't think that has much to do with it. Our product is better today at CarOffer than it was two years ago. But two years ago, it was processing significant volume in large part because wholesale prices are rising so much. We've made a number of enhancements to the platform and largely it's to give buyers and sellers confidence that they will conduct a great transaction, it'll be a great experience, and they will—for buyers, they will end up with a car that they'll make money with. To do that in a price declining or highly price volatile environment, you need more insights and more safeguards.

So, we've made a lot of progress there. I don't know if there's necessarily a finish line. We expect to always make the product better. But we've certainly made progress there and we'll continue to.

In terms of restructuring the sales org that's something that as well. There's no finish line, you're always optimizing it. But we did have to move from the sort of old model and old profile of sales rep and account manager to the new one, and that has been done over the last few months. So that's still early, but making progress there.

I do think that the platform is working really well for some customers now. We need to just find more of those target customers and we will start to drive the sales team as it gets rebuilt. As we continue to add features and a lot of those features are rooted in data to give them more confidence that they'll have a great experience.

Tom White

Great. Thanks, Jason.

Operator

The next question comes from Joe Spak with UBS. Please go ahead.

Joseph Spak

Thanks for taking the question. I guess just sticking with digital wholesale here. Again, just I guess just to confirm the declines are in sales and profitability. This is main CarOffer or it's other dealer-to-dealer products as well?

Jason Trevisan

This is Jason. I mean, that is through CarOffer, which is really our only dealer-to-dealer wholesale.

Joseph Spak

Okay. So, the transactions, right, I think obviously 58% year-over-year. I think it's 87% below the highest quarterly level you told us. I know there's some seasonality that you mentioned earlier even in the third quarter. But, how do we know if and when we're sort of at the bottom? Like, is there, like I know a couple years ago there was 10,000 dealers enrolled, like where are we now?

Jason Trevisan

Yes. So, we haven't given dealer count numbers. We did share in the past that there's—and I think this is in some of the Q&A and so forth that there are different definitions of dealers and so much is enrolled versus active and so forth. Right now, we're at a stage where we completed the acquisition and really got ball control in December. We restructured the sales organization earlier this year and we're making all the product enhancements that I just talked about. A lot of the decline that you see when you go further back was a function of other factors that I think are no longer as relevant. One is, was just sort of the rapid wholesale price increase environment, unit price, and the rental fleets. So, those are not relevant anymore or they're contributed to some of the loss of volume.

But now, like I said, we have dealers who are being really successful on the platform. Then we're seeing really good uptake on some of these enhancements. So, examples are, we're helping CarOffer buyers bid on IMV, we're helping CarOffer buyers get smarter with helping them estimate turn times and margin of the cost that they buy in wholesale when they go to sell them at retail. All of those things are helping them be more confident when they're not as confident that wholesale unit prices are going to keep rising.

Joseph Spak

Okay. Then just on the impairment. I know you sort of mentioned you don't really see any long-term change for the strategic value of offering this to your customers. But presumably, the impairment by taking the impairment some things change about future profitability. I think you used to sort of have. I think it was like a 40% to 45% gross margin target there on that dealer-to-dealer wholesale business. So, what's sort of the new target when things get turned around that we should be thinking about?

Elisa Palazzo

Thanks, Joe. So, the impairment does not change our belief in the value of digital wholesale. This is a very strategic asset that allows us to operate across the continuum of a transaction lifecycle source a car, market and sell. It is highly synergistic value because we—allow us to use our expansive and differentiated real data to inform the CarOffer matrix, so allowing dealers to have a more informed sourcing. It's a very large TAM with a very rapid digital adoption. We want to be a leading market participant in this space. So overall, we are working on returning the business to profitable growth.

Operator

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

Doug Arthur

Yes. Thanks. Just a quickie. The gross profit margin on marketplaces was unusually high this quarter. It looks like there was some kind of reduction in fees for advertising campaigns. Is that something one should think about that level going forward? Or was that—was this unusually high?

Elisa Palazzo

So, thanks for the question. I wouldn't call it unusually high. It's actually been keeping grinding higher and higher and it is simply a factor of the fact that we continue to add the revenue with a very high flow through. And so, our listings revenues are very high to subscription-based business. The advertising business is also very high flow through. As Jason and Sam have said, we continue to add value-added products on top of our original business. And so again, this is just a function of very—having very high incremental margin, but I wouldn't call anything unusual.

Doug Arthur

Okay. Thank you.

Operator

The next question comes from Ron Josey with Citigroup. Please go ahead.

Ronald Josey

Great. Thanks for taking the question. Jason, Sam, I want to ask about two things on the—one on the product side, one on TDO. On the product, I think you talked about simplified vehicle search came out. And I was interested to know. Is that helping or how has this led to improved quality and the quantity of leads that are coming through? Specifically, would love to hear just more how the new search processes impacted or could impact the broader business? That's one.

And then on TDO, different from the question on—dealers. I want to ask more about what's needed to expand beyond the 68 metros. There's clearly a product market fit here with the 35% of end market demand and understood sophisticated dealers here. But I want to understand more about what's needed to really get beyond those 68 metros and go more nationally? Thank you.

Jason Trevisan

Sure, Ron, I can take the first. So yes, we've invested a lot in our consumer experience. And you heard us talk about some of it on the—in the script. But that's both in the app as well as on the web. That's in a few different ways. There's some pretty strong themes of personalization starting to come through that we've been working on. And then certainly, AI is helping us get a better sort order and search recommendation in a few different ways. We're doing it through conversational search to help with upper-funnel customers looking who are still trying to decide on a type of car, and then we're doing it in the sort order itself, once someone is in a search, also starting to apply that to helping facilitate the consumer and dealer interaction and engagement itself.

And so we—and that sounds like a lot of sophistication it is. But what it's ultimately resulting in is a simpler experience for the consumer. That's helping with our conversion rate. That's also helping with lead quality, which is then helping dealers convert. And so, we do consider ourselves a search company and we've started to invest quite a bit more over the past, I would say year to two on how we make those—that search process much smarter, much simpler, much better.

Sam, do you want to talk about TDO expansion?

Sam Zales

Yes, sure. Ron, thanks for the question. And again, I'm going to say I'm really proud of the expansion of the TDO business. We've only been on what you'd call not national. I hear why you're saying that the 68% of the country or so that we're covering right now for about three, four months. And so, we're really pleased with the take rates on the dealer side, which is fueling a lot of consumer demand for Sell My Car. I think we've also said, it's great to know that anybody coming in to Sell My Cars in many cases looking to buy a car. So it submits leads for us as well.

The challenge here, as you've known us over the years, Ron, is to balance consumer experience with dealer experience. So getting this product up and running and adopted in the marketplace was, is the consumer having the experience where the offer, and then that offer to what is finalized in the store is consistent and values driven and done very well. So, the consumer lead saying, I had a great experience, or if I didn't Sell My Car there, I at least got a fair offering. We do things differently than our competitors in the marketplace where we're not shipping the lead out to multiple dealers. So, the consumer is overwhelmed by the responsiveness and the dealer doesn't know if they're getting their fair share at the exclusive opportunity.

So, we've tried to really balance how fast we grow this experience to give us the best customer satisfying result overall and to expand our QARSD. We're really proud of where QARSD is going with that product take rate with TDO. Now, we've only been out, as we've said to about 400 dealers so far. The question is how much faster do we want to push that? I think we have pent-up demand in some markets, and then we have to open-up demand in other markets. So we're going to be balancing that as always, with ensuring this continues to be a great consumer experience.

As you know, if you look at our numbers overall in the business, the marketplace numbers for our consumers coming in blows away the competition. As I said, 47% of consumers don't go to other competitive sites. We want to keep the TDO experience similar to that, so it keeps customers coming back to CarGurus and continuing with us.

Ronald Josey

Super helpful guys. Thank you, Jason. Thank you, Sam.

Operator

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

Jason Trevisan

Thank you. So, I'd just like to thank everyone for your interest in CarGurus and especially thank all of our employees, our customers and our shareholders. Hope everyone has a great evening.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.