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<<Daniel Imbro, Analyst, Stephens Inc.>>

Jump right into it here. Thank you all for joining us. We have – I'm Daniel Imbro, Retail Broadlines analyst with Stephens. Pleased to be joined by KAR Auction Services here this morning. Joined by VP of IR, Michael Eliason, obviously, with a number of questions we'll get to today, Mike.

So maybe starting at a high level, there's been a lot of change in the business. The recent spin, pay for those newer to the story. Start a high level – give an overview of the business today and what the portfolio looks like, and we can go from there?

<<Mike Eliason, Treasurer and Vice President-Investor Relations>>

Yes, sure. Thanks for showing us good room. So we are, for those of you who don't know a lot about us. In a very quick elevator speech, we're the New York Stock Exchange of used vehicles in the wholesale marketplace. So we bring buyers, sellers together, think of us as a network effect of the company, where we're taking – creating market, not investing in inventory or working capital in this specific asset, but taking fees from the buyer, taking fees from the seller and providing a bunch of services around that, too. In fact, over half of our revenues as our companies comprise right now are ancillary fees that we earn and getting a higher share of wallet all the time with our customers.

So in a very short description, that's the type of business that we are. It's changed over the past year. As Dan said, we had a legacy used car auction business and also a salvage auction business. And some of you may know that the main competitor of the salvage auction is Copart, which is a stand-alone public company. And because of the free cash flow characteristics and the resiliency of salvage auction business, so when a car gets totaled in a accident and insurance company takes the car away. It's the insurance company's asset and they auction that car, liquidate that car through the salvage auction industry and so we had a subsidiary called Insurance Auto Auctions that we spun-off this summer to enhance the value for our shareholders.

Because of, again, the resiliency in many different economic cycles that those businesses do very well. And the main competitor, Copart had a significant valuation in that business, and we feel we could unlock some value. So one of the credits to our CEO and CFO, they brought the idea to the Board. It wasn't something that a banker brought forth to our Board on that. So we're always looking for ways to unlock shareholder value, and our CEO and CFO, got a little bit of credit for doing that, right? And who have you ever heard of a CEO who wants to run a small kind of company, but they thought it was a good thing for the shareholders and it worked out.

So now we're a much more smaller, more focused business and have a lot of opportunities in the business. In fact, as a final kind of intro, our CFO lives 14 miles from the salvage auction headquarters in Chicago and our corporate offices in Indianapolis. And so the CEO of the salvage

business said, Hey, Eric, why don't you come work for us, better work-life balance for you, you can live 14 miles from the office? And he goes, no, I think that – it's been more fun. There's more opportunity for growth in the business of commuting all the way down to Indianapolis and executing on the growth strategy there.

<<Daniel Imbro, Analyst, Stephens Inc.>>

[indiscernible] (0:03:11)

<<Mike Eliason, Treasurer and Vice President-Investor Relations>>

Yes. Okay. How is that?

<<Daniel Imbro, Analyst, Stephens Inc.>>

Perfect.

<<Mike Eliason, Treasurer and Vice President-Investor Relations>>

So that would be an example of how excited we are for the opportunities that we have to execute in the business. Now in the past couple of quarters, it's been a little choppy, and we'll get into that.

<<Daniel Imbro, Analyst, Stephens Inc.>>

Okay. Well, so you guys are remarketing those vehicles to your auction, who are like the buyers and sellers and how is the health of those end markets? Obviously, you did talk about the independent dealer last quarter, but how are those buyers and sellers?

<<Mike Eliason, Treasurer and Vice President-Investor Relations>>

Yes. So simply, again, we bring buyers and sellers together in a marketplace. The buyers are dealers. So we're a B2B type of business. We are not a direct competitor of the Carvanas or CarMaxs of the world where those are our customers. So buyers, independent dealers and franchise dealers are our buyers. And then in our industry, I'll give you a little bit about more segmentation. So about half of the sellers in the marketplace then our dealers, they can have a fresh trade-in that they choose not to retail or they can have a piece of aged inventory. It's been on a lot for 60 days. They are having trouble getting eyeballs on that car. They'll liquidate that car through our industry and then get the minivan, they know they can sell on Saturday, 25% of our industry are off-lease volumes.

So think about when you lease that Toyota Camry, you bring it back to your local Toyota dealer and Toyota Financial Services is the owner of that vehicle and has been as you've been leasing that car throughout the three years of your lease term. There's – those cars have a high probability of being processed through our industry, 15% of the volumes in our industry are repossessions, think of the financial institution and there's a consumer default. And that car then gets processed in. It

has a high probability also being processed for many different reasons, including the finco doesn't necessarily have retail lots or that sort of thing.

And then the final 10% of the volumes in our industry are fleet management companies, think of a government fleet or a commercial fleet or even a rental car company would be in that because they're managing fleets as well. So those are kind of the buyers and the sellers. Our industry has been growing over the past couple of years as SAAR has been growing, and the percentage of consumer financing of leases has been growing as well. So lease penetration is about 30% of all new car sales right now.

And remember, how I said before, our off-lease car after that three-year lease term has a high probability of being processed through our industry. So our industry has been growing. If you look at that three-year tail so that your experience as the average lease term is 36 months. We look at lease originations over the past three years and see that lease – off-lease cars are peaking this year and then will plateau in 2021, and we see year-to-date lease originations have plateaued still in 2019. So we've got three years' worth of visibility of a plateauing industry. Repossessions are still strong with record-high outstanding consumer auto loans in the marketplace. So we think there's good visibility for the next couple of years of our legacy business being flat, and then we have a bunch of online initiatives to grow volumes and revenues above that as well.

<<Daniel Imbro, Analyst, Stephens Inc.>>

Maybe that's a good dovetail. I'm sure we'll have more questions on it here in a bit. But at a high level, TradeRev was a growth opportunity if you guys open up the new market. Can you talk about how you guys thought about that acquisition of Time and then how that story has evolved over the last, I guess, two years since you closed the deal?

<<Mike Eliason, Treasurer and Vice President-Investor Relations>>

Yes. So for – to level set. So TradeRev is a branded online-only product, where a dealer seller can sell a vehicle as it's sitting on his lot within 45 minutes to a local dealer base. So it's a dealer-to-dealer product and is generally focused on a franchise dealer being the seller and an independent dealer being the buyer. So think of franchise dealers, a new car dealer. And if he takes a trade in, that's a high-value unit. Say it's a $15,000 or $20,000 vehicle, generally, he's going to retail that car because that's an alternative to his new car sale. But if it's a lower value unit, say $7,000 or $8,000 unit, he's generally going to liquidate that unit because that doesn't fit his used retail profile.

And so historically, there's been a number of different ways that, that dealer would then liquidate that car that he's not going to retail. One is he could sell that to physical auction. And our physical auction business has generally been underweight in the physical dealer seller or in our definition, our industry is called dealer consignment business.

Even though our market share in total for the industry is about 30%, our dealer consignment business at physical auction has been about 18%. So we think there's opportunity with this TradeRev product and our legacy businesses. In addition to that, some of the other alternatives that dealers have had when they take a vehicle in on trade in is to call their buddy down the street or

there's entrepreneurs in the marketplace called a wholesaler who'll run around the checkbook and buy cars from one dealer, sell them to another or maybe another dealer in another market, make some arbitrage on that. And we saw an opportunity to disintermediate those wholesalers or the illiquid process of a dealer calling his buddy down the street and then swapping old cars and maybe not understanding the full value of that car in the local marketplace.

So with this technology that we bought and enhanced within 45 minutes, we can get 20 or 30 bids from the local dealers in the marketplace and get more and better price discovery for that car and get higher selling prices and provide better opportunity for independent dealers in the marketplace to access the correct inventory they need for their retail lots. If you think about the retail dealer market in our economy today, a dealer needs to access the exact right piece of inventory that he knows he can retail quicker, and he needs to buy at the right price. So as you know, you can go on the Internet these days, and it's hard for a dealer to sell a car for a higher price than his competitors on the street.

So he has to be able to acquire the right piece of inventory and turn it over faster. And one way to do that is to have access to the appropriate type of inventory at the appropriate prices for him and instead of – and one of the ways to do this is through our businesses instead of doing an illiquid way by swapping cars amongst his friends.

Q&A

<Q>: For wholesaler do you think, wholesaler turning around and doing the auction car before…

<A – Mike Eliason>: Yes, they can or they've sold it to another guy in local MSA or adjacent MSA, so all of the above. So generally speaking, a wholesaler's gross profit was, call it, $500 to $800 in that range. In our online product that Dan's talking about TradeRev is going to have a fee proposition or revenue per unit of around $300. So we think there is some room to be had there. But to your point, specifically, yes. So because of that gross profit opportunity, some cars then they would see that they could just turn around quicker and put it in a physical auction on Tuesday and dump that car within two days and make $500 on that arbitrage instead of having to piecemeal it to his different customers around town.

<Q – Daniel Imbro>: And so when I think about the strategy TradeRev, obviously, it was focused on pretty quickly scaling. Last quarter, you guys dialed that back a bit. It sounds like it's more focused on local markets. Can you just provide an overview around the strategic shift and then a little bit more color as to why that makes more sense today to the business?

<A – Mike Eliason>: Yeah. So when we purchased the company, we stood it up as a separate company instead of a product within our business and give you a little bit of background on that. So if you're a CEO of KAR Auction Services, and you know the market is going to become more online buying and selling, just like many of the industries I'm sure that you cover, we realized that to get some traction in the marketplace, it had to have the focus of a separate management team and separate sales team.

And now it's gotten to the point earlier this year, where our customers and our dealers are saying, you guys are starting to fight amongst yourselves. I had a TradeRev salesperson come into my dealership on a Monday, provide me a value opportunity and value proposition. And then you had an ADESA salesperson come on in a Tuesday and provide a separate value proposition. And our customers saying, don't you guys work together and aren't you guys fighting amongst yourselves? And the answer is yes.

So why don't we combine the sales force and provide a better solution for our customers that maybe some of our other competitors cannot. There's independent auctions out there that can provide a physical auction solution to that dealer and show them the value of that. There are other online-only players that can provide an online solution, and that's all they can provide. Over ADESA with TradeRev combined as a product within the company can then say, we don't care where you sell it, we can show you the value of each right now in your specific marketplace. Your Impala may get more money in a physical auction and your Camry might get just as much money as a physical auction on online, and you can get your money quicker in that 45 minutes. So sell that car.

So being that type of value proposition, we think, can enhance the growth of the business instead of having it separate. So that's the big change we made. And then also, we've made a change to dial back incentives. So when we open up a market, and you think of what we provide network services for a marketplace or is used cars. It's not jewelries and books, so transportation costs matter. And so if you're opening up market, let's say, in Kansas City, and you find a seller who wants to start selling cars in the marketplace, and you don't have a lot of Kansas city buyers yet that are on TradeRev, how do you get some bidding activity so you can get those 20 or 30 bids? Will you provide free transportation incentives for a St. Louis buyer or a Chicago buyer?

And historic – in last year, and in some cases, we even had like Oregon buyers come in and bid on cars. Well, we found that we do not need to spend that kind of money for an Oregon buyer to buy cars. We need to look at maybe some MSA that's closer to start that bidding activity, knowing that we won't get maybe 30 bids, we'll get 28 bids or 27 bids, and that's going to be in our analysis enough. So we're pulling back on some of those incentives as well, knowing that if we're throwing money at a customer as a seller and providing incentives for those buyers to get that liquidity for the seller, it's not a good proposition or a long-term proposition for some customers that are not sticky.

So one of the differences in the used car industry is – compared to some other technology businesses is a venture capital company will go after a market and grab market share and then figure out the financial model later because that – they've captured that customer in that market in that revenue opportunity and it's pretty sticky. In our marketplace, they're used car dealers. And if a guy throws money at them in March, another competitor might throw money at them in April and then can move. We want to go after the customers that understand the broader value proposition of having many different solutions to liquidate their assets and are not necessarily going to go after the customers now that are not sticky. So that's the other point about incentives and dialing back on some of the strategy of what we're looking at.

<Q – Daniel Imbro>: Have you seen any reaction from your primary competitor? In other words, what were they doing incentive wise? And then with your change, has there been any change in there?

<A – Mike Eliason>: It's been a short time since we've announced some of these changes. So we have heard in the market that they're starting to contemplate some changes, but there has been nothing net yet that's been publicly announced on their front. But at the end of the day, us and some of our online competitors are losing hundreds of dollars a car at a time and that financial model can't happen forever. Even if it's an online-only venture capital-backed company, they have to show some kind of pathway to profitability at some point in some time.

And we think of how we serve the business now with combined sales forces and a combined product set, that we have a financial model that will work over time. And if it takes longer to get there, we're willing to do that instead of keep on tossing some money at it.

<Q>: So what was the kind of burn from the incentives in the third quarter from that information [indiscernible] (0:16:05).

<A – Mike Eliason>: Yeah, it's millions of dollars. We don't give a number. Obviously, we don't get in that level of detail, but it's millions of dollars that we don't think we need to spend in every quarter for the extensive transportation incentives. Now we're, again, a market maker type of company. So transportation incentives in our industry for history has always been one of the marketing levers that you pull. And so we'll go to a local dealer at a physical auction, say, we'll go pick up your cars for free for the opportunity to sell that and get the buy fees and the sell fees on that. And so we're always doing that kind of stuff in the industry, and that's just not us. So there will always be some kind of a transportation incentive, just not as much.

<Q – Daniel Imbro>: Real quick, Mike. Repeat the question into the microphone for the webcast.

<Q>: [Question Inaudible]

<A – Mike Eliason>: Yeah, there is – so the question is that will – has it changed how and when will breakeven for TradeRev? So we've said that TradeRev should breakeven sometime in 2021. And the volume level that we would breakeven is similar to what we have previously stated at 350,000 to 400,000 cars. So the number of different levers that we get there with the combined sales forces and, hopefully, having a lower SG&A footprint, having combined sales forces, and I don't have only one point of contact with the ADESA and combined TradeRev sales forces should give us a more likelihood to get there.

Now we're going to sell a lot less than 200,000 cars this year that we originally stated earlier in the year. So we have a big ramp, but we have more lever – cost levers now and to be able to get to that breakeven point.

<Q – Daniel Imbro>: And I think to the hard one of the questions earlier, how do we think about the potential cannibalization of your physical auction from TradeRev, given the convenience to

the dealer? And over time, the better and better returns they get, how do you think about those two factors, as you think about your core legacy offer?

<A – Mike Eliason>: Yeah. So the question is about cannibalization of having this online platform that's dealer-centric with TradeRev versus our physical auction business. And what's the profit opportunity? So in summary, at maturity, TradeRev gross profit per unit opportunity is relatively similar for a similarly valued unit at the physical auction, in summary, and I'll give you a little bit of detail on that. So again, TradeRev is focused on a franchise dealer selling a car. And generally, that's a $7,000 to $8,000 vehicle on average, the median car is actually a lot less than that. But all that to be said, at a physical auction, the revenue per unit opportunity for that $7,000 or $8,000 car is over $300. It's $300 to $400, and depending on the market, it can be a little bit in that high or low in that range.

For a physical auction gross profit margin because you have labor, driving that car around and more labor for a physical auction, that's a 58% to 60% gross margin opportunity. So you're getting in that type – 200-plus type of range of gross profit opportunity. For a TradeRev car, earlier this year, the revenue per unit opportunity was $250. We've been raising some fees, where it's in the $270 range right now. And our CEO has said, we believe we – with the pushback that we see in the marketplace that we can get to $300 of revenue per unit opportunity.

In mature markets, the gross margin that we see in that business is 75%. So we think at maturity, the TradeRev can be at 75% gross margin. So you're in that same type of range for profit opportunity in that business, if you can make sure that you can – and we'll see how it works out, leveraging SG&A. But all that to be said, we think, again, the financial model is set up, where no matter where the market goes if they continue to do more physical auctions, we have the infrastructure and the services to provide. And if they have more online desire to work that way to get more liquidity, get it faster or less liquidity, but faster, that we have a solution to continue to earn all the dollars that we need to provide those services.

<Q – Daniel Imbro>: And I guess how do we reconcile, talked last quarter. Eric talked about being slightly detrimental mix moving towards online GPU. So this is because we're not at maturity yet at TradeRev or how we reconcile this two?

<A – Mike Eliason>: Yeah, I think the mix difference really had to do with more of our off-lease platforms than anything. So an off-lease car comes back to market, and it has the ability to be offered online, and we're the market leader with some of our white label or private label platforms that's branded OPENLANE. And approximately one-third of the off-lease cars that come back to market. The consumer has kept in a good-enough condition, where there's not a lot of dents and dings and scratches, where they can buy that as it's sitting at that local.

And again, the Toyota Financial Services owns that off-lease car, and it's sitting at that Toyota dealer and then he's called the grounding dealer. And those cars are in good-enough condition, where a Toyota franchise dealer can – whether it's a grounding dealer, another Toyota franchise dealer can buy that car, and it's almost in retail-ready condition, where they can put on a lot. About two-thirds of the cars are not in – the consumer has not kept in good-enough condition where it's

retail-ready. And that one-third, two-thirds mix phenomenon has been fairly consistent over the past decade.

So even though there's been more off-lease cars coming back to market, we sell more off-lease cars online, it's more of a function of more off-lease cars coming back to market. So we've had lots of off-lease cars not only being sold online, and our online-only OPENLANE business grew about 13% in the quarter and our off-lease vehicles in our physical auction grew significantly. It was well, but not to our expectations to your point. And so our total physical volumes at physical auction grew only 1% in the quarter. So you have a little bit of headwind there because the private label or white label business is at a lower revenue per unit opportunity. Now that we're maturing and peaking in the off-leasing going forward in 2020, there's not as much mix headwind for those businesses as you look at where that off-lease car is sold.

<Q – Daniel Imbro>: And then, I guess, another – you talked about the grounding dealer there. We've seen a lot of headlines recently used car prices. Essentially, being to moderate what index you look at, how does that dynamic changing or softening these vehicle prices, change that grounding dealers decision? Or how does that impact your business as that vehicle comes out, please?

<A – Mike Eliason>: Yeah. We're somewhat agnostic to vehicle values declining or increasing on the margin. If you think about our fee structures, they're generally in fixed tiered pricing schedule. So at an auction, as an example, the average car is selling for $11,000. So from $11,000 to $12,000, we'll charge X and $12,000 to $13,000, we'll charge Y. And that's kind of the buy fee schedule and that same fee schedule is charged if it's a dealer seller. And if it's a commercial or institutional selling car, generally, they have a large purchasing power with us. And so they'll negotiate a fixed flat fee. So in a fixed flat fee, we don't necessarily care.

Now on the other hand, it does matter to our customers, and especially the seller for getting the – all the money, they think that car is worth. And so again, part of the quarter was that there was softness in the independent retail market in September. And so those bidders or buyers were bidding less for a vehicle and the sellers were not accepting that price. And so if that Toyota Camry, the seller thought was worth $10,000 and the bids came in at $9,800, that car did not sell, even though we had incurred the cost of running that car through the auction.

Now that we've seen in October and the beginning of November, vehicle values somewhat moderating in a marketplace that gives us hint that some of our sellers are accepting lower prices in the market for their vehicles. And we would hope that, that means that our – some of those cars would flush through and then sell. So the question then is there's more cars coming back to the market each period. So the big question in our marketplace is what happens in December? So in December, we expect a record number of off-lease cars coming back into our marketplace. So we track the number of lease originations each month. And the experience has the average lease terms 36 months. And so you look at December 2016, which was a record for off-lease originations.

And what we don't know is how many cars would sell in December, which would be 36 months later or if they'll sell in January and February, and there'll be some change in the marketplace. So

you always have that kind of correction in our marketplace that happens with weeks or a month or two, but it's just a matter of how many then get pushed out to the next quarter.

<Q – Daniel Imbro>: And you talked about the independent dealer mix softer in September. When you're talking to your 1,000s of independent dealers, what do you think or what do they think drove that softness in September? Is it a consumer softening? Or kind of what led to that lack of bidding activity at all?

<A – Mike Eliason>: Yeah, I think we all can. So what led to the softness in September with the independent dealer? And it was down about 1.62%. So not a material shift, but it is something and you can blame it on a lot of things. Many of us in the room are consumers, right? And so we may or may not put up buying a house or a car or something like that if we see something in the marketplace. And we would assume some of that has happened. Our dealers have said that there was some changing traffic patterns, but nothing material.

And I think you can put it on many reasons. But the point is what we see – what all I can say is that the volumes did decline and – at the retail level and in the wholesale level. And I'd hate to put that in one or two level, and I'll leave that for all the economists to what's going on in the greater economy. Yes?

<Q>: [Question Inaudible]

<A – Mike Eliason>: Yeah. It's a big hairy deal, right? So if you got the wording of our CEO, it's not financial guidance, it's an internal target for his management team. So that's one. We have – are optimistic on revenue opportunities of our business as well. So that would mute some of the dollars of that 20% of SG&A. But all that to be said, we are significantly focused on SG&A and realize that we need to get that in line. So there are a number of different large buckets that we can go after and are going after currently right now. One would be like I mentioned before, we're rationalizing the sales teams between TradeRev and ADESA dealer consignment sales force.

And there are 100s of salespeople on each of those teams. And we'll keep many of those because we may not have a physical auction presence in that market, but where there is a physical auction market presence, you don't need both going after that same customer. We need one point of contact for our customer to provide all those services. So we're going through that rationalization right now. We've been pretty public since the spin-off of insurance auto auctions that our business is smaller, and there's corporate cost opportunity as well. We're going through that.

And then finally, as an example, there is a significant field SG&A component to our business. How we count labor in our business may be different than some of the other companies that you follow. In the field, if a person touches a car, they're in COGS, if they don't touch a car, they're in SG&A. And so if you think about our customers transacting with us more online, just like in many businesses, do we need that person manning the desk to take payment or transact titles physically on a Friday afternoon? So we're looking at different ways to reduce the number of work weekdays or that kind of stuff as well in the field. So many different ways that we're attacking it, but we realize, to your point, it is a large number.

<Q – Daniel Imbro>: And maybe we're going to look back over the last few years, as you guys look back at the business, where do you think like maybe on SG&A there was no inefficiency? inefficiency? Or are you guys, in hindsight, could have executed better or saved more costs? And is it more of incremental cost savings in the business or correcting places where costs were too high structured?

<A – Mike Eliason>: I think two points, and let me finish up that, too. We've done this before. So when we went through the recession back in 2008, 2009, if you look at our financials, now, it was a combined business with insurance auto auctions back then, but we did not go backwards in our earnings as counted by EBITDA. So we've – we know how to cut tens of millions of dollars to your point. In the past, we've done that, and we've been able to execute on that. So two points. One is that we are a smaller company, and we thought we would be able to cut some of the corporate expenses faster than we have.

And so we've focused a lot of time on the spin-off, we focused a lot of time on getting the TradeRev strategy right, and now we're putting a moratorium on SG&A – on M&A, sorry as an example of the focus we're having on the business in – I would say, in addition to that, as of our business is migrating online, we do have opportunity to execute on rationalizing the cost, where the transactions are no longer happening on the margin, as an example, in the physical auctions. We probably have not – if you sat down and had dinner with our CEO, he said we probably have not been as diligent on making sure that we're matching the cost to where our customers are transacting, and we need to do a better job at that. So those are kind of the two points that we're looking at.

<Q – Daniel Imbro>: And something that's accelerated in the business, but I think caused some margin noise has been the purchased vehicle group. Can you talk about – I mean your two main drivers have been international and ADESA Assurance. Can you provide a bit of background on what led to that acceleration? Are we kind of passed the peak of that margin headwind? And how should we think about that as they peak the growth algorithm going forward?

<A – Mike Eliason>: Yeah. So to reiterate the question, our purchase vehicle revenues were about $78 million in the quarter and they were significantly less than that a year-ago third quarter. About half of the $78 million is incurred in our European business that we acquired in February of this year. So that will annualize in February next year. So the reasons why a portion of the European business revenues are purchased vehicles is because the value proposition that our cars on the web purchase and now it's rebranded ADESA Europe, it provides transactions for vehicles that cross borders.

So it's a little bit easier to sell a car in the United States when sellers in Iowa and the buyers in Illinois. It's pretty easy to cross states. But when you're going from Germany to Poland, there's a whole bunch of VAT tax complexity as well as different country titling laws and regulations. And so we provide the expertise for that and the transportation logistics for that vehicle to be transported as well. And when you do that and provide the VAT tax and the complexity of it, you have to put the car in – cars on the web name on the title. And once you do that, the accounting requires you to put the full vehicle value in revenue and COGS. So that's what has caused half of that $78 million in general terms to go up in a just part of this.

Not all the revenues are incurred that way because we do earn significant fees in that business and has been doing very well and growing very well as well. And then the other half of that $78 million is for encouraging online bidding activity in our domestic businesses. So we have a product called ADESA Assurance and our competitors have a similar product in the marketplace as well. So it's more of an industry phenomenon than our specific company product, where we offer to a buyer, the ability to – that will charge him a subscription fee for every car that he buys, for the right to give that car back to us, no questions asked.

And so the return rate is very low. And we earn a significant margin or return on that business for doing it. But when that low return rate comes back, that's in ADESA's name on the title on that car. And so then that $10,000 goes into revenue and COGS, even though we're earning fees on every car that, that dealer buys, which incents and gives him trust in the transaction so you can use our Simulcast technologies or all of our bulletin board technologies to buy cars online. So that has been – that ADESA Assurance program has been in place for some of our online platforms for a number of years.

And then the middle of 2018, we also introduced that into our physical auctions for our Simulcast and bulletin board buyers as well. And so that's another reason it went up, and that portion is somewhat annualized now in the fourth quarter and going forward.

<Q – Daniel Imbro>: That's helpful. I don't want to touch on your financing business. AFC, a smaller piece of revenue, but I think it's important. Are you seeing any change in the creditworthiness of the independent dealers out there? How is the credit backdrop now relate to the cycle?

<A – Mike Eliason>: Yeah. In fact, many of our owners and investors ask about that because that's really what's happening on Main Street versus Wall Street. And right now, we see the independent dealer as healthy in the marketplace. Our credit losses were 1.7% of managed receivables, which they were 1.5% a year ago in the third quarter, so they're right in line with our expectations. We would expect in a stronger economy right now that it should be 2% or under. And the wonderful thing about that type of business is our loans are turning on average about 65 days. So if we see something in the marketplace, we just dial back credit in a hurry.

And so as our business. It's much different than a normal finco because of that turn and how we can manage it. And in that resource that we spend mitigating that risk, like we do over 80,000 lot checks each year showing unannounced at the dealers lot to making sure the car is there and the condition that it's in that a normal finco won't do and kind of close their eyes and something happens a year later. That's just not our business. But all that to be said, our ASC customers are healthy right now.

<Q – Daniel Imbro>: Got it. And what are some of the key metrics you guys would be looking for to give you an indication that maybe credit is softening? Is it going to be the weaker sales at the independent dealers? Kind of what are you guys looking forward to see, that will give you an indication that things could be softening on main Street?

<A – Mike Eliason>: Yeah. So we even probably peel back the onion a little bit more because we have approximately 130 loan production offices in each of the markets where our customers are at, we're shaking his hand each week at the auction or showing up at his local dealership. And going through the block and tackling of talking to him and understanding his business. So we obviously do look at delinquencies and how fast, he's turning his cars and his inventory in his local marketplace. And so independent used retail sales makes a difference in our business, but also we're even going – and our internal metrics are obviously a lot more detailed than that.

<Q – Daniel Imbro>: Got it. We're getting up on time. Any more questions? I guess I'll wrap up. Just as you guys look at KAR today, obviously, there's a lot of moving pieces. You have TradeRev, cost-cutting you talked about. What gets you guys the most excited? You mentioned Eric chose to stay because he's excited about the opportunity. What do you think is the most exciting piece of the business? And then what do you think is most of the studies, maybe we should be excited about?

<A – Mike Eliason>: Yeah. So I would say we have revenue growth targets out there of 6% to 9% that are – some people say that may be ambitious for our free cash flow type of company, but we are very excited that we can execute on all of them. And what we – we're really excited about is we've – already have invested on where we think the market's going to hold. So no matter how fast or how slow the market goes? Or if it doesn't go or not go. We have all the different places already to provide the services for our customers. So as an example, we could even go as far as mobility. If more car sharing and ride-sharing happens. Those are already our customers to help them liquidate vehicles or even service those vehicles while they're in their fleet.

If consumer ownership changes for two cars in the garage of a local family to one car in the garage and a fleet owner owns those cars, we can help them service that. We can help them liquidate that car at the end of its term in the fleet. And so there's many opportunities that we have let alone all the platforms where our customers are starting to transact now and will transact in the future. And I think finally, we do business with some of the largest international companies in the world if you think of some of the automotive companies that are leaders in the marketplace.

And we have some of the leading online platforms or marketplaces here in North America, and they're talking to us about how to bring some of those technologies over to other geographies around the world. And so we think there is opportunity to leverage what we have in other parts of the world, and that's one of the opportunities we have with our European business as a start.

<<Daniel Imbro, Analyst, Stephens Inc.>>

Excellent. Thanks so much.

<<Mike Eliason, Treasurer and Vice President-Investor Relations>>

Thank you.