

# CarGurus (CARG): 11.4x EV/EBITDA and 10.6x EV/FCF Price a Mature Marketplace Despite 37.8% ROIC

CARG | CarGurus, Inc. | Consumer Cyclical | Auto - Dealerships | FY 2025 | 2026-06-17T15:54:37.056Z

At 11.4x EV/EBITDA and 10.6x EV/FCF, CarGurus is priced as a low-growth marketplace, yet ROIC of 37.8%, ROE of 41.9%, and 60.2% free cash flow growth suggest the cash-generation profile may be more durable than a 5.0% revenue growth narrative implies.

| SIGNALCORE VIEW                | SIGNAL SCORE | FUNDAMENTAL QUALITY | EXPANSION POTENTIAL                                      | THESIS RISK |
|--------------------------------|--------------|---------------------|--|-------------|
| Interesting research candidate | 67 / 100     | 77 / 100            | 80 / 100   | 5 / 100     |
| Value / Quality Candidate      |              |                     | Derived from growth, expectations and execution evidence |             |

**PRIMARY DEBATE** — The core debate centers on whether 5.0% revenue growth indicates structural maturity or whether 695.0% EPS growth and 60.2% free cash flow growth reflect scalable monetization from transaction features in an asset-light model with ROIC of 37.8%. Evidence: 5Y average revenue growth of 20.9% versus latest 5.0%; interpretation: the deceleration frames the company as ex-growth; implication: if earnings durability proves repeatable, the 10.6x EV/FCF multiple may not reflect the return profile.

## INVESTMENT NARRATIVE

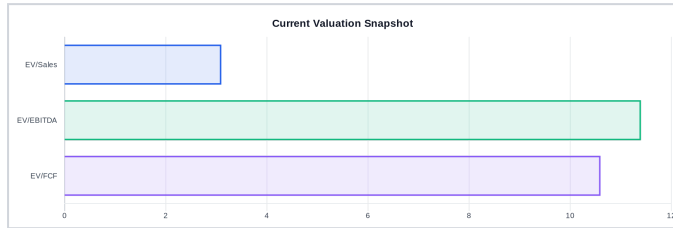
|                              |  |  |
|------------------------------|--|--|
| <b>Archetype</b>             | <b>Cash-generative marketplace mispriced as ex-growth with underappreciated optionality</b>  | <p><b>Core Tension:</b> Are EPS/FCF gains durable and scalable via transaction features and AI-driven monetization, or is the core marketplace maturing with limited revenue growth, making recent EPS strength transient?</p> <p><b>Market Assumption:</b> The core U.S. Marketplace is mature with low growth; recent EPS surge is not sustainably repeatable; AI/transaction initiatives are incremental; therefore a mid-teens EV/EBITDA or ~10-11x FCF multiple is appropriate.</p> <p><b>Trajectory:</b> Modest top-line growth (5%) with outsized EPS/FCF inflection, consistent earnings beats, high ROIC/ROE, low leverage, and expanding transaction-enablement/AI optionality.</p> <p><b>Mispricing Hypothesis:</b> The market anchors on 5% revenue growth and cyclical auto exposure, undervaluing the durability of high-ROIC cash generation and the growing contribution from transaction features/AI, making ~10-11x FCF/EBITDA too low if EPS/FCF strength persists.</p> |
| <b>Company Type</b>          | <b>Asset-light, two-sided automotive marketplace with transaction features and a digital wholesale segment</b>                                   |  |
| <b>Key Monitoring Metric</b> | <b>Revenue growth re-acceleration above 5% driven by adoption of transaction features (e.g., Digital Deal, Finance in Advance, Sell My Car).</b> |  |

## EVIDENCE MAP

| SUPPORTING EVIDENCE  | CONTRADICTION EVIDENCE  |
|--|---|
| Latest revenue growth at 5% vs 5Y revenue growth of 20.9% indicates deceleration/maturity.   | Latest EPS growth 695% and 5Y EPS growth 25,353.1% signal powerful earnings inflection.   |
| Valuation: EV/FCF 10.61 and FCF yield 9.81% and EV/EBITDA 11.45 imply skepticism about durable growth.                                       | FCF growth 60.2% alongside a 9.81% FCF yield suggests supported cash generation relative to price.  |
| Coverage clusters around earnings_guidance and analyst_revision, suggesting outlook-driven expectations rather than a high-growth narrative. | EPS beat rate 100% and revenue beat rate 62.5% indicate consistent outperformance vs expectations.  |
|  | High returns: ROE 41.9% and ROIC 37.8% reflect an efficient, asset-light model.   |
|  | Low leverage: Net Debt/EBITDA 0.45 reduces financial risk and supports durability.  |
|  | Product set enables deeper monetization and end-to-end transactions (Digital Deal, Finance in Advance, Sell My Car options), plus additional platforms (Autolist, PistonHeads). |
|  | Narrative cluster includes ai_technology, indicating potential for data/AI-driven improvements to matching, pricing, and monetization.  |

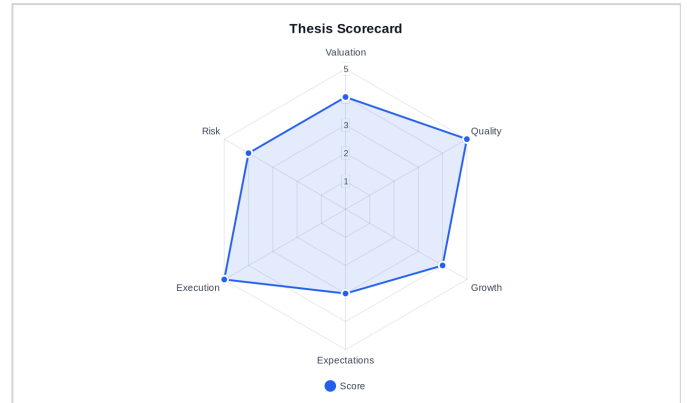
## SCORECARD

| VALUATION | QUALITY   | GROWTH    | EXPECTATIONS | EXECUTION | RISK     | OVERALL   |
|-----------|-----------|-----------|--------------|-----------|----------|-----------|
| <b>4</b>  | <b>5</b>  | <b>4</b>  | <b>3</b>     | <b>5</b>  | <b>4</b> | <b>4</b>  |
| SUPPORTED | SUPPORTED | SUPPORTED | MIXED        | SUPPORTED | ELEVATED | SUPPORTED |



### CURRENT VALUATION SNAPSHOT

Current multiples are shown separately from historical fiscal-year trend metrics.



### THEESIS SCORECARD RADAR

Evidence scores summarise valuation, quality, growth, expectations, execution, and risk.

## KEY METRICS

| CURRENT EV/EBITDA | CURRENT EV/FCF | FCF YIELD   | ROIC         | REVENUE GROWTH | EPS GROWTH    | FCF GROWTH   | EPS BEAT RATE |
|-------------------|----------------|-------------|--------------|----------------|---------------|--------------|---------------|
| <b>11.4x</b>      | <b>10.6x</b>   | <b>9.8%</b> | <b>37.8%</b> | <b>5.0%</b>    | <b>695.0%</b> | <b>60.2%</b> | <b>100.0%</b> |

## EXECUTIVE SUMMARY

|                          |  |
|--------------------------|--|
| <b>Core Tension</b>      | Are EPS/FCF gains durable and scalable via transaction features and AI-driven monetization, or is the core marketplace maturing with limited revenue growth, making recent EPS strength transient? |
| <b>Market Assumption</b> | The core U.S.  |
| <b>Current Pricing</b>   | At 3.1x EV/Sales, 11.4x EV/EBITDA, and 10.6x EV/FCF, with an earnings yield of 5.3% and FCF yield of 9.8%, the market appears to assume mid-cycle profitability rather than sustained inflection.  |
| <b>Valuation</b>         | Current valuation of 11.4x EV/EBITDA and 10.6x EV/FCF compares with fiscal-year latest EV/EBITDA of 15.5x and a 3Y average of 21.1x.   |
| <b>Quality</b>           | Quality metrics reflect an asset-light model.  |
| <b>Growth</b>            | Growth is margin-led rather than revenue-led.  |
| <b>Cash Flow</b>         | Cash flow trend remains positive.  |
| <b>Execution</b>         | Execution has been consistent at the earnings line.  |
| <b>Primary Monitor</b>   | Can revenue growth exceed 5.0% through broader adoption of transaction features within the \$1.3B nextRevenueEstimate framework?   |

## THEESIS DRIVERS

| SUPPORTING DRIVERS |                |               | CONSTRAINTS / MONITORS |  |  |
|--------------------|----------------|---------------|------------------------|--|--|
| 1                  | EPS Growth     | <b>695.0%</b> |                        |  |  |
| 2                  | FCF Growth     | <b>60.2%</b>  |                        |  |  |
| 3                  | EPS Beat Rate  | <b>100.0%</b> |                        |  |  |
| 4                  | ROIC           | <b>37.8%</b>  |                        |  |  |
| 5                  | FCF Yield      | <b>9.8%</b>   |                        |  |  |
| 6                  | Revenue Growth | <b>5.0%</b>   |                        |  |  |

## COMPANY & BUSINESS MODEL

CarGurus, Inc., established in Boston, Massachusetts, in 2005, manages a prominent online ecosystem for vehicle transactions, serving both buyers and sellers across the United States and internationally. The company's operations are divided into two main segments: the U.S. Marketplace and Digital Wholesale. Essentially, CarGurus offers an expansive digital automotive marketplace where individuals can search for

new and pre-owned vehicle listings from numerous dealerships. Simultaneously, it empowers dealers by linking them with a vast, engaged consumer base and supplying them with practical, data-driven market intelligence. The platform provides an array of specialized features to simplify the car buying and selling journey. For instance, "Digital Deal" allows prospective buyers to begin their purchase directly from a vehicle's detailed listing, while "Finance in Advance" enables qualified consumers to secure pre-approved financing from partnering dealerships. For individuals looking to sell their vehicles, CarGurus offers "Sell My Car – Top Dealer Offers," where dealers present customized trade-in valuations, and "Sell My Car – Instant Max Cash Offer," which facilitates quick online sales of consumer vehicles to dealerships. Furthermore, CarGurus delivers various products to its dealership partners, including listing enhancements and analytical data tools. It also presents advertising avenues for automotive manufacturers and other businesses, focusing on strategies like brand reinforcement, category sponsorship, exclusive automobile segment positioning, and targeted consumer exposure. The company expands its reach through additional platforms such as Autolist, another online automotive marketplace accessible via mobile apps and its website, and PistonHeads, a comprehensive automotive hub featuring a marketplace, an auction platform, and editorial content for car enthusiasts. CarGurus, Inc. adopted its current name in June 2015, having previously operated as CarGurus LLC.

## INVESTMENT THESIS

CarGurus operates an asset-light, two-sided automotive marketplace with transaction features such as Digital Deal and Finance in Advance, and at a \$29.63 price the company trades at 11.4x EV/EBITDA and 10.6x EV/FCF on an enterprise value of \$3.0B. Evidence: revenue growth of 5.0% versus a 5Y average of 20.9% signals deceleration; interpretation: the market is anchoring on maturing top-line trends; implication: the current multiple embeds skepticism that recent earnings acceleration is sustainable. However, profitability metrics show ROIC of 37.8% and ROE of 41.9%, while free cash flow growth was 60.2% and EPS growth was 695.0% in the latest fiscal year. Evidence: operating income growth of 1,349.4% and net income growth of 643.4%; interpretation: margin expansion and operating leverage, not revenue acceleration, drove earnings inflection; implication: if transaction features and monetization tools continue to lift margins, cash generation can remain elevated even with 5.0% revenue growth. Valuation relative to history adds tension. Evidence: fiscal-year latest EV/EBITDA of 15.5x versus a 3Y average of 21.1x and latest EV/FCF of 12.7x versus a 3Y average of 21.7x; interpretation: multiples have compressed despite ROIC of 26.8% in the latest fiscal-year trend versus a 3Y average of 10.0%; implication: the current top-level EV/EBITDA of 11.4x is not aligned with improved capital efficiency. Cash generation reinforces the asset-light model. Evidence: freeCashFlowToFirm of \$292.7M and free cash flow yield of 9.8%, alongside capex/revenue of 0.7% in the latest fiscal-year trend versus a 3Y average of 4.5%; interpretation: low reinvestment intensity supports high cash conversion; implication: a ~10–11x FCF multiple assumes this level of cash generation will normalize downward. Balance sheet risk appears contained. Evidence: netDebtToEbitda of 0.45 and current ratio of 1.7; interpretation: leverage is limited relative to EBITDA and liquidity is adequate; implication: financial structure does not constrain optionality from transaction features or AI-driven tools highlighted in recent headlines.

## INVESTABLE DEBATE

The core debate centers on whether 5.0% revenue growth indicates structural maturity or whether 695.0% EPS growth and 60.2% free cash flow growth reflect scalable monetization from transaction features in an asset-light model with ROIC of 37.8%. Evidence: 5Y average revenue growth of 20.9% versus latest 5.0%; interpretation: the deceleration frames the company as ex-growth; implication: if earnings durability proves repeatable, the 10.6x EV/FCF multiple may not reflect the return profile.

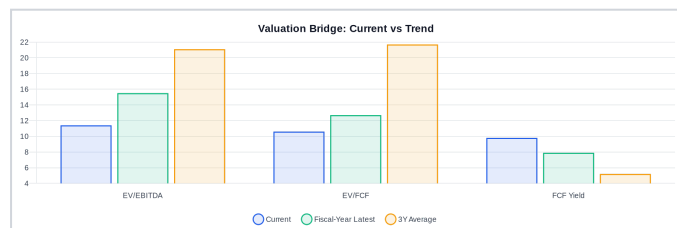
## MARKET EXPECTATIONS

At 3.1x EV/Sales, 11.4x EV/EBITDA, and 10.6x EV/FCF, with an earnings yield of 5.3% and FCF yield of 9.8%, the market appears to assume mid-cycle profitability rather than sustained inflection. Evidence: latest fiscal-year FCF yield of 7.9% versus a 3Y average of 5.2%; interpretation: cash generation has improved while multiples have compressed; implication: the current price embeds the view that recent 60.2% FCF growth will decelerate toward historical averages.

## CURRENT VALUATION VS HISTORICAL TREND

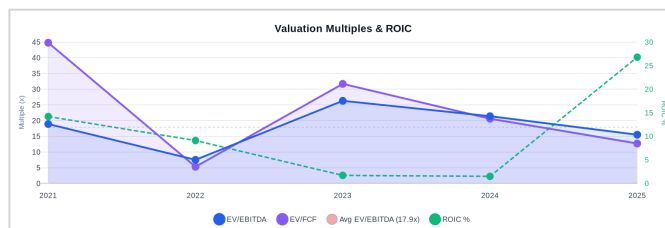
| METRIC    | CURRENT | FISCAL-YEAR LATEST | 3Y AVG | 5Y AVG |
|-----------|---------|--------------------|--------|--------|
| EV/EBITDA | 11.4x   | 15.5x              | 21.1x  | 17.9x  |
| EV/FCF    | 10.6x   | 12.7x              | 21.7x  | 23.0x  |
| FCF Yield | 9.8%    | 7.9%               | 5.2%   | 6.4%   |

Current EV/EBITDA is 11.4x, while fiscal-year trend data shows latest EV/EBITDA of 15.5x versus a 3Y average of 21.1x. Current EV/FCF is 10.6x, while fiscal-year trend data shows latest EV/FCF of 12.7x versus a 3Y average of 21.7x.



### VALUATION BRIDGE: CURRENT VS HISTORICAL TREND

Current EV/EBITDA is 11.4x, while fiscal-year trend data shows latest EV/EBITDA of 15.5x versus a 3Y average of 21.1x.



### VALUATION MULTIPLES & ROIC OVERLAY

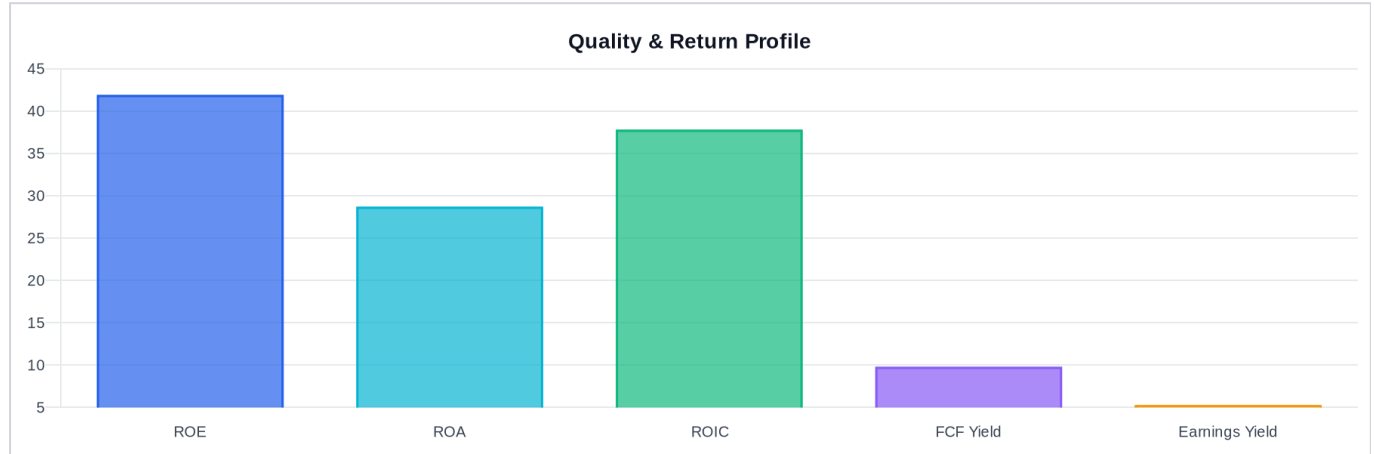
Current valuation of 11.4x EV/EBITDA and 10.6x EV/FCF compares with fiscal-year latest EV/EBITDA of 15.5x and a 3Y average of 21.1x.

## VALUATION ANALYSIS

Current valuation of 11.4x EV/EBITDA and 10.6x EV/FCF compares with fiscal-year latest EV/EBITDA of 15.5x and a 3Y average of 21.1x. Evidence: ROIC of 37.8% and free cash flow yield of 9.8%; interpretation: capital efficiency and cash yield exceed recent historical averages; implication: the present multiple assumes that 37.8% ROIC and \$292.7M of free cash flow to firm will revert lower.

## QUALITY & CAPITAL EFFICIENCY

Quality metrics reflect an asset-light model. Evidence: ROE of 41.9%, ROIC of 37.8%, incomeQuality of 2.0, and cash conversion cycle of -98.6 days; interpretation: high returns on invested capital and negative working capital dynamics support efficient operations; implication: quality metrics justify scrutiny of whether an 11.4x EV/EBITDA multiple fully reflects capital efficiency.

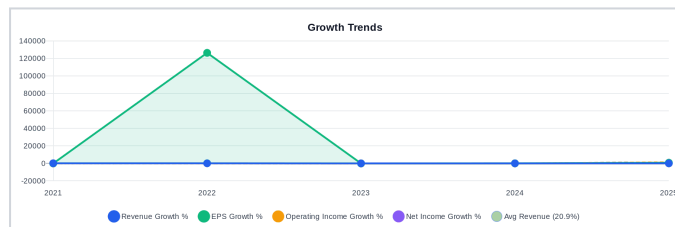


### QUALITY & RETURN PROFILE

Quality metrics reflect an asset-light model.

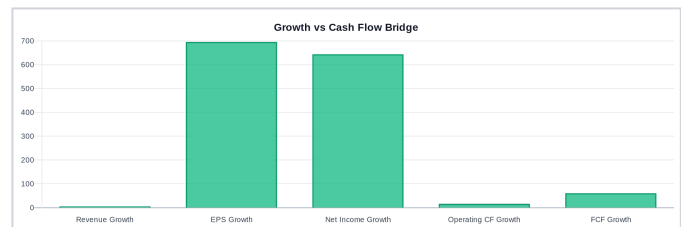
## GROWTH TRAJECTORY

Growth is margin-led rather than revenue-led. Evidence: revenue growth of 5.0% versus a 3Y average of -14.0% and 5Y average of 20.9%, while EPS growth was 695.0% versus a 3Y average of 204.0%; interpretation: earnings acceleration exceeds historical averages despite modest top-line expansion; implication: if operating leverage persists, earnings growth may not require revenue re-acceleration above 5.0%.



### HISTORICAL GROWTH TRENDS

Growth is margin-led rather than revenue-led.



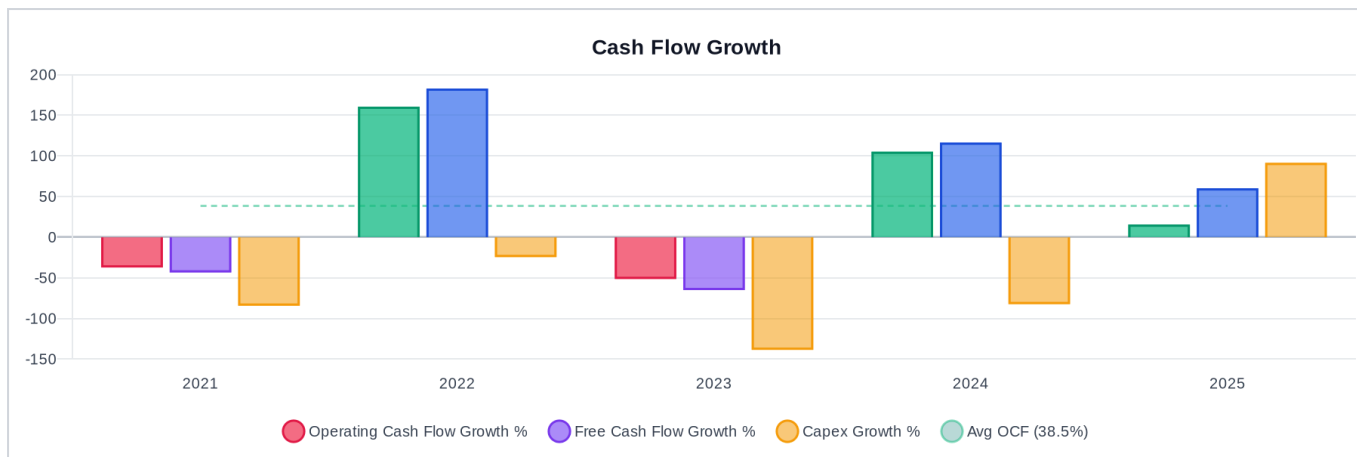
### GROWTH VS CASH FLOW BRIDGE

Growth is margin-led rather than revenue-led.

## CASH FLOW GROWTH & CONVERSION

Cash flow trend remains positive. Evidence: latest operating cash flow growth of 15.6% and free cash flow growth of 60.2% compared with 3Y average free cash flow growth of 37.2%; interpretation: free cash flow is growing faster than its medium-term average; implication: the 9.8% FCF yield is supported by recent growth rather than contraction.

Conversion from operating cash flow to free cash flow is intact despite capex growth. Evidence: capex growth of 91.5% while free cash flow growth was 60.2% and capex/revenue was 0.7%; interpretation: even with higher reinvestment, free cash flow expanded; implication: capital expenditure is not currently absorbing operating cash flow gains in a way that compresses FCF.



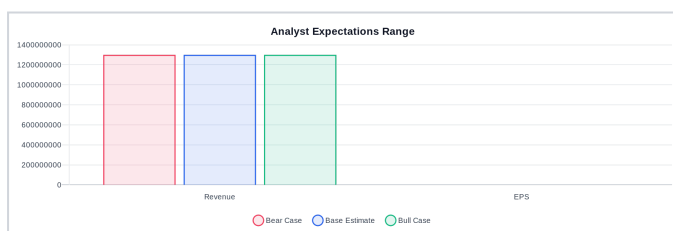
**CASH FLOW GROWTH — OCF, FCF & CAPEX**

Cash flow trend remains positive.

**ANALYST EXPECTATIONS**

|                              |               |
|------------------------------|---------------|
| <b>Next Revenue Estimate</b> | <b>\$1.3B</b> |
| <b>Revenue Bull Case</b>     | <b>\$1.3B</b> |
| <b>Revenue Bear Case</b>     | <b>\$1.3B</b> |
| <b>Next EPS Estimate</b>     | <b>5.08</b>   |
| <b>EPS Bull Case</b>         | <b>5.14</b>   |
| <b>EPS Bear Case</b>         | <b>4.99</b>   |
| <b>Revenue Dispersion</b>    | <b>2.33%</b>  |
| <b>EPS Dispersion</b>        | <b>3.03%</b>  |
| <b>Revenue Coverage</b>      | <b>6</b>      |
| <b>EPS Coverage</b>          | <b>2</b>      |

Analyst expectations appear Reasonable. Evidence: nextRevenueEstimate of \$1.3B with revenue dispersion of 2.3% and nextEpsEstimate of \$5.08 with EPS dispersion of 3.0%, alongside analystCoverageRevenue of 6 and analystCoverageEps of 2; interpretation: dispersion is contained but coverage is limited; implication: expectations are relatively stable, though limited EPS coverage increases reliance on execution.



**ANALYST EXPECTATIONS RANGE**

Analyst expectations appear Reasonable.



**EXECUTION HISTORY**

Execution has been consistent at the earnings line.

**EXECUTION QUALITY**

|                               |               |
|-------------------------------|---------------|
| <b>Quarters Analysed</b>      | <b>8</b>      |
| <b>EPS Beat Rate</b>          | <b>100.0%</b> |
| <b>Revenue Beat Rate</b>      | <b>62.5%</b>  |
| <b>Avg EPS Surprise</b>       | <b>7.9%</b>   |
| <b>Avg Revenue Surprise</b>   | <b>-0.2%</b>  |
| <b>EPS Beats / Misses</b>     | <b>8 / —</b>  |
| <b>Revenue Beats / Misses</b> | <b>5 / 3</b>  |

Execution has been consistent at the earnings line. Evidence: EPS beat rate of 100.0% across 8 quarters with average EPS surprise of 7.9%, versus revenue beat rate of 62.5% and average revenue surprise of -0.2%; interpretation: earnings outperformance has exceeded revenue variability; implication: cost discipline and monetization efficiency have driven results beyond top-line beats.

Given 8 EPS beats out of 8 and 62.5% revenue beat rate, historical execution supports the credibility of the \$5.08 nextEpsEstimate. Evidence: recent quarter EPS actual of 0.58 versus estimate of 0.56; interpretation: incremental outperformance persists; implication: current consensus appears grounded in demonstrated execution rather than optimistic assumptions.

### BULL / BASE / BEAR SCENARIOS

| BULL CASE  | BASE CASE  | BEAR CASE   |
|--|--|---|
| If revenue reaches the bull case of \$1.35B and EPS reaches \$5.14 while EV/EBITDA remains at 11.4x, then earnings durability at ROIC of 37.8% would indicate the multiple does not reflect sustained cash generation. | If revenue aligns with the next estimate of \$1.3B and EPS reaches \$5.08 while EV/FCF remains at 10.6x, then the company continues to be priced as a mature marketplace despite free cash flow yield of 9.8%.   | If revenue trends toward the bear case of \$1.32B and EPS falls to \$4.99 while ROIC compresses from 37.8%, then the 11.4x EV/EBITDA multiple would reflect normalization rather than durable inflection. |
| <div style="display: flex; justify-content: space-between;"> <div>Revenue Bull Case \$1.35B</div> <div>EPS Bull Case \$5.14</div> </div> <div>ROIC 37.8%</div>   | <div style="display: flex; justify-content: space-between;"> <div>Next Revenue Estimate \$1.3B</div> </div> <div> <div style="display: flex; justify-content: space-between;"> <div>Next EPS Estimate \$5.08</div> <div>EV/FCF 10.6x</div> </div> </div> | <div style="display: flex; justify-content: space-between;"> <div>Revenue Bear Case \$1.32B</div> <div>EPS Bear Case \$4.99</div> </div> <div>EV/EBITDA 11.4x</div>                                       |

### SCENARIO PROBABILITY MATRIX

| BULL SCENARIO | BASE SCENARIO | BEAR SCENARIO | WEIGHTED THESIS SCORE |
|---------------|---------------|---------------|-----------------------|
| <b>34%</b>    | <b>50%</b>    | <b>16%</b>    | <b>69 / 100</b>       |

### 12-24 MONTH CONDITIONAL OUTLOOK

- If revenue growth remains near 5.0% relative to the 5Y average of 20.9%, then top-line maturity remains the dominant narrative.
- If EPS growth remains above the 3Y average of 204.0% and free cash flow growth stays near 60.2%, then margin-driven expansion remains central.
- If EV/EBITDA stays near 11.4x while ROIC remains at 37.8%, then valuation remains below historical averages of 21.1x.
- If EPS beat rate remains near 100.0% across future quarters, then estimate credibility remains supported.
- If revenue re-accelerates above 5.0% while FCF yield remains near 9.8%, then the pricing of a mature marketplace would require reassessment.

### THESIS MONITOR

| TRACK QUARTERLY  | THESIS CHANGES IF  | THESIS WEAKENS IF   |
|--|--|---|
| Can revenue growth exceed 5.0% through broader adoption of transaction features within the \$1.3B nextRevenueEstimate framework? | If revenue growth rises above 5.0% and approaches the 5Y average of 20.9%, then the maturity assumption challenged.              | If free cash flow growth falls below 0.0% from 60.2%, then the cash-generation inflection thesis challenged.                        |
| Will ROIC remain above 37.8% as reinvestment increases from capex growth of 91.5%?   | If free cash flow growth exceeds the 3Y average of 37.2% on a sustained basis, then durability of cash generation gains support. | If ROIC falls below the 3Y average of 10.0% from 37.8%, then capital efficiency would no longer differentiate the model.            |
| Does the 9.8% free cash flow yield persist if free cash flow growth moderates from 60.2% toward the 5Y average of 50.2%?         | If ROIC remains above 37.8% while EV/EBITDA stays at 11.4x, then the valuation case would be supported by capital efficiency.    | If EPS falls below the bear case of \$4.99 while EV/FCF remains at 10.6x, then earnings durability assumptions would be challenged. |



#### RISK & THESIS MONITOR

Can revenue growth exceed 5.0% through broader adoption of transaction features within the \$1.3B nextRevenueEstimate framework?

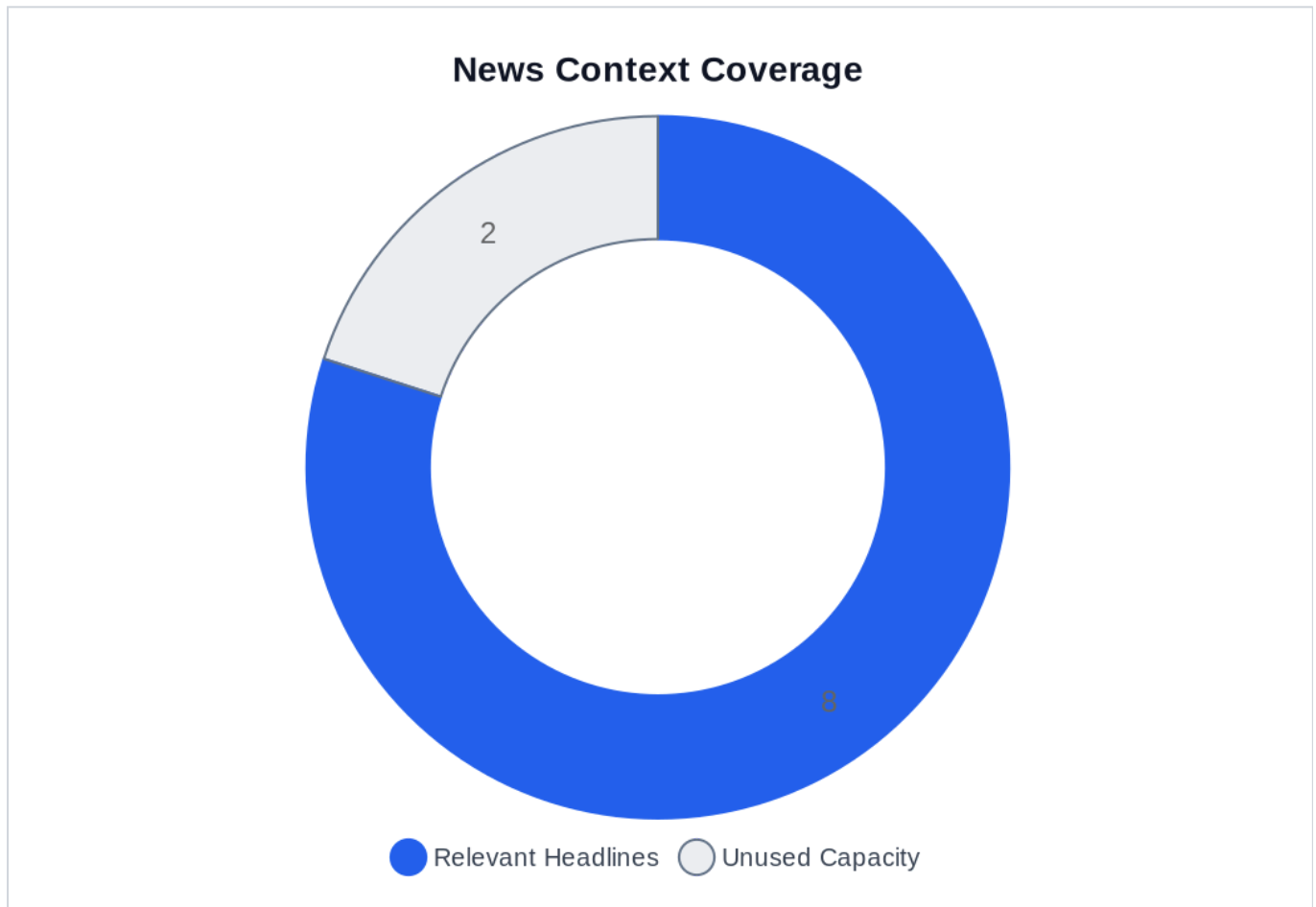
**RISK ASSESSMENT**

| DIMENSION                   | SCORE          | LEVEL    |
|-----------------------------|----------------|----------|
| Valuation Risk              | 2 / 5          | Low      |
| Growth Risk                 | 2 / 5          | Low      |
| Execution Risk              | 1 / 5          | Low      |
| Forecast Risk               | 3 / 5          | Moderate |
| Quality Risk                | 1 / 5          | Low      |
| Overall Risk                | 4 / 5          | Elevated |
| <b>Composite Risk Score</b> | <b>2.2 / 5</b> |          |

- Net Debt/EBITDA of 0.45 limits balance sheet risk but does not offset revenue deceleration of 5.0%.
- Stock-based compensation to revenue of 5.4% in the latest fiscal-year trend affects per-share growth interpretation.
- Working capital of \$63.9M and a cash conversion cycle of -98.6 days support liquidity but depend on marketplace transaction dynamics.

**NEWS NARRATIVE**

The headline "CarGurus Announces First Quarter 2026 Results" noting Q1'26 revenue of \$244.0M and adjusted EBITDA of \$80.2M is relevant to monitoring revenue growth and margin sustainability, but additional evidence is required to determine long-term financial impact. Coverage clustering around earnings\_guidance and ai\_technology aligns with dispersion of 2.3% on revenue estimates and 3.0% on EPS estimates, reinforcing that outlook assumptions are central to the thesis.



**NEWS CONTEXT COVERAGE**

Recent relevant coverage clusters around: earnings\_guidance, analyst\_revision, ai\_technology.

## INVESTMENT VIEW

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EVIDENCE BALANCE

CONVICTION

RISK LEVEL

CLASSIFICATION

**Positive evidence balance**

**High**

**Elevated**

**Value / Quality Candidate**

*Core Thesis: At 11.4x EV/EBITDA and 10.6x EV/FCF, CarGurus is priced as a low-growth marketplace, yet ROIC of 37.8%, ROE of 41.9%, and 60.2% free cash flow growth suggest the cash-generation profile may be more durable than a 5.0% revenue growth narrative implies.*

**Primary Risk:** Revenue growth sustained at 5.0% versus 5Y average of 20.9% may indicate structural maturation.

**Monitor:** Can revenue growth exceed 5.0% through broader adoption of transaction features within the \$1.3B nextRevenueEstimate framework?

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