



OPENLANE

Third Quarter 2025 Earnings Call

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CORPORATE PARTICIPANTS

Bill Wright – *Investor Relations*

Peter Kelly - *CEO & Director*

Brad Herring - *Executive VP & CFO*

PRESENTATION

Operator

Good day, and welcome to the OPENLANE, Inc. Third Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After the presentation there will be an opportunity to ask questions. To ask a question, you may press star and then one on your touchtone phone. To withdraw your question, press star then two. Please note that this event is being recorded.

I would now like to turn the conference over to Bill Wright, Vice President of Investor Relations. Thank you, and over to you.

Bill Wright

Thank you, operator. Good morning, everyone. Welcome to OPENLANE's Third 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 the 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 the call are on a year-over-year basis unless otherwise specifically noted.

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

Peter Kelly

Thank you, Bill, and good morning, everyone. I'm pleased to be here today to share OPENLANE's strong third quarter results. Let me begin by welcoming Bill Wright to his first OPENLANE earnings call as our Vice President of Investor Relations. As detailed in our press release, Bill is a seasoned financial leader with strong industry relationships and a proven track record of driving stockholder value. And we look forward to introducing him to you more broadly in the months ahead.

Moving to our results. OPENLANE's strategy and the investments we've made to accelerate it produced another strong quarter of organic growth and profitability. The OPENLANE brand continues to gain momentum, customer preference and market share. And our focus on making wholesale easy is further differentiating our marketplace across the industry. On a consolidated basis, we grew revenue by 8% and delivered \$87 million in adjusted EBITDA, representing 17% growth. 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 2024.

In the Marketplace segment, while commercial vehicle volumes were down as expected, we grew dealer-to-dealer volumes by 14% year-over-year, representing the fourth straight quarter of double-digit volume increases. We also generated a 20% increase in auction fee revenue and a 22% increase in Marketplace adjusted EBITDA.

Our Finance segment also had a great quarter, growing loan transaction units and average managed receivables while holding the loan loss rate to 1.6% and increasing adjusted EBITDA by 12% year-over-year.

In summary, I believe our third quarter results further reinforce the strong scalability characteristics of OPENLANE's asset-light digital operating model. We are executing our 2025 plan with precision and leaning into investments that will help position us for long-term growth, profitability and shareholder value.

Based on these factors, we are further increasing our 2025 guidance, and Brad will discuss those specifics in just a few minutes.

So now let me turn to OPENLANE's strategy and our outlook for the business and our 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 are making wholesale easy by focusing on three enabling priorities: 1) by delivering the best marketplace, expanding to more buyers and more sellers and offering the most diverse commercial and dealer inventory available; 2) by delivering the best technology, innovative products and services that help our customers make informed decisions and achieve better outcomes; and 3) 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 \$7.3 billion while organically growing overall volumes, auction fee revenue and gross profit. This was driven by another standout performance in dealer-to-dealer, particularly in the United States. But before I turn to that, I want to spend a few moments on commercial. As expected, Q3 commercial volumes declined year-over-year, but the rate of decline was less than what we saw in Q2. We remain confident that off-lease volumes will begin to inflect during the second quarter of 2026. And given our clear market leadership position, our longstanding customer relationships and our deep integrations with OEM, captive finance and financial institution customers, OPENLANE remains best positioned to capture this reemerging opportunity.

In dealer-to-dealer, OPENLANE executed very well across the business. The US drove the majority of OPENLANE's double-digit volume increase in dealer with Canada also contributing solid mid- to upper single-digit growth. In the US, we also conducted a record number of dealer vehicle inspections during the quarter and the year-on-year growth in unique vehicles offered for sale exceeded the year-on-year growth in vehicles sold. We continued to expand our customer base, enrolling thousands of new dealers on to OPENLANE and had another record quarter of customer engagement with double-digit increases in unique buyer and seller activity. We also continue to make solid progress in our efforts to increase our market share with North America's largest franchise dealer groups.

Based on our analysis of AuctionNet and other publicly available data, OPENLANE's dealer growth in North America during the quarter significantly outpaced the industry and resulted in meaningful market share gains.

On our last call, we received a few questions about the why behind our accelerated growth and specifically what OPENLANE has been doing differently. And while I believe our success is a result of our strategic focus on delivering the best marketplace, technology and customer experience, I believe there are several primary drivers that are fueling our growth and fortifying

our competitive position for the future.

First, our brand and platform consolidation work has dramatically simplified our company and clarified our purpose. That simplification enables us to focus our investments and resources on growth and prevents any distraction from pursuing non-core activities.

Second, I would highlight the uniqueness of our inventory and marketplace participants. Our leading private label programs directly connect us to the majority of franchise dealers in North America. And in Dealer, our go-to-market investments are helping us increase market penetration and wallet share. This combination of franchise and independent customers with a broad selection of inventory is highly differentiating for OPENLANE.

Third, we are empowering our marketplace with innovation and technology, injecting AI and OPENLANE intelligence into key areas such as vehicle recommendations, pricing and condition report transparency. During the quarter, we released our new Audio Boost feature, which allows dealers to visualize and listen to actual engine recordings, easily identify AI detected anomalies and even compare that audio to another ideal or healthy engine recording.

Next, I want to credit our ongoing work to leverage AFC and their extensive network of local independent dealers to power the OPENLANE marketplace. AFC is a category leader and contributes meaningfully to our financial results. Additionally, there remains a significant opportunity to cross-register dealers, integrate our technology and bundle new products and services; all efforts that we are actively advancing.

During the third quarter, we increased the number of AFC dealers registered on OPENLANE by over 900 basis points. And now nearly half of all AFC dealers can directly transact on our marketplace. Additionally, we introduced a new AFC recommendations carousel that suggests OPENLANE vehicles to AFC dealers whenever a floorplan loan is paid off. Though still in the early stages, this feature has already driven several hundred new OPENLANE registrations and more than 300 unique OPENLANE marketplace engagements each week. And we have grown both AFC floorings on OPENLANE and OPENLANE purchases floored on AFC by double digits year-to-date.

And finally, we continue to invest in people and technology to deliver an exceptional customer experience. OPENLANE is a digital marketplace leader in a relationship business, and our relationship-first approach is helping the OPENLANE brand grow in preference and keep our transactional NPS scores in the great to excellent range.

So, when you add all this up, I believe OPENLANE offers a very compelling value proposition to our customers. It provides a fast, easy and efficient platform to buy and sell, one that delivers better outcomes for buyers and sellers at a highly competitive price point.

As one of our dealer customers recently commented on our NPS survey response, "OPENLANE has made wholesaling much easier. I used to have to pay a lot of freight to get to the auction, and now you guys come to me. Thanks for making my job easier and more profitable." I think that customer statement sums up very nicely what we're trying to do for all of our customers, which is to make their jobs easier and their businesses more profitable.

Looking beyond OPENLANE, there are also a number of industry and economic trends that we are monitoring that may impact our business going forward. First, we continue to track new vehicle affordability, loan delinquencies and general economic uncertainty. These could have positive

short-term side effects as consumers turn to used vehicles, but potentially longer-term challenges if retail new vehicle sales were to meaningfully decline or consumer retail credit tightens.

Next, the tariff situation remains relevant and may still be a headwind, though there is more clarity today than there was 6 months ago, and manufacturers and consumers appear to be adjusting.

New lease origination rates were healthy in the third quarter and consumer lease equity is declining, so I remain confident that the commercial vehicle volume recovery will begin early next year and extend through 2027 and beyond.

And according to our analysis, the wholesale industry continues to shift from physical to digital channels, a positive for both our dealer and commercial customers.

So just to summarize, we had another strong quarter of financial and operating results, we're 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 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 customer surveys and third-party research suggest we are the most preferred pure-play digital marketplace in the industry; our technology advantage is a competitive differentiator; our floor plan finance business, AFC, is a high-performing business that is highly synergistic with the marketplace; we are cash flow positive with a strong balance sheet, 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 turn the call over to Brad.

Brad Herring

Thanks, Peter, and good morning to everyone joining us today. Starting with consolidated revenues, we're reporting revenues in the quarter of \$498 million, which represents growth of 8%. Just as we reported last quarter, the key driver of our revenue growth was in our Marketplace segment, which we'll dive into a bit more shortly.

Consolidated SG&A for the quarter was \$111 million, which is up 14%. The year-over-year increase was split nearly equally between higher incentives related to 2025 performance and targeted investments we've made in our go-to-market and marketing efforts. Excluding the incremental incentives and our growth investments, our core SG&A actually declined a percentage point as we continue to monetize efficiencies in our back-office functions.

Consolidated adjusted EBITDA for the quarter was \$87 million, which represents an increase of 17%. The resulting adjusted EBITDA margin for the quarter was approximately 17%, which reflects margin expansion of 130 basis points over the same period last year.

Consolidated adjusted free cash flow for the quarter was \$5 million, which represents a conversion rate of 5%. I mentioned on the call last quarter that we'll be talking about free cash conversion more on an LTM basis given the volatility and timing considerations across quarters. On an LTM basis, our conversion rate was 61%, which is lower than our previously mentioned expectation of 75%. The main driver for the lower conversion rate was strong growth in our

financing segment that used cash on hand to fund a portion of the \$140 million increase in our loan portfolio. This increase typically shows up in Q4 as dealers build inventory for the spring tax sales season. However, this year, we pulled forward that growth into Q3 with some initiatives targeted to opportunistically grab share in selected markets. We anticipate that the timing of portfolio expansion and contraction will return back to more normal pattern in the next few quarters, and we continue to expect a rolling 12-month conversion rate of 75% or higher.

Moving to the results in our business segments, I'll start with the marketplace. GMV processed over our digital platform was \$7.3 billion, which represents a 9% increase. GMV growth is broken down as 19% growth in the dealer category and 4% in the commercial category. As Peter mentioned, the primary source of GMV growth in the dealer category was in the US, where we continue to win share by taking advantage of the migration to digital platforms and providing favorable outcomes for our customers.

Auction fees in the marketplace grew by 20%, driven mostly by the previously mentioned volume growth in the US dealer business as well as some modest pricing adjustments that were put in place over the last 12 months.

Services revenues dropped 3% due to a comp that included the automotive keys business, which we sold in Q4 of last year. Excluding the impact of that divestiture, our services revenue was up 4% tied mostly to the transport revenue from higher volumes.

Adjusted EBITDA for the Marketplace segment was \$44 million, representing an adjusted EBITDA margin of 11%. This reflects a growth of 22% and 110 basis points of margin expansion. Excluding the divestiture of our Keys business in Q4 of 2024, the year-over-year comparisons would have been 27% growth and 150 basis points of margin expansion.

We continue to have a high degree of confidence in our ability to grow our Marketplace segment while simultaneously expanding margins due to the structural scale characteristics that generate high pass-through rates off of our technology platform. We look for this dynamic to continue with the resurgence of US lease returns in 2026.

Turning to our financing segment, our average outstanding receivables managed in the quarter was \$2.4 billion, which is up 11% year-over-year. Year-over-year growth was driven by a 5% increase in the average balance per transaction and a 5% increase in transaction counts. These are both positive for our business.

Net yield for the quarter was 13.4%, which is down 30 basis points year-over-year. The decrease was driven by lower yields generated from transactional fees, partially offset by higher net interest yields. The yield driven by transactional fees declined solely due to the increase in the underlying asset values.

The Q3 provision for credit losses was 1.6%, which is consistent with our results from last quarter and 50 basis points lower than last year. We remain highly focused on our proprietary underwriting and dealer level monitoring efforts that enable us to grow our floorplan portfolio while maintaining relatively low credit losses. With regard to our loan loss provision, we reiterate a target loss rate in the 1.5% to 2% range.

With a fair amount of news in the markets about credit quality, I want to make a few comments about our financing business. First and foremost, we do not see any red flags or credit concerns across our floor plan portfolio. To help with those new to the story, I'll make two distinct points

about our financing segment. First, we offer secure floorplan financing to independent dealers that meet our strict underwriting and ongoing monitoring requirements. We do not offer consumer financing for purchases that are made through our dealership customers.

Second, our secured dealer loans are less than 60 days duration, which limits our exposure for losses generated by short- and medium-term fluctuations in consumer sentiment or macro conditions. That said, any extended deterioration in consumer credit could potentially impact new and used car markets over the long term.

The net result and the changes of the portfolio balance, the net yield and loss provisions are an adjusted EBITDA for the finance segment of \$44 million, which was up 12%.

Moving to capital considerations, we had a few items to highlight in the quarter. Most notably, in Q3, we announced our intent to repurchase approximately 53% of our outstanding Series A convertible preferred shares. This purchase was funded through a term loan offering that was completed in early Q4. With the capital raise complete, the purchase of Series A convertible preferred shares was subsequently closed on October 8. Assuming the conversion of the remaining preferred shares, this transaction reduces our fully diluted shares by approximately 19 million shares from 144 million shares to 125 million shares. The transaction also increases our debt outstanding by \$550 million.

In addition to the repurchase of the convertible preferred shares, we continue to selectively repurchase common shares in Q3. Year-to-date through the end of the third quarter, we have repurchased 1.5 million shares of common stock at an average price of \$24.35 per share.

With regard to liquidity, we ended the quarter with a cash balance of \$119 million and capacity of over \$400 million on our existing revolver facilities.

Now let's talk about full year guidance. When we guided to the back half of the year on our Q2 call, we mentioned a number of uncertainties that were still looming at the time of our print. While many of those uncertainties are still not completely resolved and may linger into next year, it's clear that the headwinds did not materialize in the quarter to the degree that they could have. That said, with our strong Q3 results and factoring the Q4 seasonal patterns, we are revising our full year estimate for 2025 adjusted EBITDA to \$328 million to \$333 million. This is up from our previous guidance of \$310 million to \$320 million. The main drivers of this increase are continued strength in our North American dealer business and prudent portfolio growth and credit management in our Finance segment.

To summarize, we're very pleased with the performance of both our Marketplace and Financing segments and continue to make progress unlocking the cross-pollination value between the two. As we look to the future, we remain confident in our ability to expand our share in the very large US dealer space as well as capture our market-leading share of a commercial category that is poised for growth after being largely dormant for the past 24 months.

Before we take Q&A, we hope to see many of you over the next few weeks as we will be attending several conferences in November and December. Specifically, we will be attending the Wells Fargo Annual TMT Summit in Rancho Palos Verdes on November 18; the Stephens Annual Investment Conference in Nashville on November 20; the UBS Global Technology and AI Conference in Scottsdale on December 3; and the BofA 2025 Auto Dealer Day Conference in New York City on December 10. Now I'll pass the call back to the operator for questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question and answer session. To ask a question, press star and one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and would like to withdraw your question, please press star then two. We also request participants restrict their queries to one question followed by a follow-up per participant.

At this time, we will pause momentarily to assemble the roster.

We have the first question from the line of Jeff Lick from Stephens.

Jeffrey Lick

Congrats on an awesome quarter. Peter, when you talk about the AuctionNet data, what's your guys' take on how the actual market growth was units year-over-year? And then if you could just talk about where you guys see yourself either taking share or the new relationships with new dealers onboarding and how that kind of ramps over time?

Peter Kelly

Yes. Thanks, Jeff. I appreciate the comments there and the question. So we were talking specifically dealer-to-dealer volumes. Our volumes were up 14%. We're very pleased with that. But again, the nuance was largely driven by the US, Canada was in the mid- to upper single digits, which puts the US sort of in the high teens year-on-year level of growth. So, we're very pleased with the strong US growth in dealer-to-dealer. We're still a relatively small market share player in US D2D, and it's obviously the biggest TAM that's available to us, so that's an important growth opportunity for us, and we're very focused on that.

So, we're pleased with that. Again, high teens growth there in the US. And the AuctionNet dealer volumes, I believe, were up low single digits. So that kind of gives you a comparison of the relative growth rate. So, we feel good about that.

In terms of what's driving that? I think some of it is we believe this industry is transitioning from a principally physical model to a more digital model, 70-plus percent of the volumes are still physical, but the digital share is growing, and we're a leader in digital, so that's an important aspect. And then I think, Jeff, the things we're focused on, making the platform very easy to use, very intuitive for sellers and buyers, the innovations and the technology that we've talked about, Audio Boost, making the condition reports better. Those are things we're doing all the time. There's a lot of focus on that.

The increased go-to-market investments that we started in the first half of last year, and we've been, I think, with discipline, adding to those resources in areas where we think there's opportunity, and I'm very pleased with how that's going. I think that's helping drive growth.

And then I think we've talked in the past and again on this call, we've got two unique advantages that are very differentiating for our company. On the franchise dealer side, we do all these private label programs for the OEMs. And what that means is the majority of franchise dealers out there are customers of ours through those private label programs and that creates a sort of an entry point and a starting point where we can start the conversation and then hopefully migrate those customers into our open sale as buyers and then as sellers. So that's an advantage we have on the franchise side.

And on the independent side, we've got AFC, which is a leader in the floorplan business for independent dealers. And we've now got to a point where 50% of AFC dealers are at least registered on the OPENLANE marketplace. That doesn't mean they're actively buying yet. So, you can tell from those numbers, Jeff, there's a lot of opportunity to increase that 50% and then obviously to increase the wallet share with the dealers that are in the marketplace as well.

So, these are all the things we're working on. This is now our fourth consecutive quarter of double-digit growth in dealer. So obviously, I'm pleased with that, and we're staying very focused on continuing to execute that plan and continuing to gain share in that dealer-to-dealer category.

Jeffrey Lick

Awesome. And just a quick follow-up. Any update, you're onboarding the additional OE customer in the captive finance customer and lease returns. I think you had mentioned that should hit sometime in Q4. Just curious, any update on the timing? And then just kind of how do you see that ramping up in terms of magnitude?

Peter Kelly

Yes. So update on the timing is actually going to be Q1. It's going to be early Q1. And I spent a little bit of time with that customer actually this week, Jeff. The technology is essentially ready, it's ready to go live, the customer felt they wanted to derisk, not do a December launch, they'd rather do a launch right at the beginning of the new year. So, I think that's going to be in early Q1, but we're excited to get that across the line and up and active, and we're working closely with the customer on an onboarding and migration process for all of their dealers. So, we're excited about that.

Jeffrey Lick

Awesome. Well, congrats on the results and best of luck in Q4.

Operator

We have the next question from the line of Craig Kennison from Baird.

Craig Kennison

Thanks for taking my question. I'm looking at slide 7, and I'm just wondering if you can provide any tangible examples that illustrate how OPENLANE and AFC are able to cross-pollinate each other's platform.

Peter Kelly

Thanks, Craig. I appreciate the question and the comments there as well.

I guess at the highest level, when I think about our marketplace, we serve commercial customers, obviously, there's relatively fewer commercial customers. Then we serve dealers and dealers break down into franchise and independent, and both of those constituencies are really important customer groups for us. Franchise dealers are the buyers typically for our commercial cars and they're principally sellers in the D2D market. And then independent dealers are largely the buyers of the D2D cars. They buy some commercial cars, too, but they're obviously important customers of AFC. So, that independent dealer category is a core customer group for us, very important for us. And obviously, we've got those two different offerings, the Marketplace and AFC. So, actively working to find those cross points and points of synergy is important.

At a minimum, Craig, when that independent dealer is in the marketplace looking for inventory—

and by the way, they source most of their inventory in the wholesale market because independent dealers don't get as much sort of retail trade-in traffic in their business model – so when they're in the marketplace, we want to make sure they've got financing, that they've got the capital to go and find vehicles and fund vehicles on their lot for the 60 days or so that takes before they retail that car. So, AFC provides that dealer with liquidity, with capital in the marketplace, enables them to purchase and stock their inventory, so that's obviously important to us.

And one stat we look at there is of the vehicles that that dealer group constituency buys, what percentage do they floor using AFC. They have other floorplans, they have cash in some cases as well, so we look at that as an attach rate and obviously trying to drive that up. But I think the bigger one is the one I alluded to on the call. AFC in the US has about 12,000 dealers with floor plan relationships. Most of those dealers are still not buying cars on the OPENLANE marketplace. At this point, about half of them are registered to buy and a good number of that half are actively buying, but half of them are still not registered. And some of those are still maybe, from a business model perspective, still buying heavily at physical auction. So over time, we're going to be talking to that customer group and educating them on the benefits of our online system, the time benefits, the speed, the convenience, the lower buy fees, the purchase guarantees, the peace of mind you get and obviously trying to increase that sort of adoption of our marketplace with that customer group.

That's proving very successful. I was very pleased, 900 basis point improvement. So, it went from 40% to 49% in 1 quarter. We're aggressively focused on that. Today, we're running an independent dealer advisory board with a number of these customers to really hear what they have to say, how can we better serve them, help make wholesale more easy for them, improve their business operations, etc. So, we're very focused on that, Craig.

Operator

We have the next question from the line of Gary Prestopino from Barrington Research.

Gary Prestopino

Peter, you gave some AuctionNet data. You said units were up single digits. Is that the entire market? Or is that just the dealer-to-dealer? And if it is dealer-to-dealer, what was the entire market up in the quarter?

Peter Kelly

Yes, I don't have the exact number. That was dealer-to-dealer, Gary. I think dealer was up lower single digit. I think commercial was up mid- to higher single digit. And I think the market overall that physical was up mid-single digit. I'm going a little bit from memory here, but that's what I think it was. And obviously, we compare across category, dealer-to-dealer and commercial to commercial.

And that is not the entire industry because, as I mentioned, some of the industry is digital, so that's not included in that number. And then particularly in the dealer-to-dealer space, there is, I think, a substantial volume of dealer-to-dealer transactions that happens, so I'll call it through an informal marketplace, through wholesalers, directly from one dealer to another, that's not really accurately measured or reported anywhere, so we don't include that in any sort of numbers that we run because you can't kind of get a firm published number.

Gary Prestopino

Okay. And then just my second question would be this. If your dealer-to-dealer units were up about 14% in the quarter, could you give us some idea, and I think this would be real helpful from

showing the progress that you're making in market share gains, how much of that was a same store versus new conquest in that 14% unit growth?

Peter Kelly

Well, I don't have a precise number to give on this call, Gary, but obviously, we do look at that and we were talking about that here this week as well. Here's what I would say, our overall dealer volumes were up 14%, but our US number was more like a high teens number. Coupled with that, we saw growth in vehicles offered for sale. Actually, as I said in my remarks, vehicles offered for sale grew by a little bit more than sales, so you could put that in the 20-ish kind of range. And then we looked at a number of active sellers and buyers, and we saw strong double-digit growth in both of those metrics as well; the number of active buyers, the number of active sellers in our marketplace, double-digit growth, all-time record levels in Q3. We also saw growth in large dealer groups and the share we have with the largest franchise dealer groups. So, listen, a lot of positives there.

And then in terms of the growth, it was driven by two things: the cohort of customers that were there and active a year ago, their volume grew, so they contributed some growth to the number; and then the rest of the growth was driven by new dealers that we'd added since a year ago. And typically, what we find when we launch a new dealer, the adoption curve tends to be a ramp. We rarely get in and we're selling all of their cars on day one. They're testing us out with maybe 10% of their inventory or maybe they're giving us a little bit more, but their conversion rate is low. And then over time, as they learn the benefits of the system and the ease of use and the peace of mind they get when they sell or buy through us, we find that their same-store volume tends to start to creep up over time. So that's kind of typically what we see, Gary.

Operator

We have the next question from the line of Rajat Gupta from JPMorgan.

Rajat Gupta

Congrats on the good execution here. Maybe just to follow up on some of the questions earlier today. Obviously, you have pretty strong growth here on the US D2D side, consistently strong market share gains in the last quarter and better than last quarter, I would imagine. I'm curious, have you seen any change or reaction from your physical competitors or maybe even digital competitors? Manheim recently acquired their inspection business, taking it in-house. It seems like they are fine-tuning their digital strategy recently. I'm curious if anything has changed when it comes to just the reaction from competitors? And I have a quick follow-up.

Peter Kelly

Thanks, Rajat. I appreciate the question, and I appreciate the comments there, too. I don't know that I'd say I've seen anything that's sort of massively notable in the recent quarter on that front. Obviously, our principal focus is on what we offer and what we do for our dealers and what the feedback we're getting directly from dealers. We try and put the principal focus there, and I spoke to some of the things we're doing in my comments.

Obviously, we do pay attention to what our customers are doing as well. We saw Manheim buy two physical auctions. I think it was maybe not in the last quarter, but the quarter before. We see some rebranding of their digital platforms. But I'd say the competitive environment has been, I'd say, on the whole, fairly stable.

I'd say one thing that's notable, Rajat, and this is maybe over the last 12 months, some of the smaller digital disruptive business models exit the market. So, I'm thinking specifically of CarOffer,

which is owned by CarGurus and EBlock in California, so I think the market has somewhat consolidated. I think dealers are very aware at this point, if I want to be digital, what are the platforms that are available to me. I think OPENLANE is a leader there. And I think our presence and our preference as well with dealers has improved a lot over the last 12 months and over the last 24 months, even more, so I feel good about that. But nothing specifically I can point to in the last quarter, Rajat, that I'd say is worth highlighting on this call.

Rajat Gupta

Understood. So, you attribute a lot of this to your own like product and penetration, but like an incremental shift towards digital auction continuing-?

Peter Kelly

Absolutely, Rajat, that's where our focus is for sure. Sorry, I know you said you have a follow-up.

Rajat Gupta

Yes. Just one on SG&A. I remember like last quarter, you had mentioned that you want to have some more flexibility for investments. If I look at the marketplace, SG&A, it actually went down sequentially. I know seasonally volumes are down, so it explains some of it, but I would imagine SG&A to tick up given this seems like an interesting time and opportunity for you to just capture more share. I'm curious if this is just more like a timing thing or are you just seeing a lot of leverage? Or is it both? Just any more color there would be helpful on how we should think about SG&A going forward as well.

Brad Herring

Rajat, this is Brad. I'll take that. I appreciate the question.

Yes, you're going to see some timing fluctuations within a quarter. We're making some targeted investments when those present themselves. And at the same time, I mentioned some of the cost synergies that we're able to monetize in our back office, so some of those could be a little bit lumpy in terms of timing as well. So, when I really target my SG&A numbers going forward, I'm really looking on an annual basis because you could see some quarterly alignment or misalignment between when the investments get made or when the synergies offset, so I like to look at that on a 12-month basis.

Operator

We have the next question from the line of Bob Labick from CJS Securities.

Bob Labick

Congratulations on strong results. I wanted to start with a question we haven't talked about in a little while. Purchased cars, I think it's the highest it's ever been, the revenue from purchased cars or certainly in a long time and the trend for the last several quarters has been increasing. So I know in the past, you've said that's a kind of breakeven proposition, but it seems unlikely that you would continue to grow that if it's actually breakeven. So maybe just remind us of what's the kind of motivation behind growing purchased cars and profitability there and things like that?

Peter Kelly

Yes, Bob, let me start. If Brad wants to offer any context from a CFO perspective, he can as well here. But first of all, you are right, it has been growing. There really are two sources of what drives that growth in purchased vehicles. One is our European business. We don't talk about that a lot on these calls. More than 90% of our volume is North American. We do have a nice business in Europe, which is largely cross-border. And from an accounting and regulatory standpoint in

Europe, when we're moving a vehicle cross-border, we need to take ownership of that vehicle, so it kind of appears on our books for a short period of time as we're sort of taking the vehicle, say, from France to Romania, to give you an example. So, as our European business grows, purchased vehicle volume and revenue grows alongside it.

Now that business is profitable, we do make a margin on that. Personally, as CEO, I'd rather if we could account for it on a net-net basis because I think of the value of the car itself as kind of low calorie, where the car has been sold for EUR 17,000 and we're recognizing EUR 17,000 of purchased vehicle revenue. Now we're making some fees alongside, okay? So, Europe drives probably more than half of the volume.

But another driver of the growth has been our North American business. And in the calls in the past, I've talked about how we've created these guaranteed products for buyers and sellers. Well, I'll put it in the context of a buyer, a buyer purchases a vehicle, they can purchase an as-described guarantee for the vehicle. And then if the vehicle is delivered, if they don't like it or find something amiss with it, they can return the car to us.

Now we don't return the car to the seller. We, at that point, are taking ownership of that vehicle. So that now also goes into the purchased vehicle category. And on that vehicle, we may end up making a small loss because the buyer bought it for a certain price, discovered some issue. But the way we think about the economics there, Bob, is we look at the aggregate, okay, we sold in the month, 10,000 of those policies, generating X amount of revenue, which is recognized under auction fees, and we took 300 cars back, and we lost X hundred thousand dollars on those vehicles. And how do those two, the revenue pool wash out against the losses. And again, we try to manage that in a way that it's at least neutral or slightly positive for us. But really what we're trying to do is generate peace of mind for the buyer to enable them to win and purchase with confidence in the marketplace.

So, those are the things that drive it. I do think of it as kind of low-calorie revenue, so it doesn't have a lot of sort of inherent gross profit in it for those reasons, Bob. But it's more of an accounting issue, but it's obviously something that also supports the marketplace business when you think of the way it interacts there.

Brad Herring

I'll just add to that. About 70% of that number in the quarter was Europe. So, think of a split 70/30 between Europe and US.

Bob Labick

Super. All right. And then just for my follow-up, just shifting. In terms of off-lease, you mentioned obviously stabilization in institutional down less each quarter this year. Lease equity, I think, is now below 1,000, but it's still not 0. So my question is where are cars falling in the funnel now in terms of lessee grounding dealer closed open? And then as the market shifts next year and more off-lease come, how will that impact the P&L? I imagine it's higher gross margin, lower RPU, but maybe walk us through kind of as off-lease comes back next year.

Peter Kelly

Thanks, Bob. Let me take the first part of that, and then I'll let Brad comment on the P&L impacts, okay? So, first of all, in the off-lease category, I'm going to start actually with lease originations. Lease originations are continuing to be quite strong. And that doesn't have an immediate impact on our business, but it's a positive sign as we think about the growth of lease portfolios and off-lease vehicles 2.5, 3 years from now. So, lease originations continue quite strong.

I'm seeing more and more lease adds on the TV, strong lease offers. That is a good thing. I'm seeing inventory at dealerships increase. That typically is correlated with increased incentives and increased lease originations. So, all that to say is I think leasing is going to be an important feature of the automotive retail landscape in the United States and in Canada, just as it always has been, except for the last few years. So leasing is coming back is my view.

Then we look at the off-lease side. So, we know that off-lease maturities, 2025 is a low point. That's well documented. They're going to increase next year. They're going to increase again in 2027. But coupled with that, we're also seeing lease equity decline. You said it's below \$1,000, Bob. You're right about that. I think it's going to continue to decline, okay? Because used vehicle values are going to come a bit more under pressure and the residual values in those portfolios, if anything, is trending up because the MSRPs and the average retail price has been trending up.

So, I think we're going to see less equity in the lease, fewer consumer buyouts, meaning more cars getting returned. And we're starting to see some evidence of that already. And then we're going to see those cars flow a little deeper in the funnel. So, I'll let Brad comment on the financials here, but I'll just say, in the quarter we just had, the commercial volume sold in our open channel in the US was up almost 2x over last year, even though the top of the funnel was down. So what you can tell from that is there are fewer vehicles at the top of the funnel, but they're flowing deeper in the funnel and OPENLANE is converting a higher percentage in that bottom of the funnel, which is our most lucrative channel, the open sale. So that's very exciting for us as we think about '26, '27. Obviously, a big part of our strategy is having a very liquid marketplace with thousands or tens of thousands of buyers on there. And obviously, this very differentiated pool of off-lease vehicles flowing into it and hopefully, those volumes increasing here in 2026. Brad, I'll let you comment on the RPUs.

Brad Herring

Paul, if you think about how do you translate that into numbers, what you'll see when the commercial recovery comes back in, you will see kind of a blended tick down in our RPUs because you'll see the yields or the RPUs on the commercial side are going to be less than they are on the dealer side, so on a blended basis, that's going to come down some. But what you're also going to see is that gross margin in the marketplace in the high 40s, call it around 50%, you'll see that number start to tick up slightly because the commercial vehicles do come in with a higher gross margin with kind of a lower incremental cost attached to them because of the scale that we get in these private label platforms. So I hope that helps.

Bob Labick

Yes, very helpful. And the info from Peter on the commercial open channel up 2x year-over-year is super. That's a great trend for you. So, congratulations on that.

Peter Kelly

Thank you, Bob.

CONCLUSION

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Peter Kelly, the CEO, for any closing remarks.

Peter Kelly

Thank you very much. Thank you all for your questions and for joining us on the call today. We look forward to seeing you at the upcoming conferences in November and December and remain confident in OPENLANE's ability to deliver meaningful growth, profitability and cash generation over the next several years. I look forward to talking to you on our next call in early 2026. Thank you very, very much.

Operator

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