

OPENLANE

Q2 2025 Earnings Results

Wednesday, August 6, 2025, 8:30 AM ET

CORPORATE PARTICIPANTS

Peter Kelly - CEO & Director

Brad Herring - Executive VP & CFO

Itunu Orelaru - Head of Investor Relations

PRESENTATION

Operator

Good day, and welcome to OPENLANE's second quarter 2025 earnings call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing “*” “0”. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press “*” “1” on your telephone keypad. To withdraw your question please press “*” “2”. Please note, this event is being recorded.

I would now like to turn the conference over to Itunu Orelaru. Please go ahead.

Itunu Orelaru

Good morning, everyone. Welcome to OPENLANE's second quarter 2025 earnings call. With me today are Peter Kelly, CEO of OPENLANE and Brad Herring, EVP and CFO of OPENLANE.

Our remarks today include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks and uncertainties that may cause our actual results or performance to differ materially from such statements. Factors that could cause such differences include those discussed in our press release issued today and in our SEC filings.

Certain non-GAAP financial measures as defined under SEC rules will be discussed on this call. Reconciliations of GAAP to non-GAAP measures are provided in our earnings materials and available in the Investor Relations section of our website. Please note that all financial and operational metrics presented during this call are on a year-over-year basis unless otherwise specifically noted.

With that, I'll turn the call over to Peter. Peter?

Peter Kelly

Thank you, Itunu, and good morning, everyone. I'm pleased to be here today to share OPENLANE's strong second quarter results. I'll start with a few highlights before updating you on our strategy and our perspectives on the market environment.

But first, I'd like to officially welcome Brad Herring, OPENLANE's Chief Financial Officer, to his first quarterly earnings call. Brad joined the company in May and is already making positive contributions to our executive leadership team and to our finance functions across the company. Brad will cover our detailed financials later in this call, and will also share a little more about himself and what you can expect from a reporting and investor perspective.

Turning now to our results. OPENLANE delivered a strong second quarter of growth, profitability and cash generation. This growth, all of which was organic, is a direct result of the strategic investments we've made in people, technology and our go-to-market approach, and it reflects the increasing market recognition, strength and preference of the OPENLANE brand.

On a consolidated basis, we grew revenue by 9%, delivered \$87 million in adjusted EBITDA, representing 21% growth and generated very strong cash flow. As a reminder, these results were

achieved against the prior year that included contributions from the automotive keys business that we divested during the fourth quarter of last year.

In the Marketplace segment, while commercial vehicle volumes were down as expected, we grew dealer-to-dealer volumes by 21%, representing the third straight quarter of double-digit volume increases. We also generated a 24% increase in auction fee revenue and a 36% increase in marketplace adjusted EBITDA.

Our Finance segment also had a great quarter, growing average managed receivables, holding the loan loss rate to 1.5% and increasing adjusted EBITDA by 9%.

In summary, OPENLANE is successfully executing our 2025 plan and longer-term strategy. I believe our second quarter results further reinforce the strong scalability characteristics of our asset-light digital operating model and help position us to deliver sustained growth, profitability and shareholder value. Based on all of those factors, we are raising our 2025 guidance, and Brad will walk through the details of that later in this call.

So let me turn to OPENLANE's strategy and our outlook for our business and for the broader industry. As a reminder, our strategy for growth is anchored in our purpose, which is to make wholesale easy so our customers can be more successful. And we're making wholesale easy by focusing on three enabling priorities.

First, by delivering the best marketplace, expanding to more buyers and more sellers and offering the most diverse commercial and dealer inventory available. Second, by delivering the best technology, innovative products and services that help our customers make informed decisions and achieve better outcomes. And third, by delivering the best customer experience, keeping our marketplace fast, fair and transparent, making it easy for customers to transact and making OPENLANE the most preferred marketplace.

So let's start with more detail on the marketplace, where we increased our gross merchandise value to \$7.5 billion, while organically growing overall volumes, auction fee revenue and gross profit. This was driven by our standout performance in dealer-to-dealer, which I'll cover in a moment.

But first, there is no change in the commercial business story. The Q2 decline in off-lease volume was in line with our expectations. When off-lease volumes begin increasing in 2026, as we anticipate that they will, OPENLANE is best positioned to capture that opportunity given our clear market leadership position, our long-standing customer relationships and our deep system integrations.

Additionally, the continued industry migration from physical to digital, along with another strong quarter of new car lease originations in Q2 represent compounding tailwinds for OPENLANE's longer-term growth opportunity in commercial.

In dealer-to-dealer, OPENLANE executed very well across the business. We continued to expand our customer base, enrolling thousands of new dealers and capturing volume opportunities with some of North America's largest franchise dealer groups. We saw a double-digit increase in

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unique buyers and sellers active on the marketplace, which drove higher demand and engagement. And we conducted a record number of vehicle inspections, leading to double-digit increases in dealer vehicles offered for sale and in vehicles sold.

When we add all of this up, our analysis shows that our North American dealer growth meaningfully outpaced the industry during the quarter and that OPENLANE gained in dealer market share. I attribute this success to our focus and commitment to the strategic priorities that I mentioned earlier, delivering the best marketplace, the best technology and the best customer experience.

From a marketplace perspective, we are clearly demonstrating the impact of our brand and operational consolidation to OPENLANE and our go-to-market investments. We have more sales leaders on the ground and on the phones, new digital marketing capabilities to streamline recruitment and engagement, and enhanced analytic capabilities around pricing and customer behavior.

All of this is driving growth in our customer network, in our wallet share and overall volumes transacted. And it's clear to me the growth in our buyer and seller network, coupled with our unique selection of commercial off-lease and dealer inventory is making OPENLANE an increasingly differentiated marketplace for all of our customers.

In terms of technology leadership, we continue to execute a multiyear plan to simplify our technology, reduce costs and increase speed to market. We have a deep pipeline of innovation that will help make buying and selling faster, smarter and more transparent. Our one app in the United States is cross-pollinating commercial sellers and dealers and helped drive a double-digit increase in commercial vehicles sold in our open sale channel during the quarter.

In addition, our Absolute Sale feature now supports the majority of our US-based dealer transactions and is generating an average of \$800 in additional value per vehicle for sellers. And we will be extending our leadership in AI-driven inspection technology with several new releases in the near future.

And finally, there is clear evidence that our commitment to delivering an exceptional customer experience is also becoming a competitive differentiator. OPENLANE is a digital marketplace in a relationship business, and we're highly focused on building and maintaining every customer relationship no matter the size or geography.

Buyer and seller feedback through our transactional NPS surveys continues to rate OPENLANE in the great to excellent range. And a recent third-party survey showed OPENLANE had significantly improved its preference ranking among franchise dealers and is now the most preferred pure-play digital marketplace in the US.

So as I think about the marketplace performance in the first half of 2025, I feel really good about what the OPENLANE team has accomplished and how that positions the company for further success. As we look to the second half of this year, I'm also pleased that we now have more clarity on the tariff situation than we had 90 days ago, particularly related to many of the largest

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automotive trading nations. I still believe tariffs may be a potential headwind to total new vehicle retail sales in the second half of this year, and our projections do reflect that possibility.

However, I continue to have very strong conviction as it relates to OPENLANE's strategic path, reflecting a technology leader in an industry that will continue to migrate to digital solutions, a commercial vehicle volume recovery starting early next year and extending through 2027 and beyond, a fast-growing dealer business that is becoming more recognized, more differentiated and preferred in the market, and finally, a highly scalable business model with excellent cash flow characteristics.

Another area that fuels my confidence for growth is the increasing connection between our marketplace business and our finance business, AFC. As I mentioned earlier, AFC posted another excellent quarter growing managed receivables, controlling the loan loss rate and increasing adjusted EBITDA. It is a high-performing business with a leading market position and a broad and loyal customer base. And I believe an even deeper integration between these businesses and their respective offerings and customers continues to be one of the best opportunities that we have to further accelerate our growth.

During the last call, I spoke about our ongoing efforts to cross-pollinate OPENLANE and AFC dealer registrations and to serve each AFC dealer another OPENLANE vehicle whenever an AFC loan is paid off. Based on their early successes, these programs are expanding across North America. We are also developing additional approaches, including cross-customer research, two-way promotions, bundled pricing structures, aligned sales and branch manager incentives and potential user experience integrations.

I look forward to leveraging the people, technology, brand equity and the extraordinary industry expertise that exists across these market-leading businesses. And I'm confident this connection will be positive for our customers and help generate results that exceed the sum of the parts.

So just to summarize, we had another strong quarter of financial and operating results. We are executing our strategy with focus and discipline, and that strategy is resonating with our customers. Because of that, I believe the key elements of our value proposition for investors remain very compelling.

OPENLANE is an asset-light, highly scalable digital marketplace leader focused on making wholesale easy for automotive dealers, manufacturers and other commercial sellers. There is a large addressable market in North America and Europe, and we are uniquely well positioned in both dealer and commercial. Our technology advantage is a competitive differentiator. Our floorplan finance business is a category leader that is highly synergistic with our marketplace. We are cash flow positive with a strong balance sheet and no debt. And we believe our business has the capability to deliver meaningful growth, profitability and cash generation over the next several years.

So with that, I will now turn the call over to Brad. Brad?

Brad Herring

Thanks, Peter, and good morning to everyone on the call. Before I get into reviewing our financial results for the quarter, I want to take a quick minute to introduce myself and talk about how excited I am about joining Peter and the team here at OPENLANE.

My background is made up of three decades of corporate finance in such notable organizations as Delta Airlines, Equifax and Fiserv as well as more recent tours as public company CFO with Shift4 Payments and Enfusion.

My decision to join OPENLANE was driven by three key factors. First, I see OPENLANE as a top-tier participant in an industry that will continue to move in our direction as digital solutions continue displacing the legacy physical auctions. Second, following numerous discussions with Peter, the leadership team and the Board, I'm convinced that this is the right group to lead OPENLANE on this exciting journey. And finally, as a car enthusiast myself, I'm fortunate to have the unique opportunity to work in an industry that overlaps heavily with my own personal interests.

I also want to take a minute to talk about my approach on how we will be discussing OPENLANE's financial performance going forward. The focus of our discussions will be on three key elements: growth, profitability and cash generation. Years of experience have taught me that when organizations focus and deliver on these key measures, positive results materialize for our shareholders, our customers and our employees.

Second, in response to OPENLANE's ongoing transformation into a leader in the digital Marketplace segment, we have started an extensive review of how we present our financial performance and underlying operational drivers with the intent of providing improved transparency and comparability of our results. You will notice the output of some of these efforts in our supplemental earnings materials filed this morning with additional updates coming over the subsequent quarters.

Now on to our quarterly results. Starting with consolidated revenues, we are proud to report that revenues for the quarter were \$482 million, which represent growth of 9%. The key driver of this growth was in the Marketplace segment, which I'll talk about more in a few moments.

Consolidated SG&A for the quarter was \$114 million, which is up 9%. This increase is primarily due to higher incentives that are tied to our 2025 year-to-date performance. Excluding the increase in incentives, our SG&A for the quarter would have been up 1% and reflects our expectations that revenue growth will continue to outpace increases in SG&A despite continued investments in sales and go-to-market.

Consolidated adjusted EBITDA for the quarter was \$87 million, which represents an increase of 21%. The resulting adjusted EBITDA margin for the quarter was 18%, which reflects margin expansion of 190 basis points. This expansion reflects the ongoing scalability of our cost structure across both the marketplace and AFC.

One new measure we are going to be discussing going forward is adjusted free cash flow. A full reconciliation, including descriptions of any adjustments we are making, is provided in the appendix of our earnings materials.

Consolidated adjusted free cash flow for the quarter was \$87 million, which represents a conversion rate of 100%. Because of some inherent timing swings in our settlement and funding processes, it is more appropriate to look at our conversion rate on a rolling 12-month basis. For the 12 months ending June of 2025, our conversion rate was 91% compared to 66% for the same trailing 12 months in 2024. The increase in conversion rate was primarily driven by a combination of growth and high pass-through rates in our Marketplace segment. Going forward, I anticipate a consolidated trailing 12-month conversion rate at 75% or higher.

Moving to the results in our business segments, I'll start with the Marketplace. Total GMV processed over our digital platform was \$7.5 billion, which represents a 10% increase. Inside of that figure was 32% growth in our dealer GMV, while commercial GMV was essentially flat. Our growth in dealer GMV reflects further market penetration made evident by the increase in buyer and seller counts as well as our continued focus on moving share from physical to digital.

Auction fees in the marketplace grew by 24%, driven by sales mix and auction fee price increases, while service revenues decreased by 3%. Adjusted EBITDA for the Marketplace segment was \$45 million, representing an adjusted EBITDA margin of 12%. This reflects growth of 36% and 220 basis points of margin expansion. Excluding the divestiture of our keys business in Q4 of 2024, the year-over-year comparisons would have been slightly higher with 42% growth and 260 basis points of margin expansion.

Turning to our Finance segment. Our average outstanding receivables managed in the quarter was \$2.3 billion, which is up 4%. The average balance per transaction increased by 5%, while total vehicle finance transactions were down 1%. Net yield for the quarter was 13.6%, which is consistent with last year. The Q2 provision for credit losses was 1.5%, which is consistent with our results from last quarter and 60 basis points lower than last year. Our expectation for the provision remains in the 1.5% to 2% range for the foreseeable future. However, we expect to remain on the lower side of that range for the remainder of 2025. The resulting adjusted EBITDA for the Finance segment was \$42 million, which was up 9%.

Moving to capital considerations. We had a few items to highlight in the quarter. First, you may have seen that during the quarter, we used \$210 million of our existing cash balances to pay off our outstanding senior notes. This leaves our net debt position at zero at the end of the quarter. You may also recall that in Q1, our Board approved an increased share repurchase program through 2026. As of the end of July, under this program, we have repurchased approximately 1.3 million shares at a total cost of approximately \$31 million.

With regard to liquidity, we ended the quarter with a cash balance of \$119 million and capacity of \$411 million on our existing revolver facilities.

Now on to guidance. As Peter mentioned in his remarks, there's still a fair amount of uncertainty in our markets that could drive variability in our results for the back half of the year. However, our strong performance in the first half of 2025 has given us sufficient confidence to increase our expectations for the full year. We are therefore revising our full year guidance for adjusted EBITDA from a range of \$290 million to \$310 million to a revised range of \$310 million to \$320 million. This

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revision reflects a refreshed view of back half volumes as well as some additional investments to build out our buyer and seller networks.

We are also increasing our full year guidance for operating adjusted EPS from a range of \$0.90 to \$1 per share to a revised range of \$1.12 to \$1.17 per share. Our CapEx guidance for the year remains the same at a range of \$50 million to \$55 million.

In summary, I'm very privileged to be part of this organization and have great confidence in our mission, our strategy and the over 4,500 employees who execute on a daily basis. The proofpoints on our ability to execute are evidenced in our results for the quarter, which I would summarize as follows: better-than-market growth from the dealer component of our Marketplace segment and a TAM that remains rich with opportunity and steady growth with exemplary risk management from our Finance segment.

Going forward, we are confident that the execution of our strategy will continue to produce results that are headlined by a growing top line, expanding profitability and high cash flow conversion. Now I'll pass the call back to the operator for questions.

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press "*" "1" on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question please press "*" "2".

At this time we will pause momentarily to assemble our roster. And your first question comes from Bob Labick with CJS Securities.

Bob Labick

Congratulations on strong results, and welcome to Brad to OPENLANE.

Brad Herring

Thank you, Bob.

Bob Labick

Certainly. So really strong dealer volumes. And so I want to kind of dig down on that a little bit too. How are the volumes impacted kind of by the broader macro tariffs, et cetera? Was there a pull forward? Has there been delays? The industry is moving around a lot based on the macro. So maybe how did it impact the quarter? And how do you see that playing out for dealer volumes in the second half as well?

Peter Kelly

Yes. Thanks, Bob. Appreciate the question. Listen, I was really pleased with the dealer volume in the quarter, 21% year-on-year growth, our third quarter of double-digit growth in that category. And while we don't report geographically, geographical results were strong in all markets, in all geographies. So really pleased with the quarter.

And I attribute that growth really to, as I said on the call, to the strategy. The execution of the strategy, as we've outlined on previous calls, the consolidation of the brand to OPENLANE,

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simplifying, making this company easier to do business with, a focus on the customer experience and obviously, some of the technology investments that have improved. Absolute Sale, improved condition reports, things like that. Those are truly beneficial to dealers. We hear that from our customers every day, how much they like those advancements.

And then also the additional go-to-market resources. We increased investments in this area about a year ago. We're seeing the results of that. We're going to continue to be aggressive and to make investments to grow volume and share. So I feel really good about that.

I think, again, as we've said, this is a large category. About 50% of the TAM is dealer-to-dealer, and it's still heavily physical. But I really do believe that the digital platform offers tremendous value to our customers. I think they're seeing that every day. And even with the volumes we did in the quarter, we're still a relatively small player in the context of the overall dealer-to-dealer TAM, around about 10%. So we've got a lot of opportunity there, and we're going to keep focused on that.

To get to some of the points you mentioned, listen, I think there were two facts that are worth sort of remembering in the context of the quarter's results. There was -- at the very beginning of the quarter, there was that pull ahead of retail volume which was well reported in the industry when the tariffs were first announced, consumers rushed to dealerships to buy new cars. So that created strong retail sales in the sort of late March to mid-April period. I would say we got a small benefit from that.

And then you may -- the audience may not remember this, but a year ago, in late Q2, there was the CDK outage, which depressed volume in late Q2 of last year. So I'd say we got a small on the margin benefit from both of those. That may be, in my mind, might account for 2% or 3% of the growth. But I still think without that, it was a very, very strong quarter in dealer volume growth. And I think the core drivers of that are strategic, not sort of those industry factors that you might have referred to.

Bob Labick

Yes. No, that's great. And I think you just answered that you don't really break it out. But maybe in terms of US versus international growth, were both growing double digits because it was so strong at 20% across? Or any further color on how kind of Canada and European volumes were impacted kind of in this, again, global tariff?

Peter Kelly

Yes. I'd say very comparable, Bob. I think growth rates -- well, first of all, more than 90% of our volume is North American. So I really -- I'll put the focus on North America here. The dealer volume in Europe is not going to be a material mover in the dealer-to-dealer equation. But I think we had comparable growth rates in both Canada and United States. Yes. So I think that was the pattern of the quarter.

Obviously, we're a bigger player in Canada. We have more share in that market. So I think the long-term growth opportunity for us in Canada on the dealer-to-dealer side is not as -- we don't have that situation where we're 10% of the TAM in Canada, right? We have less upside in that

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market, but obviously, a very strong position, very strong volumes and strong profitability in that market.

Bob Labick

Okay. Great. And then just last one, I'll get back in queue. You already talked about this, so maybe just dig a little further. The increase in kind of Sales, the selling, the feet on the street, you said obviously benefited you with new accounts. Maybe where are you in that process? And how much longer do you expect kind of outsized benefits from that investment? Are you done investing, but you still have three more quarters of benefits because of the comp? Or how should we think about how that increase in your selling capacity impacts the P&L? Yes.

Peter Kelly

Yes. Thanks, Bob. Well, I guess one thing, first of all, it's also evident to me as I see these results play out, how scalable the business is. We know that about tech platforms. They're inherently scalable, particularly with cloud technologies and whatnot, and they're even more scalable than ever before. But the platform is inherently scalable. Our ability to scale our inspector network and our inspection capacity is extremely scalable. So the sales investments play well into that environment, right?

So a year ago, we looked at areas where we felt we didn't have enough presence, we didn't have, say, boots on the ground in certain cities, and we were doing it telephonically. We felt we'd put some folks in the field. We did that. So we're seeing the benefits of that.

I will say, Bob, what we've seen candidly, particularly in the US, is we've seen -- we report sales growth here. We've seen an even faster growth in volume consigned, right? So I'd say our investments went more into the seller side, the supply side of the equation. And what we're looking at today, and Brad mentioned some incremental investments we're making now, putting those more into the demand side, building up the buyer network, because, frankly, the supply side investments have been so successful. So we're focused more today on building up the demand side network.

Frankly, our AFC business plays really well into that because, as you know, AFC serves the independent dealer network. And in this dealer-to-dealer market, the core buying audience for those vehicles are independent dealers. And today, only about 40% of AFC's dealers are registered and buying in the OPENLANE marketplace so there's still a significant opportunity to convert the other 60%, and that's something we're focused on in collaboration between the OPENLANE and the AFC teams.

Operator

And your next question comes from Rajat Gupta with JPMorgan.

Rajat Gupta

Congrats on the strong execution here. I had a question just on the second half guidance. I understand in the past you've taken a conservative approach. It still looks like you've maintained that approach. But I was curious with the deceleration embedded in the guidance on EBITDA, could you frame for us what you're expecting from a market standpoint? Are you expecting like a

meaningful deceleration in growth? I know there's some tougher comparisons in the second half year-over-year. But curious if you could frame that for us? And also embedded in that, do you expect this double-digit type share gain trajectory to continue in that context? I have a quick follow-up.

Brad Herring

Rajat, I'll take the first part of that, and I'll pass the share part over to Peter. So I appreciate the question on guidance.

So yes, we did a lot of work sitting down doing our projections for the back half, and I mentioned in my prerecorded remarks. There's still a fair amount of uncertainty, even though some of that certainty has been decided in the first half. We looked out at a lot of the general consensus in the analyst community, and there's still a lot of expectations that there's some form of a slowdown in the back half coming. So we certainly wanted to factor that in as we sat down and projected our back half.

There's another element that has to do with a little bit of a Q4 seasonality component. We'll typically see a little bit of a slowdown just based on the calendar in Q4. So between those two factors, that really drove what our top line and what our volume expectations look like for the back half.

And then on top of that, I mentioned in my remarks, we are continuing to make some more of these investments in the back half. Peter just got done talking about some of our investments to fill out the buyer network. Yes, this is a great opportunity. We're getting a lot of traction out of those investments. So we want to keep that momentum going with those investments.

So at the end of the day, we do see some form of deceleration in terms of EBITDA in the back half, but we think it's grounded in some pretty fundamental and pretty widely agreed upon expectations for volume in the back half, combined with us continuing to make some investments for the future.

And I'll turn Peter over for the share gain question.

Peter Kelly

Yes. Thanks, Brad. Rajat, I appreciate the question. Listen, again, really pleased with the trajectory we've seen over the last, I'll say, four quarters on the D2D side. And your question goes to, can we continue gaining share at the sort of double-digit rate that we talked about. I guess here's how I'd answer that.

I'd say, first of all, I mentioned the difference in US and Canada. So I think the growth opportunity, the ability to sustain a double-digit growth rate over an extended period of time, that's much more robust for us in the US than it is in Canada, where I think we started hitting a ceiling earlier in the process, right? So the US is obviously a core market and the larger market of the two. But I think at least in theory, there's a significant opportunity to sustain a significant growth rate in D2D in the US over the longer-term as that industry moves towards digital. And again, I think we have a leading digital offering that addresses these types of vehicles.

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I guess one way I think of it is industry volumes can ebb and flow. So I look at our performance versus dealer-to-dealer volumes in the overall industry. And I'd like to think that we can outpace those growth rates. So if industry is flat, I'd like to think we could be growing at mid to higher single digit. If industry is growing 5%, we could be growing faster than that by mid to high single digit is kind of my -- I'd call it more aspiration, right? Now is that a firm expectation? I caution that. I think three or four quarters is great. Very pleased to see it. But we've got to continue to execute.

I think the team is doing a great job. I think the feedback we're getting from our customers is probably stronger than ever. So I feel really good about that. I loved the feedback that came through the JPMorgan survey of franchise dealers where our brand recognition had increased significantly as the preferred wholesale marketplace.

So I think we're doing a lot of good things. I don't want to say with conviction we can outpace the industry by 10 points every quarter. But certainly, our goal is to grow at a faster rate than the industry, and that's what the team is very focused on.

Rajat Gupta

Understood. And just relatedly, just one clarification. In the second quarter, I think you pointed out in the shareholder like your share gains -- so it was higher than the 10%, right, in the second quarter. Is that right? And then in relation to that, was there like an inflection you saw in just digital adoption here in the second quarter as well? Or do you think this was really more unique to like your own strategy to grow share? And I have just one last follow-up.

Peter Kelly

Yes. Okay. So on the first one, again, if I look at sort of US dealer volumes in the quarter, I believe they grew around about 10%-ish. So our growth was roughly double that. That was kind of -- so I think a solid quarter. That's at least the data I'm looking at, Rajat.

Was there an inflection point in the industry? I think it's too early to say. I don't have all the data. I doubt it. I don't think this industry tends to have those types of inflection points. But I'd say, Rajat, there's a bit of an inflection point in my view, with dealers understanding an appreciation for who is OPENLANE, right?

And I think, again, this goes back to our one brand, but we are the leader in the commercial off-lease programs. What that means is most franchise dealers are already customers of ours. They may not have actually known that two or three years ago because they were dealing with a private labeled program that OPENLANE is behind, but they're interacting with us through an OEM branded interface.

So I think as dealers realize OPENLANE is the company that does this program, well, I get it. I like that program. You do this as well over here, great. Let me see how this works. Oh, wow, this is super easy. That's all I need to do. Just you guys come and inspect the cars. Well, that's great. Let's do that. And then, of course, we sell the cars and Absolute Sale, they see the value they're getting there.

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So I think there's a bit of an inflection point in -- who is OPENLANE, what can OPENLANE offer my dealership? How does OPENLANE help me to be more successful? Again, that's our core purpose. And I think we're benefiting from that.

But on the broader industry question, I guess, we'll see. And again, I'm hesitant to point to inflection points. I think it requires sustained execution quarter after quarter, an aligned team and aligned culture, great technology, great customer experience and those are the things we're focused on.

Rajat Gupta

Got it. Got it. And just last one on pricing. I mean, where do you think your pricing is today relative to the more mature like physical players? How much do you think the gap is still there? And are you seeing any increased competitive push from some of the more legacy players like Manheim or if that's on just the digital side and the way you are doing the transaction?

Peter Kelly

Well, I think on the pricing, as I said on prior calls, I think our strategy is to offer a high level of value or a high-value service at a reasonable price so that our customers can clearly capture value and see the value benefit they're getting vis-a-vis alternative channels. So what that means, I think we're attractively priced. But I don't see us as a low price leader. I see us as again, high value at a reasonable cost is my little rubric for that.

For sure, our fees are lower than many or most physical auctions, certainly lower than the leading brand. And so there is, I think, a long-term pricing opportunity there. Again, in the near-term, we're more focused on volume and share and NPS scores and customer adoption. But I think long-term, that exists for sure. And we do occasionally make tweaks to pricing. We made a small tweak in Q2.

In terms of focus, it's hard for me to comment. Listen, I'm focused on what we're doing, what we're doing for our customers. Our customer base is growing, not only double-digit growth in volumes in the quarter, dealer-to-dealer, but double-digit growth in sellers, double-digit growth in buyers. That's what we're focused on. I did notice that the largest physical auction chain bought two new physical auctions just last week. So clearly, they're making continued investments in physical. Our focus is, obviously, as you know, very much in the digital realm.

Operator

And your next question comes from Craig Kennison with Baird.

Craig Kennison

A lot of talk about inflections. I wanted to talk about 2026. I'm curious when you think we might see that inflection in off-lease activity on your platform just based on what you've seen in terms of historical lease activity and then what you're currently seeing in terms of consumer buyout trends?

Peter Kelly

Yes. Thanks, Craig. I appreciate that question. So I guess, first of all, if we look at our experience in current year, commercial volumes are down. I said in my remarks, they're down as expected. And that is true. They're down, I'd say, within our expected range. They're probably down at the

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lower end of our expected range. So I think in the quarter, commercial was down about 9%, if I recall. So I think that's -- I'm pretty pleased with that. Let's just say, I probably thought it could be anything from 9% to 15% or 8% to 15% or something. So I think they're down sort of at the lower end of the range.

As we look into 2026, I'd say with a high level of confidence, we expect our commercial volumes to be increasing from Q2 onwards, and that's with a high level of confidence. There is a possibility that our commercial volumes are increasing on a year-over-year basis starting in Q1. But I don't want to sort of commit to that because depending on which side of the scenario you go on, it could be a slight decrease, slight increase, okay? But I think high level of confidence from Q2 on, commercial bonds are increasing.

Now if we look at the sort of drivers and compounding factors here, one is that growth is driven by increased off-lease maturities from Q2 onwards, okay? On top of that, we can layer a declining consumer payoff percentage. I think that continues to decline. Although the decline, I think we should assume will be incremental. It will take -- it will be slow.

But one of the things I can point to as we look into the early to mid-part of next year, there's a lot of EV leases in those portfolios. The consumer buyout percentage on those vehicles is going to be very, very low because those vehicles are heavily out of equity. And that's being reported and that's very evident in our customers' data sets. So I think we'll see the consumer buyout percentage decline there. It will also decline, I think, on ICE vehicles because of the residual equity equation.

And then as that declines, I think we have the opportunity, and we've talked about this for those vehicles to start to flow deeper into our funnel. And as we've talked on prior calls, we tend to earn more revenue per unit, the deeper the vehicle goes in the funnel. So all those things are compounding factors.

And by the way, another little proof point that I think we mentioned in our remarks, but I'll repeat it here, despite commercial volumes being down in Q2 by 9%, the commercial volumes sold in our open sale went up, okay? So if you think through that, there was less volume at the top of the funnel, but some of it flowed deeper and our ability to convert those cars in the open sale, which is our highest revenue channel for commercial vehicles increased.

So if commercial volumes in the open sale are already increasing, despite the top of the funnel being down, that gives me a lot of confidence as to how these dynamics start to play out in 2026 and beyond. So anyway, listen, I think we've got a very good story on commercial. I'm excited. We're more than halfway through this sort of U-shaped decline in commercial. We're coming out the other side and looking forward to 2027 -- 2026, sorry.

Craig Kennison

Yes. Just to clarify, are you saying Q2 2026 is where you have confidence in the inflection?

Peter Kelly

Yes. Sorry, my bad. I've got my math. 2026, let me be very clear. 2026. Yes.

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Craig Kennison

Great. That's very clear.

Peter Kelly

Next year, yes.

Craig Kennison

Yes, of course. And one other question, if I could. Maybe just share an update or maybe just add more color on some of these cross-pollination projects between AFC and OPENLANE. How would you frame the value you think you could unlock if you get some of these projects right?

Peter Kelly

Yes. Well, listen, I think we're fortunate; fundamentally, we have two wonderful businesses. AFC is a leader in its space. The relationships it has with its customers, I think, are second to none. The NPS scores over there are kind of off the charts. Great risk management. They're a category leader on so many dimensions. But that relationship they have with their customers as a trusted business partner is really a huge asset for our company.

And then obviously, OPENLANE, we've got an industry-leading digital marketplace, wonderful technologies, great NPS scores. I think we're trying to replicate a lot of those sentiments that AFC's customers have for that business. We want OPENLANE to have the same sentiments in the minds of our customers.

But not only do we have two wonderful businesses, they have synergies between them. At a minimum, AFC provides liquidity to buyers in the OPENLANE marketplace. And obviously, every transaction on OPENLANE that's sold to an independent dealer is a potential floorplan opportunity for AFC. But we want to get more than that. We want to get beyond that sort of 1 plus 1 equals 2 to get to 1 plus 1 equals 3.

And some of the things we're doing, earlier this year, we deployed on the AFC digital solution, the website and the app, a little carousel. So when a dealer pays off a vehicle like a 7-year-old Altima, let's say, we'll showcase here's 10 more vehicles that could be potential replacements. Some of them are Altimas, some of them might be Civics or Elantras or whatever, vehicles that are similar price point in the same geography, similar age. So just kind of getting them to sort of restock that piece of inventory and get them to connect to OPENLANE. So we saw some nice pull-through on that. We've now made that a national program.

When AFC registers a dealer, they collect a tremendous amount of information about that dealer's business, way more than OPENLANE needs to register a dealer. So if you like, the AFC registration package is a superset of all the information OPENLANE needs. So we've streamlined the sign-up process. If you're an AFC dealer and you want to register on OPENLANE, click this button. We have all the data. We'll just send over a package of information, enter a password, away you go, right? So that's new, right?

And then just I talked about some of the -- just getting the incentives right internally, getting the AFC team and the OPENLANE team, they are separate teams. They're wearing a separate different branded T-shirt in the field. We want them to be good business partners to each other.

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So getting our own internal incentives right for those teams to support each other and work together in a constructive way. So those are a few of the examples, Craig, but excited about the opportunities there.

Operator

And your next question comes from Jeff Lick with Stephens.

Jeff Lick

Congrats and Brad, welcome. So I was wondering if -- first off, Peter, if you could give an update on the win-back customer that you're onboarding, how is that going? Is that going according to plan?

And then Brad or Peter, I was wondering if you could maybe just talk through how you're thinking about the Series A preferred and broad strokes, what are the options how you might address this?

Peter Kelly

Jeff, thank you. I appreciate that. Let me take the first part. Brad can take the second. So in a nutshell, that project is going well. It's on track. We hope to launch that program sometime around the end of the year. So I feel good about that. Obviously, Jeff, there's always risk in these projects. So we're not out of the woods yet, but it's a green light status project right now, which is great.

And by the way, that is another factor in our commercial vehicle story. On the assumption that that program does get launched at year-end, then it's much more likely we'll show commercial volume growth in Q1 of 2026. Since I made the mistake earlier in the year. So I just want to -- that's another sort of factor in that equation. But what I talked about earlier was more to do with leaving that aside, just looking at the underlying trends.

I'll let Brad speak about the other second part of the question.

Brad Herring

Jeff, thanks for that question on the preferred. So obviously, it comes due in June of next year. It's approximately 36 million shares upon conversion. They are in the money now. It's something that's certainly on our radar. We're not ready to give an update on our path. But what I look at from my seat is I like a clean balance sheet, and I like a lot of cash production. It certainly opens doors for opportunities, but we're not ready at this point to kind of publicly talk about the plan for that Series A preferred other than it is certainly on our radar and certainly something that we will be addressing over the next 12 months.

Jeff Lick

And I guess maybe just thinking out loud on that one, the nominal value or the amount coming due is about \$612 million. I mean, is it fair just to kind of say, well, look, they could convert. But if they convert, then they have shares and the only way they can get liquidity is through the open market, and it's a lot of shares relative to what you trade versus there could be an agreement struck where it's like, look, we could give you liquidity for everything right now at a discount, which would be the effective equivalent of you being able to buy back a big chunk of shares at a discount. Is that at least in concept a fair way to look at it?

Brad Herring

No, I appreciate the comments, Jeff. We're not commenting any deeper than my comments before.

Operator

And your next question comes from Gary Prestopino with Barrington Research.

Gary Prestopino

Peter, can you maybe directionally give us some guidance in terms of with the consignment vehicles up 20.5% in the dealer space, how much of that growth was generated through same-store versus new dealer customers coming into the fold?

Peter Kelly

That's a good question, Gary. I don't have the answer to that. Here's what I can say is what underpins that growth. Well, we saw a comparable, if not even slightly higher growth in vehicles consigned. We saw comparable growth in the number of sellers and comparable growth in the number of buyers.

But we also know that when we sign up new sellers, they don't typically convert at the rate of our existing sellers in those early months after being signed up. And probably the same is true on buyers. New buyers don't buy as robustly as existing buyers. It takes them -- they want to build up a track record and get comfortable, all that kind of stuff. So that would point to the growth was driven by a mix of new seller sign-ups, but also growth within the network. I just don't have the exact stat. So I don't want to comment much more than that.

I will also say, though, I do look when it comes to some of our what we call major dealer accounts, I do look at sort of those dealer networks, groups of 20, 40, 50, 100 stores. And it appears to me we have been gaining share and volume with many of those groups. So that would again point to sort of same-store type growth because that was a customer relationship we had with those 50 stores a year ago. We have it today. We're doing more volume today, right?

So but good question, Gary. I'll dig deeper into that. I just don't have an answer right now.

Gary Prestopino

Okay. And then just looking at the commercial vehicles sold, it looks like it was down about 8.8% year-over-year. Q1, it was down 14%. Are your expectations that for an improvement in that decline for the back half of the year? And then I just want to get it straight. Q1 of '26, you would expect commercial vehicle increases as because of more lease cars coming through the pipe?

Peter Kelly

Okay. So let me get the second part of the question first. With a high level of confidence, we expect commercial volumes to be increasing from Q2 of 2026 onwards, okay? There is a possibility that we could see that increase in Q1, okay? But my level of confidence in Q1 is a little less. So Q1 is sort of closer to the line, could be up, could be down, I don't know. But Q2 2026, high level of confidence, commercial volumes are going up and then increasing further in Q3 and Q4, okay?

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And then I guess, Gary, the decline was kind of a U-shaped. So at some level, we would kind of expect that that decline shouldn't really -- I'd say it shouldn't worsen materially. The 9% we posted in Q2, I would say, declines of about that level in Q3 and Q4 or maybe even a little less are probably sort of what's in the planning scenario here, okay?

Gary Prestopino

Okay. All right. And then just as I look at the floorplans curtailed, it was down about 3.3%, and that's indicative of, I guess, solid sell-through at the dealership level. Would that indicate that we're getting more to an equilibrium of a normal market in terms of new supply versus demand?

Peter Kelly

First of all, your first part of your observation, I think, is the correct one. Curtailments were down. That's indicative of pretty strong retail environment and vehicles moving off the lot, not needing to be curtailed. So that is true.

Is the market in more of an equilibrium? I think I'd characterize the market has been normal to somewhat robust in the quarter. I don't -- it's probably been on the normal or stronger side of normal would be my view. And some of that was, again, the tariff stuff created this sort of -- yes, this pressure to consumer pressure to try and get ahead of that. Used car prices went up a bit. New car prices went up, as you've probably seen as well. So yes, I think it's been a reasonably -- it hasn't been like a gangbuster sort of market, but it's been a reasonably strong market, yes.

Operator

And the next question comes from Bret Jordan with Jefferies.

Bret Jordan

On the dealer-to-dealer share gain, back in the old days when TradeRev was being rolled out, a lot of the conversation was these were cars that weren't seeing an auction. They were sold at wholesalers or direct dealer-to-dealer phone calls. Is the share gain you're seeing cars that didn't previously go to auction? Or is this share coming from other auction platforms?

Peter Kelly

Good question, Bret. I think when I talk about share, I'm looking at numbers that I can sort of count like put a -- where there's a third-party data source that's publishing a number that I can use. So I look at AuctionNet, I look at our volumes, I look at some competitor volumes who publish their volumes as well and do the math based on that.

I guess my thesis on it is we're principally looking at a physical to digital shift. I consider it a secular shift from an industry that was 100% physical to today in the US is about 25% digital. But that 25% has been increasing over the last number of years and will continue to increase, and we intend to gain share as part of that. So that's kind of how I look at it principally.

Now in the quarter, physical auction dealer-to-dealer volumes grew too, as well. They just didn't grow by the rate we grew. They grew at about half that rate, okay? So those were the sort of facts on the ground in the quarter.

I think it is true that there are additional dealer-to-dealer vehicles that are sold through informal channels through wholesalers directly from one dealer to another. Those are just harder to count. So for that reason, I don't make an estimate on those. Again, when I speak about our share or about TAM, I'm really looking at numbers that are sort of firm and published. But I think the market is true. It is correct to assume the market actually is a little bigger than that.

Bret Jordan

Okay. Great. And then in your prepared remarks, you mentioned an \$800 increase in yield. Could you give us more detail on that? Is there something in the process that's improving the yield? Or I guess, a little bit of color because it seems like a fairly significant uptick.

Peter Kelly

Yes. So well, so this is a feature of what we call our Absolute Sale format or feature in the marketplace. This was something we launched, I believe, in Q1 of 2024, okay? So the way Absolute Sale works, the seller puts the vehicle in the marketplace or vehicles in the marketplace, a certain amount of bidding activity happens. 20 buyers look at the car, four or five of them bids, there's competing bids, the car gets bid up to a certain level. Now that we've introduced the Absolute Sale feature, the seller at a certain point in the process can say, okay, there's enough activity on this car and the price has gotten to a level where I'm for sure going to sell this car, okay? So that's when they hit the Absolute Sale button, right?

So we're looking at what is the price -- what is the bidding got to at that point, okay? The point at which the seller hits the Absolute Sale button. When the seller hits the Absolute Sale button, we then re-message to the dealers who've been bidding on that car and other dealers, hey, this vehicle is now an Absolute Sale. We put the vehicle in a different category. If a buyer goes on and says, show me all the Absolute Sale vehicles, this vehicle will appear in that set. And that vehicle is guaranteed to sell today. Those Absolute Sale vehicles will close at 4:00 p.m. Eastern Time, okay? It's 100% certainty it's going to sell.

So that attracts new buyer interest because they're looking for cars they know we are going to sell. They're not -- they don't want to waste their time on cars that aren't going to sell. So we then measure how many incremental bids get placed, how many incremental dollars does the seller gain from the moment they hit that button. So when we first launched that program 1.5 years ago, I think on average, we were generating like \$450-ish incremental from the moment they hit the button. Well, that has been increasing steadily and in Q2, it was closer to \$800.

So again, it's another metric that speaks to the success and the adoption of this particular feature. Sellers really like it. I hear a lot of positive feedback on that. A lot of buyers like it, too, for the certainty they get around these cars I'm selling. So that's, in essence, what we're talking about when we talk about that \$800.

Bret Jordan

So essentially, it's the increase after the reserve comes off on the auction?

Peter Kelly

Exactly. Yes. And by the way, one more thing I should say on that is while that is the average I've had so many conversations with dealers on this. While that is the average, we see lots of vehicles for the run-up is \$2,000, \$2,500. And when a dealer, a selling dealer has that experience, you're kind of winning a convert. Like they're saying, man, I thought I was good at 12% and you got me 14.5% on that car. Like that was incremental money, incremental profit that I did not think existed in that vehicle.

Bret Jordan

Was there previously the ability to take the reserve off?

Peter Kelly

Previously, there was a sort of a back-and-forth interaction a buy it now messaging, but this sort of -- this kind of puts a more auction-like format into the mix, yes.

And by the way, we didn't take the old one away, like the sellers can still use the old approach, too, and many do. So today, in our US D2D, I'd say about 60-ish percent, 50% to 60% of the cars we sell are sold through Absolute Sale and 40% to 50% are sold through the more legacy marketplace tool set. And that percentage has been moving more and more towards Absolute Sale over the last 18 months as well.

Well, Bret, I think that's all we have time for. So again, thanks, everybody, for your time today and your interest in our company. I just want to close by saying I think our performance in the second quarter and the investments that we continue to make in the company are helping position OPENLANE to deliver sustained long-term growth.

Our marketplace and finance businesses are executing well. We continue to generate very strong cash flows, zero debt. As I look ahead, I believe OPENLANE's value proposition for investors remains very compelling. Look forward to speaking to you again in 90 days and updating you on our third quarter. Have a great rest of your day.

Operator

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