

OPENLANE, Inc.

First Quarter 2026 Earnings Call

Tuesday, May 05, 2026, 08:30 AM ET

CORPORATE PARTICIPANTS

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Brad Herring--*Executive Vice President and Chief Financial Officer*

Bill Wright--*Vice President, Investor Relations*

PRESENTATION

Operator

Good morning, and welcome to the OPENLANE Inc. First Quarter 2026 Earnings Call. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to Bill Wright. Please go ahead, sir.

Bill Wright

Thank you, operator. Good morning, everyone. Welcome to OPENLANE's first quarter 2026 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 may 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, otherwise specifically noted.

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

Peter Kelly

Thank you, Bill, and thank you, everyone, for joining the call today. I'm very pleased to report on OPENLANE's strong first quarter results and to provide you with an update on our strategy and our outlook. I'll begin with a few opening remarks, and then Brad will walk you through our financial and operational performance and our increased guidance for 2026. But before I turn to our results, I'd like to highlight that this week marks the three-year anniversary of our rebrand to OPENLANE. As I stated at our March investor events, the rebrand was never about a new name or logo, it was about forging an entirely new company founded on a single purpose, which is to make wholesale easy so our customers can be more successful.

Over the past three years, our investments, strategy and execution have delivered on that commitment and reinforced several key pillars of differentiation for OPENLANE, including the leading commercial off-lease solution that connects thousands of franchise dealers into our marketplace, a dealer business that is outpacing the industry and capturing meaningful market share, a high-performing finance business that is synergistic with our marketplace, an accelerating network effect of new buyers, sellers, listings and transactions and a winning culture and team that I consider to be the very best in the industry.

The performance and outcomes OPENLANE is delivering are the direct result of the strategy we began executing three years ago. And I believe our first quarter results are further evidence to OPENLANE's strength and differentiation in the market. During the first quarter, we continued to build on OPENLANE's positive momentum, growing consolidated revenue by 15% and delivering adjusted EBITDA of \$97 million, a 17% increase.

We also generated \$160 million in cash flow from operations. These results were led by strong performance in the marketplace business with both commercial and dealer customers and solid contributions from our finance business. In the marketplace segment, we grew overall vehicles sold by 19%, increased gross merchandise value by 32% to 9.1 billion and delivered 52 million in adjusted EBITDA, representing a 39% increase.

In our dealer-to-dealer business, we grew vehicles sold by 13%, with similar geographic dynamics to those experienced in Q4 of 2025. In the United States, OPENLANE dealer-to-dealer transactions continue to accelerate with growth in the upper 20% range. This represents a significant outperformance of the industry and a meaningful gain in market share.

Our go-to-market strategy in the U.S. is working and OPENLANE's unique inventory, technology advantage and superior customer experience are expanding our dealer network and compounding our growth in transactions. In Canada, we were pleased to see some improvement in the macroeconomic and automotive retail environment. And while Canadian dealer unit sales declined versus a strong prior year comp, we did see sequential improvement over Q4 of 2025.

On the commercial vehicle side, the 25% increase in vehicles sold was driven in large part by the onboarding of our latest private label customer. Even excluding that step function increase, however, commercial vehicle sales grew by 6% during the quarter. This reinforces that the inflection of off-lease supply has officially begun, and we expect to see year-on-year growth in off-lease volumes throughout the remainder of 2026 and beyond.

Moving to our finance segment. AFC also had a good quarter, growing average receivables managed, holding the loan loss rate to 1.6% and generating \$45 million in adjusted EBITDA. Now we do believe the industry experienced a strong spring market driven by higher-than-normal tax refunds and constrained supply paired with high consumer demand, which led to high conversion rates and appreciating asset values. That said, there is no question that OPENLANE's digital operating model is resonating in the market, and I am highly encouraged by the output of our investments and our focused execution.

So now let me turn to our strategy and outlook. As I mentioned at the start of the call, our strategy is delivering results, and we remain committed to advancing our three strategic priorities. First, delivering the best marketplace, expanding our depth and breadth with more buyers and more sellers, and offering the most diverse commercial and dealer inventory available.

Second, delivering the best technology, innovative products and services that help our customers make informed decisions and achieve better outcomes. And third, 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. And I'll touch on each of these in a little more detail.

First, in terms of offering the best marketplace, we continue to make significant gains and drove another quarter of double-digit increases in new buyers, sellers and unique vehicles listed, each of which were up over 20% in the United States. Customer anticipation for the off-lease recovery is also driving more franchise dealers from our private label programs into OPENLANE's open sale. During the quarter, we nearly doubled the number of commercial vehicles sold in this higher-margin channel versus the prior year.

And on the independent dealer side, AFC new dealer registrations also increased during the quarter, each of which also presents a new dealer opportunity for OPENLANE. At the end of Q1, approximately 54% of all AFC dealers were registered with OPENLANE. From a best technology perspective, we extended our technology advantage in the first quarter with our public release of OPENLANE Intelligence.

OPENLANE Intelligence unifies our human and AI-enhanced capabilities to deliver actionable insights that improve customer decision-making. We see AI as a true enabler and accelerator of our digital solutions. And during the quarter, we released several new offerings and features that leverage our AI expertise and deep data resources.

In Canada, we launched our new MyLot inventory management solution. Initial interest has exceeded our expectations with hundreds of early sign-ups, and we are optimistic about the potential of this subscription-based SaaS offering. Across the U.S. and Canada, we also released our new predictive pricing feature, the only technology in the industry that provides dealers with a forward-looking 30, 60, 90-day view into the anticipated value of every dealer vehicle offered on OPENLANE.

And finally, in terms of providing the best customer experience, we are also leveraging our human and AI capabilities to streamline and enhance the customer experience, improve the consistency, accuracy and speed of arbitrations and to help address dealer inquiries as quickly as possible. At the end of Q1, our transactional NPS scores across all geographies sits squarely in the excellent range with our U.S. seller NPS achieving the highest scores, indicating exceptional customer loyalty and brand satisfaction.

So as we look into the remainder of 2026, while we cannot count on an industry environment as strong as Q1, there is still a lot of opportunity for OPENLANE. We are continuing to build momentum, and I'm very optimistic about our ability to execute our strategy with precision. As our 2025 go-to-market investments in dealer-to-dealer continue to ramp up towards full productivity, we remain focused on increasing market share and wallet share. As stated earlier, we expect off-lease supply to scale up throughout the year, and OPENLANE will be a primary beneficiary of this cyclical recovery.

Our Canadian business is leveraging its strong market position to introduce new revenue-generating products and services. Used vehicle values significantly appreciated in Q1 and remained strong. This is a positive for the marketplace and for AFC, though any sharp decline in used vehicle values could lead to a higher risk environment for financiers. And while no industry is immune to geopolitical or macroeconomic events, we have not seen a material industry impact from fuel prices, new and used vehicle affordability, chip production, or any other external factors that we monitor.

So just to summarize, OPENLANE remains well positioned to capture the opportunities ahead, and we're executing a strategy that is delivering results, winning customers, and outpacing the industry. Because of that, I believe the key elements of our value proposition for investors remain very compelling.

OPENLANE is a highly scalable digital marketplace leader focused on making wholesale easy for automotive dealers, manufacturers, and commercial sellers. There is a large addressable market for our services, and OPENLANE is uniquely well-positioned with commercial customers and franchise and independent dealers. Our customer surveys and third-party research indicate 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 synergistic with the marketplace. We generate significant cash flow and have 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 now turn the call over to Brad.

Brad Herring

Thanks, Peter. Good morning to everyone for joining us today. On behalf of our management team and all of our employees, we are very proud to report a record quarter for OPENLANE.

For the quarter, we transacted more GMV, sold more vehicles, generated more revenue, and produced more adjusted EBITDA than any quarter in our company's history as a digital marketplace. These results would not be possible without the tireless commitment and stellar execution of our nearly 5,000 employees that work every day to make wholesale easy for our customers.

Before we dive into the financial results, I'd like to thank all of our investors and sell-side analysts that came to visit us in Fort Lauderdale for our Investor Day on March 3. During my remarks and Q&A today, I may reference selected slides we reviewed during our presentation. These slides can be found on the Investor Relations section of our website.

Moving on to actual results. We reported total revenues of \$528 million, which represents growth of 15%. Revenue growth in the quarter was exclusively driven by the results in the Marketplace segment, which I'll dive into more shortly. Consolidated adjusted EBITDA for the quarter was \$97 million, which represents an increase of 17%.

I'll talk more about our adjusted EBITDA results within the discussions about each business segment. Consistent with previous quarters, we will be discussing adjusted free cash flow metrics on a rolling 12-month basis due to the inherent volatility in our quarterly cash flow numbers.

For the trailing 12 months, our adjusted free cash flow totaled \$259 million, representing an adjusted free cash flow conversion rate of 75%. The 75% conversion rate is slightly above our expected range of 65% to 70% and reflects the strong cash generation of both our marketplace and financing businesses.

As you may have heard, on March 26, the Canadian Parliament enacted a bill repealing the digital service tax or DST. This action resulted in a \$17.3 million reduction to our marketplace cost of services. \$15.9 million of the reduction represents prior period expenses that have been removed from our current quarter adjusted EBITDA calculation, while the remaining \$1.4 million is reflected as an in-quarter expense savings.

Moving to the performance of our business segments, I'll start with the marketplace. In Q1, we transacted GMV totaling \$9.1 billion, which represents growth of 32%. GMV growth in the dealer category was 20%, representing a 13% increase in vehicles sold and a 6% increase in average vehicle values. In the commercial category, the GMV growth of 38% was made up of a 25% increase in vehicles sold with an 11% increase in average values.

Auction and related revenues were \$242 million, which reflects growth of 22%. The primary driver of this growth was in the U.S. dealer category, where we saw a 38% increase in auction and related fees driven mostly by the strong vehicle sold performance that Peter mentioned earlier.

In addition to the growth in vehicles sold, U.S. dealer GMV growth also included a 22% increase in average vehicle values, driven by a higher mix of sales from our large dealer group customers and an overall increase in wholesale auto prices.

Exclusively due to the significant increase in average vehicle values, yields for the U.S. dealer business declined approximately 60 basis points from the 680 basis point to 700 basis point baseline range that we provided in our Investor Day materials. On a per vehicle sold basis, revenue generation in U.S. dealer improved by high single digits.

Complementing our performance in the U.S. dealer business, auction and related fees in our U.S. commercial business were up 42%. GMV in the U.S. commercial business was up approximately 46% due largely to the successful launch of a returning private label customer as well as improvement in the lease return waterfall.

Yields in the U.S. commercial business remained largely consistent with the baseline that we reviewed at Investor Day. SaaS and other revenues in the quarter were \$68 million, which is up 1% due to increases in our subscription-based revenue streams. Rounding out the revenues in the Marketplace segment, our purchased vehicle sales grew 31% to \$112 million.

The variance was driven by the increase in U.S. vehicles sold as well as an increase in the average vehicle values in both U.S. and Europe. Adjusted EBITDA for the Marketplace segment was \$52 million, which results in an adjusted EBITDA margin of 12%. That represents growth of 39% in adjusted EBITDA and 160 basis points of expansion in adjusted EBITDA margin.

The year-over-year expansion in adjusted EBITDA margin was driven by the structural scaling effects of our digital platform and a higher mix of revenues coming from our U.S. commercial business that comes with an accretive variable contribution. In our Finance segment, the average outstanding receivables managed in the quarter was \$2.4 billion, which is up 3%.

Growth here was driven by a 3% increase in the average vehicle values, offset by a 1% decrease in transaction counts. Net yield for the quarter was 13.6%, which is down 30 basis points. The decrease was primarily attributable to a decrease in transaction fee yields driven by slightly lower transaction counts and increasing loan values.

The Q1 provision for credit losses was 1.6%, which is consistent with our results from last quarter and 7 basis points higher than the same quarter last year. While recent performance has hovered in the mid-1% range, we continue to reiterate our targeted range of 1.5% to 2.0% for credit losses.

The combination of the changes in the portfolio balance, the net yield and the loss provisions are an adjusted EBITDA for the Finance segment of \$45 million, which was down 1%. With respect to capital considerations, I'll refer investors to Page 75 of the Investor Day deck where we laid out our objectives for capital deployment.

To summarize that message, our first and foremost priority is to fund the organic growth of our business. That will be followed by share repurchases and finally, debt repayment. In addition to

our investments in go-to-market, we repurchased 964,000 shares in the first quarter at an average price of \$27.20. This represents the retirement of approximately 0.7% of our fully diluted share count that includes the assumed conversion of the remaining preferred shares.

As we also mentioned in our Investor Day, we are considering debt repayment options, although investors should not expect to see any material paydowns to start until later in 2026 or early 2027. From a liquidity perspective, we ended the quarter with an unrestricted cash balance of \$180 million and capacity of over \$400 million on our existing revolver facilities.

Moving along to our guidance. We are raising our full year expectations for adjusted EBITDA from a range of \$350 million to \$370 million to a range of \$365 million to \$385 million. The entire increase is coming from our Marketplace segment and is driven mostly by strong performances in both our U.S. dealer and U.S. commercial businesses. This revision also reflects the full year impact of the repeal of the Canadian DST that I mentioned earlier.

Countering the strong performance in the marketplace, we remain cautious around downstream impact of evolving and volatile macro conditions. Sustained increases in fuel prices, the impact of rising auto prices on consumer affordability and subsequent impact on our customers and the automotive supply chain challenges are all front of mind as we look into the back half of 2026.

With respect to our Finance segment, we maintain our previous guided position as the volatility and macro trends are largely offsetting the decreased likelihood of any rate cuts in 2026. To summarize, we're very pleased with our quarterly results and are proud to increase our full year 2026 projections.

Our revised outlook represents strong momentum in both the dealer and commercial elements of our Marketplace segment, while at the same time reflecting on some potential challenges. We are also proud of our prudent balance between growth and risk management in our Finance segment.

With that, I'll turn it over to the operator for questions.

QUESTION AND ANSWER

Operator

Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions]. The first question that we have comes from Bob Labick of CJS Securities. Please go ahead.

Bob Labick

Good morning. Congratulations on a great start to 2026.

Peter Kelly

Thank you, Bob.

Bob Labick

Sure. So obviously, really strong performance on commercial volumes, and you mentioned the returning off-lease customer there. Can you tell us, was there a full impact from that customer? Meaning did you have it for the full quarter, or do you get a little incremental benefit in Q2 as well? Just trying to figure out the kind of run rate from that and the impact kind of going forward.

Peter Kelly

Yes, Bob, it launched mid-January. So it's pretty much a full quarter. But I guess, if you're doing precisely, there was an extra 2 weeks that wasn't live, but it was live for 11 weeks of the 13 weeks.

Bob Labick

Okay. Great. And then kind of sticking with commercial, lots of EVs coming off lease and there's pretty significant negative equity on that side. How are they behaving in the OPENLANE auctions, EVs in general? And then similarly, how are the ICE vehicles that may still have a little bit of equity behaving? Just give us a sense as we see this divergence of off-lease coming on more EVs probably this year and more ICE next year?

Peter Kelly

Yes. Thanks, Bob. Let me tackle it. I'll start with just the commercial overall, and then I'll go into the EV piece of it, if that's okay.

Bob Labick

Right.

Peter Kelly

So listen, really good quarter from commercial. As I said, 25% growth, a lot of growth in GMV as well. With a strong spring market, used vehicle values did go up about 7% by the end of the quarter relative to January 1. So GMV was strong. The new customer also had a premium vehicle portfolio that contributed to EV. But in addition to the sort of volume increase, we also saw an improved mix relative to a year ago. So relatively fewer payoffs across the portfolio, although payoffs remain abnormally high, but they've come down a little bit in percentage terms. And corresponding to that, an increase in sort of non-grounding and open sales, which are higher revenue, higher-margin transactions for us.

So we saw an improved mix through the commercial funnel. I'm talking generally here, EV and ICE combined, okay? So listen, a lot of encouraging signs there. And again, feel really good about the setup for commercial vehicles through the balance of this year and into next year and beyond. Going specifically into EVs, yes, we certainly saw an increase in EV volumes in the first quarter. The good news is they're performing very well. Conversion rate for EVs is comparable to that for ICE vehicles. It varies a little bit by portfolio, which indicates certain sellers are adopting different strategies in terms of how to remarket them.

But overall, conversion rates on EVs in our marketplace is very strong. If anything, we're seeing because of the equity situation on EVs, which is more negative, as you know, we're seeing even fewer payoffs, so almost no payoffs. So those cars are flowing deeper in the funnel. So relatively higher conversion of EVs in the non-grounding and open channels, which from a margin perspective is very good for us.

So we're seeing good performance with EVs. Obviously, in the quarter as well, we saw the stuff in the Persian Gulf and oil prices, that has probably boosted EV demand at the retail level a bit. So if anything, I would say that demand has strengthened late in March and into April as well. So good positive momentum on EVs. And I think the real question is the seller has to be prepared to sort of acknowledge what the value of the car is in the marketplace as opposed to what is the residual value that they might have written on a contract two years or three years ago. But absent that, I feel really good about it.

And as we're looking to the future, and again, I'll say this comment is more general. As commercial volumes are generally picking up, our commercial sellers are getting more and more interested in, okay, what techniques and plans can we put in place to maximize conversion and improve outcomes in the digital channel because it is such a fast channel. It's a low expense channel, but also a high price realization channel. So we're having very constructive discussions with many of our customers running pilots and various programs to drive adoption and drive conversion of the vehicles.

Bob Labick

Okay, that sounds great. Congratulations. I'll jump back in queue, but great quarter and great outlook. Thanks.

Peter Kelly

Thank you, Bob.

Operator

The next question we have comes from Craig Kennison of Baird. Please go ahead.

Craig Kennison

Yeah. Hi, thanks for taking my question. I wanted to go to Slide 11, if I could, and just ask you, Brad, if you could just help us understand the yield dynamic in Q1, why it dropped and what the mix issues are that impacted that?

Brad Herring

Yes, perfect. This is Brad. I'll take that. So yes, if you look at the yield, you're talking about on the commercial side where the yield drop. So it's a mix issue. If you think about -- when we talked about at Investor Day, we talked about the different yield setup for commercial across the different geographies, and we mentioned that the U.S. range was certainly lower than Canada and Europe.

So if you look at the mix in the commercial space, last year, first quarter, U.S. made up about 71%-ish of the GMV that flew through the commercial space. Q1 of this year with the ramp-up of the new customer we talked about as well as kind of the increase just from the lease returns, now that number is north of 75%, 76%. So that's a mix issue that drove that yield down from a 159% to 143%. The yields across the different categories are relatively stable. So that means it's purely mix across the geographies that's driving that.

Craig Kennison

Thanks. And while I have you, Brad, could you just help us understand the full year implications of the repeal of the digital service tax?

Brad Herring

Yes. The full year impact on an annual basis is \$5.5 million to \$6 million. It's about \$1.4 million in the first quarter is what I disclosed. That's a relatively steady run rate across the different quarters. It will kind of vary a bit with volumes. But if you use a \$5.5 million to \$6 million impact number for the full year, you'll be in line.

Craig Kennison

And are there any offsets to that, like charges or fees you may have charged to offset that, that would also go away?

Brad Herring

No, that will just -- that will be the only impacting item.

Craig Kennison

Thank you.

Brad Herring

All right. Thanks, Craig.

Operator

Thank you. The next question we have comes from Jeff Lick of Stephens Inc. Please go ahead.

Jeff Lick

Good morning. Thanks for taking my question and congrats on a great quarter. Peter, I was wondering, as it relates to the U.S. dealer-to-dealer, you said it was in the upper 20 range, which implies a little bit of a sequential improvement from Q4, which was in the 20-ish up 20. The market was actually down a little more in Q1 than Q4, which kind of implies your spread to market is widening. I was wondering if you could elaborate on any of that. And then does the lease return business kind of have a halo effect like some kind of symbiotic effect, synergistic effect that's helping drive that? If you could elaborate, that would be great?

Peter Kelly

Yes. Thanks, Jeff, I appreciate that. Listen, we were very pleased with the dealer performance in Q1. In aggregate, dealer volumes grew year-on-year by a higher number than in Q4 and that was driven by the U.S. where the year-on-year growth, as I said, increased to the upper 20s. And as you point out, that was an acceleration. So we feel really good about that. We don't have a full industry picture yet, but we do know that dealer volumes of physical declined a little in the first quarter.

So it definitely looks like OPENLANE had a strong performance in terms of market share and share gains based on those results. So we feel pleased about that. It also looks like an increased portion of the industry volumes move towards digital, largely driven by our volume increase, right, based on the data we have at least right now. So listen, we feel really good about that. I think it's driven in large part by the things I've talked about on many calls.

Our focus on the value proposition that digital offers our customers, the speed, the ease, the access to a broader network of buyers, ultimately better outcomes for sellers and for buyers, the convenience, the peace of mind, the ability to search for vehicles and purchase vehicles without leaving your dealer shipments and all those types of benefits. So we're very focused on that. Obviously, we've made go-to-market investments as well, Jeff, that continue to help drive those results.

To the specific question on lease, does improving commercial volumes create a halo effect? I think it probably does. I think dealers are aware that lease volumes are going up and OPENLANE is well positioned to benefit from that. And if dealers want to get access to those units, then doing business with OPENLANE would be a wise choice. So I think we're seeing franchise dealer registrations have improved.

Our ability to convert dealers from private label buyers across into our open sale have improved. So I think there is some of that for sure. I think the other thing, Jeff, is there's just a network effect. There's a network effect in any marketplace as that you add more buyers, your

marketplace becomes more valuable for every seller on the marketplace. And as you add more sellers, more inventory, it becomes more valuable to every buyer in the marketplace.

So I think there's a compounding benefit that takes place over the longer term on that dimension as well and I think we're benefiting from that. So listen, very pleased with the results. I did also say in my remarks, it was a strong spring market. Tax refunds were relatively high. Inventory remained relatively scarce. So there was a lot of demand, conversion rates were up. I would not forecast an upper 20s growth rate for the full year in the U.S., candidly. But obviously, we're going to drive our traction in the marketplace as strongly as aggressively as we can.

Jeff Lick

And then just a quick follow-up on commercial. Did you say in your prepared remarks, commercial was up 24.6%, call it 25% that ex the new customer, commercial would have been up 6%, implying that the new customer was 19?

Peter Kelly

Yes. That's -- well, yes, that's what I said. Commercial is up 25-ish, excluding the new customer, up 6. So the new customer was a pretty significant step function. And maybe one comment on that. With this new customer, we're essentially handling all of their transactions, including all payoffs. And that's not always the case. In fact, I would say the majority of our customers, that's not the case. We do it for a number of others, but we do it for this one.

So this customer, we're kind of indifferent to -- we're not indifferent from an economic standpoint because the economics are different. But from a transaction count standpoint, all those transactions get processed through our platform. So it was a pretty significant volume impact, but it had some -- as Brad alluded to, some mix impact because we got a bunch of payoffs and lower revenue transactions as part of that. But still, it's very good. And by the way, all of those transactions, whether it's a payoff or not, it brings a dealer to our platform to do a transaction. And that's always going to be a good thing because that's sort of a touch point where they then can launch into other parts of our services.

Jeff Lick

And was Q1 disproportionately high because maybe there was some bottleneck units from Q4 that flow into Q1 or will this type of similar impact flow through for the next three quarters?

Peter Kelly

It's hard to say. I don't think there was a bottlenecking, Jeff. But every customer has different quarterly profiles of their maturities based on the lease programs that they ran 2 years, 3 years ago, the incentives that they ran 2 years, 3 years ago. So it will ebb and flow, but I don't think there was a bottlenecking. So I would expect a solid positive volume impact from this customer through the rest of this year.

Jeff Lick

And I would assume, given that this is a luxury customer, most -- a greater portion of luxury leases happen in Q4, so Q4 could be even bigger?

Peter Kelly

I hadn't thought of that. It's possible. I wouldn't know. I don't know at this moment.

Jeff Lick

Okay. Thanks very much and best of luck for Q2.

Peter Kelly

Thank you, Jeff. Appreciate the questions.

Operator

Thank you. The next question we have comes from John Babcock of Barclays. Please go ahead.

John Babcock

Hi, good morning and thanks for taking my questions. I guess just to quickly follow up on that last one. So it sounds like that mix impact is going to continue through the year just because of this new customer. Is that fair to say?

Peter Kelly

I'd say there's a whole bunch of different things going on in the mix and Brad touched on them. If I could kind of summarize, I'd say we're seeing -- because of the new customer, obviously, a volume impact and that customer, we're handling a lot of payoffs there. So that tends to sort of have sort of, I'll say, a somewhat negative impact on yield. Offsetting that, we're seeing cars flow deeper in the funnel, more into the non-grounding dealer and open. That has a positive impact on mix. And then we're seeing our U.S. private label volumes increase relative to all of our other commercial volumes. So there's a lot of puts and takes in there that are driving that, John. Brad, do you want to comment?

Brad Herring

Yeah, John, just to add on to that. I mentioned in my comments that the yields in the U.S. commercial were flat. But to kind of peel back Peter's comment a little bit, this new customer certainly was dilutive to that. It's a higher end, higher GMV per sale transaction at a lower yield because of that mix, a little bit more concentrated at the top of the funnel related to those payoffs that we're processing.

On the other side of that, you actually saw some pretty substantial yield improvement on the non-new customers as those transactions have now flowed deeper into the waterfall. So what that netted out to was a yield that was essentially around flat from what we talked about at Investor Day, but it does have those two moving components embedded in it.

John Babcock

Okay. That's very helpful. And now as we think about the off-lease volumes for the year, I was just kind of curious because it seems like demand is probably going to be pretty strong for those, especially with affordability challenges, and it seems like people are more willing now to take on used vehicles than pay the higher prices for new. Are there any concerns that those off-lease volumes will stay more with the grounding dealer? Or is there any reason to think that that will happen? Or is that not necessarily a fair assumption?

Peter Kelly

It's a good question, John. I think. You know one thing we saw in Q1 was used vehicle values went up in value. Used vehicles went up in value, right, because of the supply-demand situation you talked about. What that does is that essentially increases the equity that consumers have in their off-lease volumes. So to some extent, that could delay a little bit or could impact the sort of consumer payoff percentage, and that's something we've talked about in the past. So there's a lot of sort of give and take here. But I think fundamentally, what do we know is true? Maturities

coming off lease, those are going up, okay? They're going up in the second quarter and accelerating into the third and fourth you know?

We have seen consumer payoffs come down a little bit. They were down a little bit Q1 versus Q1 of last year. So there's more cars flowing our way, and then those cars are flowing deeper in the funnel. But market conditions do drive those things, John. And I don't know if I can predict with precision all of the puts and takes on that. But I think fundamentally, I feel very optimistic and very positive about the setup for commercial, both for the balance of this year, but also looking further out into '27 and '28.

John Babcock

Okay. Very helpful thanks. And then just last question, if you don't mind. I was just kind of curious, I mean, dealer volumes were quite strong in the first quarter. Are you able to provide any sort of sense or do you have any sense as to how those volumes have done so far in 2Q? It seems like 1Q was generally a pretty good quarter overall, at least for the used market. It seems like that market was pretty tight, but just curious to what you're seeing.

Peter Kelly

Yes. Well, listen, in our industry, there's normally a spring market, we call it, you know that's what we call it a spring market driven by the tax refund season. The spring market usually kind of loses a bit of steam around mid-April, and there tends to be a little bit of a fall back, but not a massive one. You could look at previous year's results to see how the quarters trend. I would say this year kind of is exhibiting sort of a similar pattern to the normal seasonal pattern, nothing abnormal. And that I'd say, you know it's still, in my view, continues to be a pretty robust market in terms of used car demand versus supply.

John Babcock

Okay. Thanks for all the color.

Peter Kelly

You're welcome.

Operator

Thank you. [Operator Instructions] The next question we have comes from Gary Prestopino of Barrington Research. Please go ahead.

Gary Prestopino

Good morning, Peter and Brad. Hey Peter, I just had a question. You said your open sales in commercial doubled in the quarter, which means things are flowing down the funnel. But given that we've just seen this turn in lease returns, were you surprised at that magnitude of what's coming outside of the franchise dealers buying these cars? And what does that indicate? Does that indicate that the franchise dealers have solid used vehicle inventory and more of this is going to flow down to the independent dealers?

Peter Kelly

Yes. Good question, Gary. I wasn't massively surprised by the doubling. I was expecting high growth, 50% to 100%, somewhere in that range. It's growing off a fairly small number. So there's that impact as well you know? But nonetheless, it was a strong, you know, year-on-year increase as we have seen for, you know at least a few quarters in that commercial open transaction piece.

Just because they sell an open, doesn't mean they sell to an independent dealer. I want to be clear about that. Like if there's a, let's say, for example, a Ford vehicle coming through the Ford private label, well, a Honda dealer can't buy that on the Ford private label. If a Honda dealer want to buy it, they've got to wait until it gets to the open sale because they don't have access to the private label.

So even though they're selling in the open, there's still a high percentage of franchise dealers buying them in that channel. They're just buying them across brand. You have the large used car retail operations, buying them there too as well as independent dealers. So it's a mix of all three customer groups that represent the buyers there. So no, I think generally, listen, pleased with how it's going.

We're working with many of our commercial sellers to improve their performance and drive further conversion in the open sale channel, because sellers increasingly see it as very strategic to them. It's kind of their last chance to sell the car before they start incurring significant downstream expenses for moving the vehicle, you know waiting a number of extra weeks before they sell the car, all that sort of stuff. So we're having very productive discussions and strategies that are helping drive that performance, and we're going to be doing more and more of that in the quarters to come.

Gary Prestopino

Okay. Thank you very much.

Peter Kelly

Thanks, Gary.

Operator

Thank you. The next question we have comes from Rajat Gupta of JPMorgan. Please go ahead.

Rajat Gupta

Great. Thanks for taking the question. Just to follow up on a couple of clarifications after that. Could you quantify the open sales units that you're seeing in commercial? Any unit number or percentage number you could throw out for the quarter?

Peter Kelly

Yeah. We don't comment on that number, Rajat. I would say our open sale in the U.S. skews heavily towards dealer, but commercial is you know an increasing percentage over time. And if I look at our year-on-year growth in the open sale in the U.S., again, we said dealer grew high 20s. Commercial grew approximately double. So from that, we can determine commercial, obviously, was a bigger percentage in Q1 this year than a year ago. But we don't release that exact number.

Rajat Gupta

Understood. And just on the guidance, given you know the strong first quarter, if you just assumed normal seasonality, it would imply somewhere above the upper end of the new range. I'm curious if, and especially in light of the off-lease picking up later this year. I'm curious, is there any conservatism baked in you know, in the second half you know with regard to new car sales or anything around the macro? Is it not right to assume normal seasonality? Just making sure we're looking at this correctly? Any color would be helpful.

Peter Kelly

Yes Rajat, let me comment sort of high level, then Brad can comment on maybe specifics and then we will move. Again, listen, very pleased with Q1, you know a strong quarter with traction kind of across the board. But as I mentioned on our remarks, there was a strong spring market in Q1. I would say a stronger spring market this Q1 than in any of the last 2 years or 3 years for sure.

And that was reflected, you know, that was driven, I'd say, by high tax refunds and generally inventory being somewhat constrained. It was reflected in used vehicle price appreciation and high conversion rates. So one judgment is how are those going to trend going forward? Is there going to be an above-average correction from that? I haven't seen it yet, right? But that possibility would exist.

And then the other thing we're mindful of is just the geopolitical and macroeconomic impacts out there, high oil prices, you know potential impacts from those in the markets in which we operate. Again, I can't say we've seen any material impact from that yet, except that we're seeing increased interest in EVs. But you know we're one quarter in, three quarters left. I didn't want to get too far out in front of our skis on what the remaining quarters could be.

I'd also say, particularly in U.S. dealers, as we get into the second half of this year, we do see tougher comps on the B2B side. You know we're going to be lapping some bigger quarters that we had in the second half of last year. So again, I would expect some deceleration in our dealer-to-dealer growth rate in those quarters you know.

So anyway, we've kind of reflected all of those to the best of our judgment. I would say, you know notwithstanding any of that, I think there's a ton of opportunity out there for OPENLANE. I'm very pleased with how our customers are responding to our offering and the feedback we're getting and the growth in the customer base. So I really feel good about the strategy we're executing and the opportunities that offers not just for the next three quarters, but for the long term. Brad, do you want to comment?

Brad Herring

Yes. I think that's a really good summary, Peter. I think the only thing I would add, look, as the quarters play out, if things change and our view of the remaining quarters of the year changes, we'll certainly be updating that in our next quarterly discussion.

Rajat Gupta

Understood. Thanks for all that cover. I will jump back in queue.

Brad Herring

Thanks, Rajat.

Operator

Thank you. The next question we have comes from John Healy of Northcoast Research. Please go ahead.

John Healy

Thanks for taking my question. Peter, I just wanted to ask just about the relationship between lease returns and wholesale sell out. So if we're thinking about this, I think we've all kind of pencilled in a growth rate based on lease returns. But how should that lease return number impact the timing through your P&L? And let's just say, hypothetically, in a quarter, off-lease

grows 25% or something like that in terms of returns. Is that going to be spread out over multiple quarters? So perhaps the volume that you guys move through your platform might be elongated. I'm just trying to think about the, how we should kind of think about the returns to market and the dealers and then the actual flow-through to your business in terms of a processing standpoint to make sure you get the most value for your remarketing partners.

Peter Kelly

Yes. John, you know I guess, first of all, I'll say the equation to sort of determine what volume we actually get it is very, very complex. I don't know that it really exists you know. Because there's obviously different customers in there. They have different portfolios. Sometimes a customer will execute what's called a pull ahead, you know, I've got these leases coming off you know 6 months from now, but my retail market share looks a bit weaker. I'm going to try and pull these leases ahead and get those customers to buy a new in-brand vehicle now to get my market share up on the new car side. So we see that.

We also see the opposite of that, lease extensions. I've got too many cars coming back. I don't want that many. I'm going to try and push some of these out and extend those leases. So there's all these things that can happen. But I guess the net-net is, I do look at the maturity forecast in aggregate, how many leases were written 3 years ago. That's the best barometer I actually have of how many leases will be returned.

And generally, John, I'd say, you know if anything, they tend to come back a month or 2 early. So leases that you expect to come in Q3 can sometimes come in a month or 2 or maybe 3 months ahead of that. And I generally assess that the consumer that's kind of said, okay, I know my lease is up, but I've made a decision on what the new car is that I want, and I just want to pull the trigger and get that done now, you know?

So I guess, take, what does all that mean? I expect, you know if we look at that maturity curve, I believe off-lease volumes in the back half of this year are up around 20% to 25%. So I'm expecting that kind of volume growth you know in our off-lease volumes, not you know without the addition of a new customer, okay? So that's the kind of math I'm looking at, and you know it's obviously fairly robust. But I guess we'll see what happens.

John Healy

Great. That's helpful. And I just wanted to ask about the AFC business. Obviously, you guys are seeing a nice bounce in the auction business. But AFC loans kind of originated in the quarter, pretty anaemic growth the last few quarters. Curious if you think that gets better? And is there a desire to really grow that business? Or are you just kind of happy keeping it about the same size that it is right now? Because I would just think with the activity and the attractiveness and the network effect in your business that you talked about on the dealer car side, I'm kind of perplexed why would it also take place on the AFC side?

Peter Kelly

Yeah. Well, thanks John, listen, I think, first of all, AFC is a great, great business. It's a category leader in its space, an industry leader in terms of its risk management and loan loss rate. strong return on assets, return on equity and strong EBITDA and cash flow generation for our company. So it really is a great business. It's also synergistic with the marketplace, and it is helping us drive some of the marketplace results that we've talked about on multiple calls, and we talked about at our Investor Day.

So I feel really, really pleased about AFC and the performance that it's delivering and the AFC team. I'll also say we don't chase growth for growth's sake. We have a somewhat conservative view. We like managing within a risk band that we've talked about 1.5% to 2%. There's obviously a lot of customers you could take that are outside of that band, but we generally try to avoid that. We like to manage it more conservatively.

But that said, it is growing. We are growing the customer base on AFC. And we're seeing something interesting start to play out now, started in the first quarter, and I think we'll see it through the balance of the year. It's not maybe yet showing up in the results. But we've been driving can we get more of these AFC dealers to register on OPENLANE? Well, so that's been successful. But now we're also seeing there's a whole bunch of independent dealers on OPENLANE that haven't registered in AFC. But they see on OPENLANE, there's an AFC floor plan that they could potentially utilize if they go register.

So we're seeing that sort of cross-pollination flow back the other way. So again, I think there's growth opportunity there. It absolutely is going to be more modest. We're going to manage that business for risk, but it is a great business, and it's very synergistic in helping drive our overall results. Brad, do you want to comment?

Brad Herring

Yes. I'll just add to that, John. We've talked about it. I think at Investor Day, we've always kind of seen AFC as really a low single-digit grower for those reasons. It's about staying in that risk band that we're very comfortable with and extracting the value that AFC provides some within the AFC vertical of a segment report, but also the value that manifests itself in the marketplace. And I think that's the part. When we think about the growth in AFC, we combine those two as opposed to just looking at the segment results of AFC independently.

John Healy

Understood thank you guys.

Operator

Thank you. We have a follow-up question from Rajat Gupta. Please go ahead.

Rajat Gupta

Just two on commercial. You just mentioned on the previous question that you expect [21% 0:52:44] growth in your off-lease plus the new customer. And it looks like the new customer was [25%] of units, analysing that would be like 20% plus. So am I reading that correctly, the 25% plus 20% for your commercial U.S. business this year?

Peter Kelly

Rajat, I guess what I said is I think the growth in maturities is a good number to take in our underlying customer base. And I believe in the back half of this year, that is in the 20-ish percent level, maybe a bit higher. So I would expect that kind of volume in our non-new customer. And then we got the new customer in addition to that.

I'm not saying that new customer is going to be 20% every quarter. They have a portfolio that has its own seasonality to it, and I don't have that in front of me right now. I will say that our initial results from that new customer in volume terms exceeded our expectations. I don't know that they'll continue to exceed our expectations every single quarter, but we were surprised by the volume they had in Q1.

Brad Herring

And also keep in mind, Rajat, that new customer was a step function in January, so that will not recur. That element of growth will not recur to that same degree in Q1 of '27, of course.

Rajat Gupta

For sure. And then just a quick question. We heard from some of your larger public customers that there are some luxury OEMs that have dialed up early lease terminations to manage captive finance losses.

I'm curious if that is something you've observed? Has that benefited with just like incremental off-lease inventory recently? Just curious to get your thoughts there and how we should think about implications for OPENLANE?

Peter Kelly

Yeah. Well, again, that's an example, as I was saying on just a question a few moments ago. You know captive finance companies can put these types of programs in place from time to time. You don't really get a lot of sort of advanced warning as to when they might happen. But early terms, that's kind of a pull-ahead program. I'm not aware of that having had a specific benefit on our volumes.

But that said, the new customer we launched does have a premium portfolio and those volumes are quite strong in the first quarter. So maybe there was some aspect of a pull ahead in that or an early term offer within that. It's possible, Rajat.

Rajat Gupta

Understood. Great. Thanks for all the color and congrats on a strong quarter again.

Brad Herring

Thanks, Rajat.

Peter Kelly

Thank you, Rajat.

Conclusion**Operator**

Thank you. At this stage, that was our final question. I will now hand back to management for any closing remarks. Please go ahead.

Peter Kelly

Well, thanks again, everybody, for your time this morning. We really appreciate your interest in our company and your questions here this morning. Listen, very pleased with the quarter that we had and continue to be focused on our strategy and our purpose of making wholesale easy so our customers can be more successful. I'm looking forward to reconnecting with you all in 90 days where we can talk about our second quarter results. Thank you all very much.

Operator

Thank you. Ladies and gentlemen, that then concludes today's conference. Thank you for joining us. You may now disconnect your lines.