



CarGurus, Inc.

Second Quarter 2025 Earnings Conference Call

August 7, 2025

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

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

Jason Trevisan, *Chief Executive Officer*

Sam Zales, *President and Chief Operating Officer*

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

Chris Pierce, *Needham & Company*

Rajat Gupta, *JPMorgan Chase & Co.*

Joseph Spak, *UBS*

Marvin Fong, *BTIG*

Andrew Boone, *JMP Securities*

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

Kirndeeep Singh

Thank you, operator. Good afternoon.

I'm delighted to welcome you to CarGurus' second quarter 2025 earnings call. With me on the call today are Jason Trevisan, Chief Executive Officer, and Sam Zales, President and Chief Operating Officer.

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

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

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

Jason Trevisan

Thank you, Kirndeeep, and thanks to everyone joining us today.

We delivered outstanding financial results in the second quarter, led by double-digit year-over-year revenue growth and expanding profitability in our U.S. and international marketplace businesses, reflecting strong execution across our strategic priorities. We are innovating at a greater scale for our customers, delivering data-driven, differentiated solutions that help dealers run smarter, more profitable businesses, and make the car-buying journey more seamless for consumers.

These efforts have continued to drive better engagement and outcomes for our customers, which has translated into stronger financial performance for our business and has reinforced our market leadership. We ended the second quarter above the midpoint of our forecasted guidance range for total revenue and Adjusted EBITDA.

Marketplace performance was a key contributor. Revenue grew 14% year-over-year, adding \$27 million, driven by the addition of 1,743 net new dealers globally. Continued wallet share expansion among existing

customers and improved retention. Marketplace Adjusted EBITDA grew 31% year-over-year, underscoring continued strong operating leverage.

Our international business sustained outstanding revenue growth of 28% year-over-year, with momentum in both Canada and the U.K. We added 711 net new dealers year-over-year across the regions, while driving greater adoption of add-on products and listings upgrades. We delivered substantial year-over-year lead volume growth in both markets, driven by higher-intent consumer traffic that further reinforced our ROI advantage and strengthened our competitive position.

In the U.K., we were the number one most downloaded automotive app in Q2, underscoring rising consumer engagement and brand traction. In Canada, our significant and growing scale was further reinforced by a multi-year deal with AutoCanada, one of the country's largest multi-location dealership groups, which made CarGurus its preferred digital retail and listings partner. Their commitment reflects the value of our performance-driven marketing, proprietary insights, and hands-on dealer support.

Last quarter, we announced a strategic reassessment at CarOffer. That effort was prompted by the fact that rising market volatility continued to expose structural limitations in the CarOffer instant trade transaction model, despite the advancements we'd made with predictive analytics, AI-driven insights, and the many operational improvements. After that thorough assessment of strategic alternatives, we've made the decision to wind down the CarOffer transactions business. Through CarOffer's wholesale focus, we've built intelligent AI-driven technology and predictive analytics that empower dealers to make smarter sourcing decisions, and we saw that dealers who leveraged our insights enjoyed disproportionately better performance.

Going forward, while we will no longer operate the CarOffer transactions business, we will retain and continue to build on the underlying technology we created for it; capabilities that we believe remain central to CarGurus' sourcing strategy. Our priority at CarGurus remains providing dealers with data-driven, scalable solutions that not only help them manage their businesses more intelligently, but also have strong unit economics and clear competitive advantages.

Therefore, our focus going forward will be to provide our dealers with technology and analytics that enable smarter sourcing, appraisal, stocking, and pricing, but not facilitating the transactions themselves. We believe this will continue to position us as a valuable partner to our dealers, serving an increasing set of their needs, and focus us on the types of products we have a strong track record of delivery. This decision follows extensive effort and a thoughtful evaluation of alternatives by our team, and we're grateful to the CarOffer and CarGurus teams who built and supported these capabilities.

We're working closely with the dealers who relied on CarOffer to ensure a smooth transition, and more importantly, we're excited about the opportunity to partner with them on the next chapter of our sourcing strategy. With this foundational decision behind us and solid execution in Q2, we have continued to advance our three drivers of value creation. I'll now walk through our progress in each.

Driver one, expanding our suite of data-driven solutions across dealers' workflows to help them drive more profitable businesses. A core focus of our platform strategy is giving dealers more granular control over how they manage, price, and promote inventory to help them run more profitable businesses. One of the clearest signals of that is the strong sustained engagement with our dealer data insight suite. Dealers are not just accessing this data frequently, they're actioning our insights across pricing, inventory mix, and marketing strategy. As of the end of Q2, nearly 18,500 dealers were subscribed to Next Best Deal Rating, our most widely adopted report. Our more specialized reports are scaling even faster, in part driven by successful international launches.

Merchandising health rose nearly 30% quarter-over-quarter to 8,175 dealers, and max margin grew approximately 70% quarter-over-quarter to 4,300 dealers. Just as importantly, we saw a notable uptick in actions taken per dealer, with usage intensity rising across every report type. That growing engagement has translated into stronger dealer performance. Historically, dealers using these insights have seen higher

audience reach via VDPs, more prospects from leads, and faster turn times, leading to higher profit potential. We believe this kind of measurable impact is driving more dealer engagement and higher retention by giving our listings customers a competitive advantage in their markets.

An actionable example of giving dealers more sophisticated control of their marketing is our introduction of VIN-level targeting for both our highlight and real-time performance marketing products, giving dealers greater precision over how they promote inventory. This added level of recommendations, coupled with granular control, is driving results. Highlight adoption is up 33% year-over-year, and real-time performance marketing is seeing stronger engagement and improved retention. While still early, we believe the momentum underscores clear demand for precision marketing tools.

Building even further on giving greater control to dealers is our launch of New Car Advantage in Q2, our first product specifically designed for new inventory. While the majority of our leads still go to used cars, we have the largest inventory of new vehicles when compared to other marketplaces, with over 2 million listings.

This market-leading new car inventory asset matters because 53% of shoppers begin their search undecided between new and used, and according to a 2024 Clara Boyd study of U.S.-based new car shoppers, over half of all new car shoppers visited car dealers during their shopping journey.

New Car Advantage gives dealers precise control to promote new inventory in the most relevant, high-traffic, used searches, while also surfacing monthly payments to spotlight affordability, a key factor among used car shoppers. Early results show a 34% increase in VDP views, double-digit lift in new car leads, and 33% more new car searches from shoppers who engage with the title. As we advance our existing dealer products and introduce new ones, we're also making it much easier for dealers to access the growing value our platform offers via major upgrades to our dealer mobile app, a key workflow tool designed to support dealers wherever they work, whether pricing cars on the lot or monitoring performance off-site.

In addition to core dealer app functionalities such as monthly connections data, pricing notifications, VIN scanning, and real-time lead alerts, in Q2, we added two more capabilities: barcode IMV scanning to facilitate pricing vehicles at auction; and access to top dealer offers to enable mobile inventory intake. Our rapid expansion of dealer app functionality has driven impressive dealer adoption, with daily active users up 71% year-over-year, illustrating the CarGurus app's role as a go-to workflow tool. Together, these innovations are deepening dealer engagement across our platform.

By giving dealers more control, intelligence, and flexibility in how they manage and market inventory, we're helping them run more efficient, more profitable businesses. That value has translated into higher usage, stronger customer acquisition and retention, and a growing reliance on CarGurus tools as part of their day-to-day workflow.

Driver two, meeting the evolving needs of car shoppers by powering a more intelligent and seamless journey. We continued extending our reach across more stages of the car shopping journey, from early research to post-lead engagement. In Q1, we launched CG Discover, our AI-driven conversational experience designed to guide consumers toward more confident decisions. Users who engage with Discover now spend 3x more time on-site compared to those who do not, and usage has grown over 70% month-over-month in the second quarter.

Building on that momentum, we integrated CarGurus-produced video reviews into CG Discover in Q2, giving shoppers richer content to move from consideration to decision with greater confidence. To further support early-stage research, we launched our first sponsored content hub in partnership with a major OEM. The hub provides trusted resources to demystify the car buying process, from model comparisons and financing insights to broader automotive trends.

We believe this format builds trust and influences brand consideration at the point when consumers begin exploring their options. As we've expanded research tools like CG Discover and the sponsored content hub

to support shoppers across more stages of their journey, traffic to our research content has grown 170-fold year-over-year.

We also continue to invest in high-impact user experience product enhancements that make the shopping experience more intuitive and personalized. In Q2, we launched multi-make and model search on web, enabling broader exploration without narrowing the search too early, which drove a measurable increase in mobile conversion. On the app, which now drives one-third of our leads, we introduced several usability improvements, including a full design and performance overhaul, a redesigned saved cars and searches experience, and the launch of Dark Mode, one of our most requested features. We are innovating across the consumer journey, and it has translated into deeper engagement and higher intent.

CarGurus remained the number one most visited listing site in the U.S., and had nearly 85 million average monthly sessions and 34 million monthly unique visitors. But our advantage goes beyond scale. Consumers now spend 74% more total minutes on our site than our closest competitor, and 47% of our monthly unique visitors do not visit our competitors' sites.

That engagement has driven performance. CarGurus live sales continue to grow year-over-year, supported by lead growth and sustained close rates. These gains reflect progress in addressing more consumer needs, from discovery through transaction, and earning their time and trust as a result.

Driver three, enabling dealers and consumers to complete more of the transaction online, streamlining the final steps of the deal. In Q2, Digital Deal reinforced its role as a high-impact online-to-offline solution, enabling consumers to complete more of the transaction online before visiting the dealership. This creates a more seamless shopping experience for consumers and delivers more efficient, higher intent opportunities for dealers.

Adoption has grown to approximately 12,000 dealers globally, and today, Digital Deal leads account for over 27% of a dealer's email leads. By embedding high-intent actions, such as applying for financing, placing a deposit, or scheduling an appointment, directly into the core site experience, we're driving a higher volume of quality leads. This growth reflects rising consumer demand to do more online, and dealer preference for leads that signal stronger down-funnel intent.

Appointments are up 60% year-over-year, 47% of Digital Deal leads now include at least one high-value action, and we've seen a 68% year-over-year increase in shoppers that complete the full Digital Deal submission flow. To build on this momentum, we introduced a pre-qualified finance-based shopping experience that helps consumers discover vehicles that are already approved to finance. This allows shoppers to stay within budget and move forward with greater confidence.

Combined with our recently built capability, allowing dealers to receive full shopper credit applications directly in their finance management, these features are driving higher financing activity. Nearly 30% of Digital Deal leads now include financing. Collectively, by embedding more financing, scheduling, and decision-making tools directly into the shopping flow, we're driving stronger intent signals, higher quality leads, and improved close rates for dealers.

Supporting more comprehensive transaction enablement in Q2 involves significantly bolstering Digital Deal's role empowering online to offline transactions, as well as assessing how we support dealers' wholesale sourcing and fulfillment. That latter focus is what led to our decision to wind down the CarOffer transactions business, including both dealer-to-dealer wholesale and Instant Max Cash Offer, but still support their sourcing through technology, analytics, and insights. The CarOffer instant trade transaction platform performed exceptionally well during the price rising chip shortage period.

However, it has struggled in today's more volatile and unpredictable pricing environment, where dealers require more flexibility and broader automation to streamline fulfillment. We believe the underlying technology, analytics, and intelligence developed to support those transactions remain valuable capabilities. Sourcing is a foundational part of the dealer workflow, deeply linked to a dealer's retail success,

and one where we believe CarGurus can deliver a competitively advantaged solution by continuing to provide the data connectivity and predictive intelligence that is only made possible by connecting retail and sourcing activities.

We plan to concentrate our future sourcing offerings in two key areas, which together we believe offer a differentiated market solution and the opportunity to create long-term value. One, we'll continue to deliver AI-powered inventory intelligence through our sourcing insights platform, backed by the industry's largest retail data and Consumer Insights mode, delivered in ways that will make it easy for dealers to act on those recommendations. These insights drove the highest usage and customer satisfaction across the CarOffer platform.

Two, we will continue to enable consumer vehicle sourcing at scale through Top Dealer Offers, the preferred channel for both consumers and dealers. These decisions will allow us to leverage our retail and wholesale data to provide differentiated sourcing offerings to dealers that we believe have proven product market fit and clear alignment with our platform capabilities.

In Q2, we delivered strong performance while realigning our focus around our core capabilities and ability to differentiate where our data, technology, and audience enable us to deliver tremendous value to customers, which we believe will help drive predictable and growing financial results. We're building with greater precision across the platform to help dealers operate more efficiently across their workflows and empower consumers to navigate their journey with greater clarity and control. As we enter the second half of the year, we plan to execute against a clear set of priorities, align capital to our strongest product foundations, and invest in the parts of the platform positioned to drive durable, profitable growth.

Now let me walk through our second quarter financial results, followed by our guidance for the third quarter of 2025. Second quarter total revenue was \$234 million, up 7% year-over-year, just above the midpoint of our guidance range, as double-digit year-over-year growth in our marketplace business was partly offset by declining wholesale and product volumes.

Marketplace revenue was \$222 million for the second quarter, up 14% year-over-year, in line with the midpoint of our guidance range. Marketplace revenue growth was driven by strength in our subscription-based listings revenue.

In Q2, U.S. QARSD grew 9% year-over-year. We added 1,032 paying U.S. dealers year-over-year, marking six straight quarters of positive net dealer adds, as well as the second consecutive quarter of the highest year-over-year dealer growth since before the pandemic. While this rapid dealer growth can moderate the pace of QARSD expansion, these trends underscore our ability to grow our footprint while increasing wallet share across our expanding base, driven by upgrades, broader adoption of add-on products, like-for-like price increases, and higher lead quantity and quality.

Our international business continued to demonstrate strong growth in the second quarter, with revenue up 28% year-over-year, and international QARSD up 19% year-over-year. Wholesale revenue was approximately \$6 million for the second quarter, down 52% year-over-year, and product revenue was roughly \$6 million for the second quarter, down 45% year-over-year. These declines were driven by transaction volume decreasing 55% year-over-year.

I will now discuss our profitability and expenses on a non-GAAP basis. Second quarter non-GAAP gross profit was \$207 million, up 14% year-over-year. Non-GAAP gross margin was 89%, up approximately 510 basis points year-over-year.

The year-over-year margin expansion continued to be driven primarily by the revenue mix shift toward our higher-margin marketplace business. Marketplace non-GAAP gross profit was up 13% year-over-year, and non-GAAP gross margin was roughly flat at 93%. In our digital wholesale segment, non-GAAP gross margin was up about 460 basis points year-over-year.

On a consolidated basis, Adjusted EBITDA was above the midpoint of our guidance range, at approximately \$77 million, up 39% year-over-year. Adjusted EBITDA margin was 33%, up about 760 basis points year-over-year, reflecting the strong revenue growth and operating leverage. Marketplace Adjusted EBITDA grew 31% year-over-year to approximately \$80 million, with margin up about 470 basis points year-over-year. The higher margins were driven by leverage across our operating cost base. Digital wholesale Adjusted EBITDA loss was approximately \$3 million. The decline was driven by the year-over-year decline in transaction volumes and deteriorating unit margins.

Moving to OpEx. Our second quarter consolidated non-GAAP operating expenses totaled \$136 million, up 3% year-over-year. The year-over-year change primarily reflects higher general and administrative and sales and marketing expenses, partly offset by modestly lower product and technology expense. During the second quarter, we recorded \$32.6 million in total impairment charges associated with our CarOffer business. The impairment charge included \$2.9 million booked in cost of revenue and \$29.6 million in operating expenses in the digital wholesale segment.

Non-GAAP diluted earnings per share attributable to common stockholders was \$0.57 for the second quarter, up \$0.18, or 46% year-over-year, reflecting primarily the increase in Adjusted EBITDA and lower diluted share count. We ended the second quarter with \$231 million in cash and cash equivalents, an increase of \$58 million from the end of the first quarter. The higher cash balance was primarily driven by higher Adjusted EBITDA, as well as working capital inflows of about \$4 million, partly offset by \$8 million in CapEx and capitalized website development costs.

I will now close my prepared remarks with our guidance and outlook for the third quarter 2025. Due to the wind down of CarOffer, we will no longer be guiding to consolidated revenue and consolidated Adjusted EBITDA. Instead, we are guiding to marketplace revenue and marketplace Adjusted EBITDA, as that is representative of our go-forward operations. We expect third quarter marketplace revenue to be in the range of \$228 million to \$233 million, up between 12% and 14% year-over-year, respectively. Last quarter, we guided to exit the year at a low double-digit growth rate.

We are now tracking modestly ahead of where we previously expected we'd be. For the third quarter, we expect our non-GAAP marketplace Adjusted EBITDA to be in the range of \$76.5 million to \$84.5 million, up between 9% and 20% year-over-year, respectively. Our guide reflects marketplace absorbing approximately \$1 million in ongoing quarterly CarOffer expenses as a result of the wind-down.

At the midpoint of the EBITDA range, we expect margins to contract modestly on a sequential basis. As we explained last quarter, Q3 will include sequentially higher investments in sales and marketing, international and product innovation. We still expect annualized margin expansion in 2025 relative to 2024.

We expect to substantially complete the wind-down activities related to the CarOffer transactions business in the second half of 2025. We expect to incur total wind-down related charges in the range of \$14 million to \$19 million. We expect third quarter non-GAAP consolidated earnings per share to be in the range of \$0.50 to \$0.58, up between 14% and 32% year-over-year, respectively, and diluted weighted average common shares outstanding to be approximately \$101 million.

Finally, I'm pleased to share that with only \$15.5 million remaining under our \$200 million 2025 share repurchase authorization, the Board has approved a \$150 million increase to the existing program, reinforcing our commitment to returning capital to stockholders and our confidence in the strength of our performance, balance sheet and disciplined capital allocation strategy. The authorization is available through July 31, 2026. Since the fourth quarter of 2022, we have repurchased nearly 25 million shares at an average price of \$22.39 for a total of about \$553 million.

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

Operator

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

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

Chris Pierce

Hey. Good afternoon, everyone. I'm just curious, how should we think about dealer count, revenue per dealer, the way it lines up into marketplace revenue growth with your existing product suite or the need to drive adoption of yet-to-be introduced products? Like, I just want to get a sense of the white space available. You sort of hit on it with Digital Deal being taken up by 12,000 dealers versus 33,000 total, but I just want to get a sense of white space with your current product suite.

Jason Trevisan

Sure. Hey, Chris. It's Jason. There's a lot of opportunity and runway for our existing products. We have given some cross-sell penetration data around some of our products, but among our—and not for others. Among our core 26-thousand-ish paying dealers in the U.S., there's certainly runway for that among the 42-or-so-thousand total rooftops in the country just on a core product basis. Then among our other products, our other à la carte monetizable products, we have a lot of runway. I mean, over 50% runway on most of our cross-sell products.

From a DDI perspective and just getting dealers to use and engage with and get addicted to our insights and analytics, we gave some of those numbers in the call today and Next Best Deal Rating is the highest at 18,000 and the others are much lower. You have a good sense of runway there.

Then as we introduce new products and features, but also new data and insights, that was—we feel good about the pipeline of those. We've shown that we can gain adoption. So, we're excited about the product pipeline coupled with just how much engagement we're seeing from dealers now.

I think in this market, they are very eager and hungry for things that can help them navigate the market. So, predictive analytics, which we're delivering to them, and things like VIN-level targeting and new cars. All of these are very welcome opportunities for them.

Chris Pierce

Okay, perfect. Then just one on macro. I appreciate it because no one has a crystal ball, but what's the right way to think about increasing use supply as off-lease units come back and—it's definitely gotten more competitive out there for dealers, but how do you think about what the future might look like as you have these products to help dealers get smarter and there's an overall pool of—growing pool of vehicles for them to finally sell?

Jason Trevisan

Yes, totally. Used inventory is up year-over-year, but it's not where it was pre-COVID. We think there's still runway for it. As you heard us often say, the best way to make money selling a car is to buy it right. That's why we're so excited about the sourcing intelligence that we talked about having built at CarOffer because the CarOffer dealers that used it there showed how much they appreciated it and how well it worked for them. If we can parlay that into the much broader base of the 26,000 paying dealers, then we think there's huge upside there.

Chris Pierce

Okay. I'll pass it along. Thank you.

Jason Trevisan

You bet.

Operator

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

Rajat Gupta

All right. Great. Thanks for taking the question. I just wanted to ask one, maybe just following up on Chris's question, just a little more broader macro type question. Given we have a little more certainty around the tariffs, do the manufacturers have some certainty? Do the dealers perhaps have more certainty? Are you seeing some easing in terms of anxiety when it comes to how your customers are viewing the backdrop going forward? Are they more willing to open up their budget and just have more clarity on those budgets? Are you starting to see that with your salesforce on the ground, that they're more willing to have those conversations and just go ahead with the subscriptions? I'm just curious to get your thoughts on what your customers are telling you. I'll have a quick follow-up. Thanks.

Jason Trevisan

Thanks, Rajat, for the question. There might be a little more certainty on tariffs that might ease some anxiety, but I wouldn't say that it's gone by any means. Tariffs have played a little bit with consumer demand. They have—they created a pull-forward in March and April. They're creating another and then that abated. There's another bit of a pull-forward now with consumers being concerned about tariffs.

Tariffs have not really translated into new car price increases, except you're also hearing the OEMs in their earnings talk about the magnitude of the losses that they're incurring as a result of tariffs. We do think that at some point, something will need to get absorbed somewhere. I think consumers are feeling uncertain, but on top of that, you still have really high interest rates.

You have used car prices that are higher than they were a year ago. You've got elevated inventory. Our days on market are pretty steady. Dealers certainly feel as though there's still remaining uncertainty in new and they've got a lot of use and they're priced high. They need to move those. I think those are some of the macro factors that are driving some of the adoption of DDI.

Then as we've talked about here, when dealers feel that it will be hard to cars, they will work with marketing partners like us. We think we're in a good spot as the market leader as we're growing engagement in our insight—with our insights. We continue to base our—the core of our value proposition on ROI, that we're in a really good spot for dealers, given the macro. I think the macro will remain somewhat uncertain for a while.

Rajat Gupta

Got it. Got it. That's helpful. Just again, zooming out even more, I wanted to talk about agentic AI, GPT-5 launched today, just with the rise of these tools that can search and transact on behalf of users. How do you see this affecting your marketplace model? Or are there plans to integrate or partner with such tools, just to stay central in the car-buying journey? Just curious to get a thought, how do you see yourself participating, navigating as this evolves? Thanks.

Jason Trevisan

Sure. A lot of thoughts on this. I would say, first of all, that our CG Discover that we talked about and you can use on our site is certainly a step in that direction. It is far more than taking freeform search and applying it to SRP filters. Our AI Discover is-or CG Discover rather is truly autonomous. It's conversational. It uses reasoning. It sticks with the user across multiple steps. That is starting to get to more of an advisor to a consumer, doing a search.

More broadly speaking, how AI plays into what we're doing, in particular, say with audience acquisition - we're using AI and embracing it deeply on our existing channels, and that's leading to terrific efficiency for us. We're honing our generative engine optimization, and that involves both tactical and mechanical things, as well as making our data more accessible.

Then AI on our site and coupled with direct traffic is, we think, all about the consumer experience. An important part about the consumer experience, which includes having content for upper funnel and AI Discover, as well as improving the point of decision and reaching out to a dealer, an important part of that is actually engagement from dealers. The trust that dealers have with us and the engagement they have with us, the data they provide us, that we wrap into our whole user experience, creates a lot of trust with consumers. That's really important, and it's hard to get in horizontal, even agentic AI.

Then the last piece I'd say is that there is an important human layer to shopping for something like a car, there is emotion to it, there is bespoke opinions and feelings about cars and houses and things like that, that is hard to capture in an AI experience. We've seen that on DLAs and Google for a while. It serves a certain purpose, but the really deep embedded emotional experience that a consumer goes through on our site is tough to replicate.

Rajat Gupta

Got it. Great. Thanks for your thoughts there, and good luck.

Operator

Thank you. Our next question comes from Joe Spak with UBS. Please go ahead.

Joseph Spak

Thanks. First one, just a clarification. All the costs related to the wind-down of CarOffer are excluded, and not to parse words, but I think you said \$14 million to \$19 million of expense in the second half, and there was language about a significant portion of the cash payments. But are the cash payments equal to that expense, or are there also some non-cash write-downs in that number? Then that \$1 million quarterly you talked about being absorbed into the remaining business, can that be brought down over time?

Jason Trevisan

I'll take the latter part first. The \$1 million per month or-sorry, per quarter estimate is our estimate of recurring expenses that will be absorbed in the marketplace business. Think of that as recurring. There's some things in there that have an end date in the future, but for now, think of them as recurring.

In terms of the breakdown of the estimated \$14 million to \$19 million, approximately \$5 million to \$7 million of that is one-time restructuring costs, severance and other related costs. Another \$8 million to \$10 million is actual wind-down operations. Think of that as near-term burn that we've said we expect to be substantially wrapped up in the second half of this year. Then the final \$1 million to \$2 million is in non-cash charges like brand, amortization, cap dev, inventory, etc.

Joseph Spak

Okay. Super helpful. Thank you. Jason, when I first asked about Amazon, I think all the way back on your fourth quarter '24 call, you said you would never underestimate them as a formal competitor, but that you found it understandable that they'd focus on new vehicles to start and that's a cleaner market value chain and that user's quite different. With the recent news that they're moving into using CPO, just wondering if we can get your updated thoughts there on them as a competitive threat or change the competitive landscape, and maybe if you have any feedback you can share from dealers or customers that you've heard from on their initiatives. Thanks.

Jason Trevisan

Sure. I'll take the start of this and then, Sam, if you want to share what we've heard from some of our dealer partners. Yes, I will continue to say that we nor anyone else should underestimate Amazon ever. We do though think that we have some really strong moats and we're clearly watching what they're doing and are aware that they've launched used cars in the LA region. We do think that we have some really strong moats in a two-sided marketplace that include our selection, our data. As I was talking about in the last question, that just trust from dealers and engagement from dealers and that creates really sort of a mutually beneficial experience in both dealers and consumers feeling as though it's trusted and what they're getting is quality and high quality leads and high quality introductions to dealers.

Building up the dealer ecosystem is not insignificant and it requires them to want to buy in and to be willing to trust. For consumers, a vehicle purchase is, as I also just said, a very emotional and time intensive iterative process. We think we have done a really good job of that with practical things like selection and transparency and data, but also having been doing this for a long time, we know how consumers shop. We're increasingly personalizing the experience, personalizing the journey and just making it a good overall experience with really high NPS.

While we would never discount any competitor, we also think that by leaning into that experience and the two sides, the trust between the two sides that we feel good about where we stand today, but we will continue to watch them and every other consumer. We've long known that they're going to-they've said they're going to move into used, so we were expecting this.

Sam, do you want to talk much about what we've heard from dealers or do you want me to keep going?

Sam Zales

I would only-Joe, I'd only add that we do-obviously are very vigilant about the competition and really proud of where we are in the marketplace right now. Jason said it well, the liquidity of our marketplace because of that consumer and dealer trust that we've created and the constant use of data to make each side more effective and efficient in this purchase process is what makes us different. Customers that we've talked to and we keep very tight to the Hyundai community that is working with Amazon have said it's low volume. That's the feedback we're getting so far, but we'll remain vigilant to watch out for it. Reminder, too, that consumers want both online and in-store experiences. The push to partnering with dealers is what we've honed over the years. You see the digital deal effort in our business. It drives the consumer down the funnel, but then into the dealership more ready for the purchase. I think that's the typical process we've honed to feel very strong about our competitive position in the marketplace.

Joseph Spak

Thanks. I appreciate it.

Operator

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

Marvin Fong

Great. Thanks for taking my questions. I apologize. I hopped on a little bit late, but understand that you're winding down CarOffer and the limitations of that platform. Just would love to know though, how you-do you plan to continue to attack the dealer-to-dealer side of the business? I understand you'll still have Top Dealer Offers, but in terms of addressing the D2D space, is that something you will be finding an alternative way to do? That's my first question. Then I have a follow-up.

Sam Zales

Marvin, thanks. It's Sam Zales. I'll jump in and let Jason follow on. We absolutely do plan to provide D2D capabilities that we already have been providing in the sourcing arena. You said it well. We're providing Top Dealer Offers, which we're really proud of the growth of that business and expect that that will continue to be or believe that that will continue to be an important channel for dealers to access consumer vehicles.

But in the arena of sourcing, the biggest learnings out of the CarOffer platform for us was we truly believe we have differentiation in the data-driven technology, tools, and insights we provide in the sourcing arena, which allows you to help dealers provide insights for inventory management and pricing, which ties very directly from wholesale to retail, our core business. I think the real differentiation here is predictive analytics. That's what we see is differentiated in the marketplace.

Why predictive? One, we provide more information on consumer demand than any other marketplace in the industry. Where is that consumer demand going in a local market? What are the turn times and market day supply in those markets so we can optimize stocking experiences for our dealers and help them find the vehicles that will make the biggest difference in their profitability?

Number two, retail pricing. We have more information with more inventory on retail pricing than any marketplace. The effort there is to help dealers get the spread that they need or loss mitigation on the vehicles they're holding to know what they can do with those vehicles in the market and price them effectively to win. We think that inventory management and pricing in our intelligence and our predictive analytics is going to be differentiated and continue to be an important part of our offering in the sourcing arena.

Marvin Fong

Got it. I think I actually asked you, Jason, this a couple of years ago, but now that you're seeing so much success in the international business, would you ever reconsider going into beyond just Canada and U.K., or does that remain the focus of your international efforts?

Jason Trevisan

That remains the focus for now, Marvin. We are doing, as you heard, really well in those markets. We think we're at pretty interesting points in time in those markets in terms of our lead volume relative to some of our competitors, our lead quality, our dealer satisfaction, our consumer NPS. We want to stay focused there because those are big markets and have a lot of enterprise value to go get. We feel extremely good about those countries for now.

Marvin Fong

Okay, great. That makes total sense. Appreciate the insight.

Operator

Thank you. The next question comes from Andrew Boone with JMP Securities. Please go ahead.

Andrew Boone

Thanks so much for taking the question. I wanted to go back to AI search, but instead of talking about agentic, I just wanted to talk more about today. As we do transition to AI overviews and eventually AI mode, what are you guys seeing in terms of a change in traffic? Is there anything that we should be aware of as Google makes that transition? Thank you.

Jason Trevisan

Sure. Thanks for the question, Andrew. Nice to connect. We are seeing that there's still low-relatively low adoption of AI search among our target audience base. It's growing quickly, but it's a very low base. We know and you know this too that when Google provides the AI response, there's a much lower click rate on it because it's typically a user getting the answer in that response and they don't need to go further.

With auto, it's different. They do need to enter demonstrating. They typically-even if they're engaging with VLAs or AI, they want to go to a destination where they can compare and contrast. They can do research. They can truly shop in a pretty deep environment. We're seeing growth of that with Google. We're seeing growth of that with ChatGPT and other AI-based platforms, but not in a way that is impacting our audience acquisition yet. Regardless of that though, we are continuing to invest pretty heavily, as I mentioned earlier, in creating the best leverage of AI in our own experience.

The other dimension too is that Google in particular, as well as Meta and Amazon to some extent, have built some really incredible AI tools for their what you call traditional search.

That is helping us get more efficient where we still have 98% plus or so of the search activity that's relevant to our audience, which tends to be people who are mid to low funnel. They're in the market for a car and they are getting a pretty good sense of what they want.

Andrew Boone

Thanks. Then just as a follow-up, you guys highlighted retention rates that improved last quarter. Can you just double-click on that and just update us for this quarter? How is retention with dealers? Are you guys seeing any changes there? Thank you.

Jason Trevisan

Sure. I'll maybe give a disappointing start, which is to say we don't give actual retention data, but we did give the trend that we're improving. But Sam, do you want to talk about some of the things that we think are driving the improved retention largely based in engagement?

Sam Zales

Happy to, Andrew. Thanks. The results continue to improve. We look at our monthly recurring revenue and say, we've got to acquire business, we've got to expand existing business, and we've got to retain business. All those levers have been really successful for us. As you've seen the growth of the marketplace business, we're really proud of those results.

I'd say that the engagement, Jason alludes to, is really the dealer data insights. We've brought something very different to the market. We're providing an opportunity for dealers to run their business with more profitability, and that's what every dealer is looking for. How can we use data and information to help me price most effectively? In some cases, that's priced down to win more audience. As we've said, terrific results on that front.

At some places, I might bid up the price and stay in a great deal segment of our search results and win more business and profits to the business. The CarOffer acquisition insights report, how do I use that to source the right vehicles that will map to market trends and opportunity for increased turn times? All of

these are ones-and merchandise health, how am I merchandising? Am I doing an effective job marketing my vehicles against the competition? All of those put you instead as a consultative partner to dealers, and that's what's growing both the new acquisition numbers, the dealer adds, our expansion of QARSD, and the record results on retention, which we think is really a testament to what kind of consultative feedback we're providing to those dealers.

I'll add also that we've got an in-market engagement team that goes out to our dealers and says, I'm looking at best practices across this particular region. Let me go into the market and share those best practices with another set of dealers in their lead management, their marketing, their merchandising, their pricing. That creates just wins for the entire industry with more liquidity. The more liquidity means more ROI, means dealers will flock to our marketplace and keep that fuel going with our marketplace revenue growth.

Jason Trevisan

I'll just maybe summarize a little bit on top of that, not to beat a dead horse, but the notion of engagement, which we talk a lot about, is really key. It's the difference between a dealer feeling as though the leads are going into their CRM and they're working those leads, and that's it, versus several people at the dealership, their GM, their sales manager, using our insights every week and oftentimes every day and opening them every day. When you create those habits, it's just very difficult and they don't have-they're not inclined at all to separate.

You then see that translate into longer-term contracts, which we're seeing grow as well. You also see that translate into app usage, which is growing. I think we talked about that on the call as well. App usage is highly frequent. As we add capabilities there, we're getting significant growth in adoption there. It really is all about creating habits and behaviors at dealers that get them much more embedded with us.

Andrew Boone

I appreciate that. Thank you.

Operator

Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Jason Trevisan for the closing-the CEO, for the closing remarks.

Jason Trevisan

Thank you very much. I'd just like to thank everyone for joining the call today and for your interest in CarGurus. As always, I want to give special thanks to our employees and their passion and commitment every day, as well as to our customers who put their trust in us.

Thanks very much, everyone. Have a great evening.

Operator

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