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EDITED TRANSCRIPT

KAR - KAR AUCTION SERVICES INC Analyst Meeting

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PRESENTATION

Eric Loughmiller *- KAR Auction Services, Inc. - CFO*

Thank you, everyone, for joining us today. For those that are out there in cyberland, let me recap what we've done today. We started at ADESA Phoenix Auction with our General Manager, Mike Russo, giving our group a tour. And it was really nice to see.

30 and have 10 lanes running simultaneously as we left there to come here to the OPENLANE offices.

As we arrive, we did a tour and Peter Kelly, our CEO for the OPENLANE business led the tour with some help from his people here, in particular, Amy Carlson and Michael Briggs, and we talked about the operations. And actually, Greg, who's part of our dealer consignment initiative as well, talked to us a little bit about how we advocate the business, how we process the transactions.

And then Michael Briggs talking about our exciting offering called CarsArrive Network where we can move these cars from auctions, from a virtual -- or a grounded location on a virtual sale, or even for a consigner who's not working with the auctions, move vehicles for them through a very efficient network. And I'm sure Peter will cover more of that.

I'd like to start. This is Eric Loughmiller, Chief Financial Officer of KAR Auction Services. I'd like to start by just giving an update or information for those that don't know about the Company. And I'll go quickly through this because many of you have seen it before, even those attending the webcast.

But we look at our business, really, as two major segments. One segment is really wholesale used cars. And within wholesale used cars we provide a number of services, including live physical auctions, live simulcast of the physical auction called LiveBlock, and static auction processes through OPENLANE.

And OPENLANE is currently working on the integration of the ADESA DealerBlock application, which I would argue was competitive at some level, Peter, and you'll talk about. But really, we will be coming up with a common platform that Peter will walk you through.

We operate 69 physical whole car locations and we currently have 103 AFC loan origination offices to service, because part of selling the car is floorplanning the car, and I didn't cover that a moment ago. So we look at ADESA, really, as more than ADESA. It's those services that we provide to the dealer base, as well as the consigner base of wholesale used cars.

Our other segment is focused on the salvage industry, and that's Insurance Auto Auctions. Insurance auto auction operates 160 physical location and all of our vehicles are sold online and live at the same time. So, we call it live and online. And what that means is, you can attend and watch the cars as you move through them, because these are damaged vehicles primarily. Or, you can attend via the Internet and buy the cars virtually, simultaneously with the live auction.

It's an interesting business and something -- some of our competition is Internet only. We think it's a differentiator that we are live and online. It provides more liquidity in the marketplace as we get more eyes on the damaged vehicles. And with the values of damaged vehicles nowadays, seeing a damaged car is really important, because you're paying a pretty full price for it and looking to harvest as many parts in the aftermarket as you can of those vehicles.

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In terms of our marketplace, we operate both segments, really, in somewhat of a duopoly position. There's two large players in the wholesale used car business, and there are two large players in the salvage auction business.

Relative to, wholesales used cars, there's a number one player who's quite a bit bigger than ADESA who is number two, and ADESA would include OPENLANE. Then after that -- after ADESA, the third player, it's very fragmented; a bunch of small players, probably none of them amounting to much more than 1% or 2% of the marketplace.

Our market share with OPENLANE is about 25% in 2011, and we estimate Manheim, which is not a public company, would be somewhere in the 40 somewhere -- the mid-40s potentially in terms of their market share.

On the salvage front, you've got Copart Insurance Auto Auctions, which is very similar in size in the North American market. And, again, very fragmented competition below the top two players in that marketplace.

The slide that everybody who have seen us present before understands, ultimately, it takes three or four times [the wheel]. This is the wholesale used car -- this is actually the used car marketplace. So there are 270 million units on the road in North America, and about 40 million of those units change hands annually.

And what we're focused on is that 40 million units or a subset of that 40 million. In that 270 million units on the road, 10 million to 15 million, depending on what the [SAR] is any given month, are moving into the marketplace.

And then, annually, we have 12 million units that leave the marketplace either through damage. I'll be honest. This is from DMV type registration. It could be someone serving oversees, put the car in storage. And that would show as exiting the marketplace until they come back and re-register the car. So, not all of these cars are inoperable.

Some of these cars may just not be renewed. It could be you have a car that you're working on in your driveway and it was titled before or registered before, and you didn't re-register and you aren't insuring it until you get it running again. And that would also be in this basket.

So what we're focused on, of those 12 million cars, 3.5 million to 4 million of those are running through salvaged auctions in North America. And what we've experienced -- and I'll get into it in just a few minutes -- is we're really focused on the non-insurance vehicles, because the 3 million to 4 million predominantly, for us and Copart, we both run about 80% insurance vehicles and 20% non-insurance vehicles.

So you can tell we're getting -- and the independents would have also a concentration of insurance vehicles. So what you're seeing there is the 3.5 million to 4 million is heavily weighted towards the insurance companies.

So what we're really focused on, and I'll get to it, is how many more of that 12 million units that are not insurance related can lead us to monetize for the owners by selling them through our salvage auctions, because you do not need to be an insurance company. An individual who owns a car could sell at one of our salvage auctions if they have the title and they go in and make the arrangements to have the car sold. A check would ultimately come back to them as the owner.

Now the wholesale used marketplace are the other boxes. We operate currently in two of the sections here. We have 7 million to 9 million units a year that are sold in the AAA member organization, which typically are physical auction companies that may also sell virtually as ADESA has in the past, but all of our units are counted there.

Then there's wholesale and virtual auction, 7 million units. We estimate something probably around 1 million or just slightly greater than 1 million of that 7 million who are the pure online players, including previously -- and in this chart, that would include OPENLANE. They were in the historical numbers there.

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You would also have SmartAuction, which is owned by Ally Bank. You have some eBay, which is the B2B side and the C2B side. You have Amazon motors, potentially. Craigslist might do some of the other related stuff. That would get captured there. A majority of that is actually wholesale car dealers transacting business, not the virtuals.

We then have 11 million dealer trades. Dealers just trade with each other without an intermediary like the auction or the virtual auction. And then you have another 12 million units that consumers are transacting. Again, that's a heavy use of an eBay, Craigslist, those types of listing services. But there, the consumer -- the buyer and the seller are consumers and transact personally between themselves, and they may have used a site, but it was a listing site. It did not step in to the transaction.

How do we make money? We charge fees. We charge fees to the buyer. We charge fees to the seller. We charge fees to the buyer or seller if they have us do anything to the vehicle, especially in the used car marketplace, we're doing conditioning work.

Those that toured the auction this morning saw it. We charge to clean the car, the reconditioning center. We charge for body work, mechanical work. We charge for inspections that we may do after they buy the car for the buyer, a number of ways to earn money.

In the salvage industry, it's more or less a buy-and-sell fee. There are some additional services, but they're relatively insignificant. Believe it or not, when a car gets in an accident, it may lose the windows and maybe that nice Lexus that you were driving on I-10 around here and got hit. The windows blow out of it. We're going to shrink-wrap it to protect the leather interior which was not damaged, because that's valuable. So the shrink wrapping isn't to make the car better, it's actually to protect the interior components.

One of the things we' talked about in our fourth quarter earnings call on February 28th is what's going to be happening over the next several years in the used car wholesale supply chain. And what we're looking at is we're seeing 2011 came in at about 7.7 million units for the physical auction, including their Internet sales, and another 300,000 in our OPENLANE which are now being reported as part of ADESA.

So, that takes us to the sum of the two numbers is 8 million units. We expect 2012 will look very similar. We may see some mixed shifts within the segments there relative to how many commercial versus dealer consignment. But we're not going to tell you -- we really don't how it will turn out, but it's possible.

What we really think given the demand, the high values of vehicles today, and that we think those values will be sustained, that we'll stay level, because there will remain a shortage of commercial vehicles in the marketplace. In particular, we will be hitting the trough or the low point for the off-leased vehicles in 2012. The low point was not in 2011.

So, that's what we see in '11. But we do see that number growing beginning in '13. And we -- on the call, we mentioned we thought it would get up around 8.4 million units in -- that's from 8 million because we include OPENLANE.

And by 2015, we were feeling like we'll see in the industry, again, including OPENLANE nearing 9 million units. And so, we do see what we've faced the last two years as fairly significant headwinds on the supply side at least becoming less challenging and the supply picture improving.

Interestingly enough, a lot of the questions -- what do I expect on pricing? While we don't have a chart or something on a firm position, we do see pricing potentially moderating, but we don't see any big swings up or down. Part of it is new car prices were increased in January by an average of $700 per unit.

That allowed -- again, as we look at the [Kontos] index and he's published this, it went from about 61%. Meaning the whole used car marketplace as a percent of new car prices for car sold, he measures that, it's now down again to 55% without a deterioration in pricing. It's because new car pricing went up.

That factor alone will give some support to the current pricing levels in the wholesale used car marketplace. Again, I'm not making a prediction or forecast of what it'll be, but we see it not having significant swings up or down.

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Again, we have a lot of services. I've covered this quickly. I want to pass over it, so we can get to Peter. But we do a lot of things before the auction, meaning before it's grounded. That will include condition reporting and upstream sales. I mean, if I want to say before the physical auction, this would include trying to sell that vehicle before it's moved off the grounding location for off-lease, or the airport rental lot if it's going out of service.

At the auction, we do a number of things I mentioned before to generate fees. And after auction, we do this floorplanning for the independent used car dealers. We'll do post-sale inspections, a number of reporting, services we can offer so you know what you're buying or your consigner, what you're selling, and collection and transfer of funds.

I'm often asked, okay, what's the value proposition of the auctions? It's very simple. Guarantee check, guarantee title. It's become my mantra, Peter. Guarantee check means, when you are selling a car and the gavel drops, for a commercial consigner within 24 hours to 48 hours, the money is in their account.

They do not have to get concerned about who bought that car. We step into the middle and take the credit risk on the transaction. So their only credit risk is with a large corporation called KAR Auction Services through its subsidiaries, ADESA and OPENLANE. OPENLANE is in the same position.

What does the buyer get from us? Title. Ironically, in order for that dealer to sell the vehicle, oftentimes, through a transaction that's financed for the consumer, they must have a clean title in order to finance it. So, they can't sell that car without the title.

And when they come to our auction, again, they know they're getting a title. Or, it would be disclosed it's being sold without title, which is a possibility in rare circumstances, and that's a legal definition, and it's because it doesn't mean that it's not a clean title. It just means the title is not with the vehicle and it will come after you buy it.

That is a rare circumstance because the dealers say, well, I don't know, how long it's going to take. Why use my capital on that work and not be able to retail it next week if someone comes in and needs to finance it?

We work with basically all the consigners. We work with virtually all the buyers in the US, Canada, and we have actually wholesale used car marketplace in two locations in Mexico.

So, here, the main thing -- we have no concentration. Nobody makes up as much as 3% of our revenue on a consolidated basis, either on the buyer side or the seller side. And we have registered buyers of our vehicles through the multiple businesses in over 100 countries. And we're able to support many of those countries with foreign language services in our buyer services unit in the Insurance Auto Auctions. So, I think we have a very substantial offering.

I spent a lot more time on the wholesale used car marketplace just now. So, let me tell you a little bit more about the salvage marketplace. This has been an outstanding performer over the last two years.

In fact, 2011, Insurance Auto Auctions had a 15% revenue growth, 14% adjusted EBITDA growth and about 9% organic volume growth. I mean, that's outstanding in the market that basically -- this would demonstrate that we were at least gaining some share, in my opinion. And the reason being is I don't think we're seeing a 9% increase in the total salvage marketplace industry.

Now, keep in mind, I've mentioned before, part of that is attracting additional vehicles into the marketplace. It's not really the insurance related business.

From a technology perspective, IAA is a leader in its business. About 50% of our units are sold to online buyers, about 80% of the units received an online bid. And that is why we believe the live and online offering differentiates us in the marketplace. It's because we get more people looking at the car and it's not a coincidence that the online bidder stops bidding and the person there looking at the vehicle might say I can put a little more on that car and get a return on it. Because they're not looking at 10 photos that's online, they're looking at the actual vehicle.

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And I've been to the auctions in multiple locations, sometimes crawling under the vehicle, looking, is the (inaudible) converter still there that has that precious metal in it that's so small, but worth a lot of money that they steal them from our sites. Or, there is a drivetrain that's still intact. Even though the car looks a mess, that drivetrain can be valuable.

You know what? You try to make that assessment based on the damage, but the live buyer has an advantage if they can look at the car. So, we believe it's a differentiator. We believe it provides a return to the customer. And it does cost us a little more, but that return to the customer is why we think that we've been successful in growing that business organically over the last several years.

AFC, the finance business, again, receives a lot of questions over the past five years that we've had the car businesses together. But the bottom line is, think of this as just an additional service to the independent used car dealer.

He's already transacting business in the lanes or online and we were able to provide him floorplan financing. We secure guys, the majority of our portfolio. And it's been post-2008, and early 2009 where we took aggressive action to mitigate risk in the portfolio as the financial services industry was under tremendous pressure.

We downsized that portfolio. From March of '08, we were over $900 million outstanding to by March of '09 being under $400 million in total portfolio. We did that because we felt -- listen, the used car marketplace as changing. Dealers didn't need as much inventory. We reduced their credit limits and told them, as the market returns, we will have the capacity to grow with you, but you're not going to use it before the market returns, because many of those dealers got in trouble.

So, what we've done is been able to grow for the last two years very substantial both in the number of units floored and the EBITDA generated from this business. So, again, a strong performer, but we look at this as a core offering to our independent used car dealers.

We don't view this as an independent offering that we're going to be chasing risk in different marketplace. We are very focused on loaning the money to the dealers that are buying at any auction, not just ADESA, not just OPENLANE. We feel supporting the entire wholesale used market auction business is a benefit to ADESA and OPENLANE. And so, they can use that money to buy cars at our competition anywhere in the US and Canada.

On the financial side, again, we had our quarterly call -- real quickly. 2011 was a challenging year, but in the fourth quarter we were able to grow our EBITDA from $103 million in 2010 to $112 million, and slightly improve our EBITDA as a percent of revenue.

And, again, a modest increase in adjusted net income per share from $0.20 to $0.21. And as I highlighted in the call, the one thing to tell you is while we adjust for the LBO amortization, we do not adjust for the significant amortization we recorded as a result of the intangible assets acquired in the OPENLANE transaction.

Those are not added back in calculating net income per share on an adjusted basis. And so, that had an impact on us. So we view that as -- we made that decision as KAR and that's part of our earnings going forward.

On annual basis, again, $487 million of adjusted EBITDA, up from $475 million, and adjusted net income, again, went from a $1.05 to a $1.16. We only had the amortization related to the OPENLANE transaction for the fourth quarter. So, there's only one quarter in that. This is not a pro forma number. It's an actual number.

Adjusted EBITDA margin in this business are strong. I will tell you when we did the IPO in December of 2009, the ADESA EBITDA margin was higher than 22.8%. The supply pressure has caused pressure on the top line, as well as the bottom line there. So we've seen that decline. That's been offset, though, mostly or in part -- but really mostly by the improvement in the IAA and the AFC EBITDA margins. And we're very strong at 30.2%.

In terms of long-term aspirational goals, we do believe that both IAA and ADESA can operate with EBITDA margins in the high 20s. That 30% is really a function of the very high proceeds paying right now. That may decline a little bit over time, but we think we can maintain them in the very high 20s or right around 30%, is kind of how we see that. And, again, that was how we discussed the businesses in December of 2009.

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And then the last point I'd like to make for you before I turn it over to Peter is, this is a business that generate strong cash flows. And we measure of free cash flow from an EBITDA perspective, but all of you that follow know that when you look at our cash flow statement, our cash from operations is typically even larger than these numbers.

So, this turns into real cash. And we're able to utilize that cash for repayment of debt, strategic investment as we did with the investment we made in acquiring OPENLANE and things like that. So, again, strong cash flow generation, I think, is a key feature of the KAR story.

Here's a slide that walks you through our capital structure. And, again, I've talked in the past and I'm not going to do it now -- really, the complementary nature of our business. As things start to change in the wholesale used car marketplace and supply start to improve, that may impact values paid at salvage auction.

But we feel the complementary nature of our business will allow us to grow through really any type of economic cycle that we're encountering, other than maybe the short-term disaster that we experienced in late 2008 and 2009, where everybody had to take a breath and say what's going to happen. But over a relatively short period of time, these different factors tend to moderate, and we really think that's the strength to our story.

So now, I'm going to just really quickly introduce Peter Kelly, Chief Executive Officer of OPENLANE. And, Peter, welcome to your first time speaking to a public investor audience. I'm trying to make him a little nervous.

Peter Kelly - *OPENLANE - CEO*

Well, thank you, Eric. Thanks to the introduction. And yes, it is my first time speaking to a public investor audience. So hopefully, it will be okay for everybody. Welcome to the group here attending in Mesa. We are delighted to have you here. We had a good tour. Hopefully, that was informative. And welcome also to the group online.

We've got a fairly short presentation here about OPENLANE. Before we get into that, I'll say that it's an exciting time at OPENLANE. We're approaching the six-month anniversary of the acquisition by ADESA, and we're in the middle of a large integration/migration project where we're migrating a lot of online business from one platform to another, largely, in the OPENLANE direction to enable ADESA and KAR to maximize the value impact of the acquisition.

So, it's an exciting time at OPENLANE. We're seeing more customers moving on to the platform, more business volumes and that goes with that. Needless to say, we're all very busy with that, but it's all going well.

So, quickly, OPENLANE. As of the point of acquisition, how would I have described OPENLANE? North America's largest independent online automotive auction company. So, again, the business model is similar to ADESA with an online auction, servicing the commercial segment, the commercial sellers and dealers on the sell side and then dealers on the buy side.

Same sort of revenue model, fee driven, buy fees and sell fees, but did not own any physical auction sites -- a purely virtual online channel. We've been in business since 1999. I've got a little history on the next slide. We'll share how the company grew over those years.

But certainly, an innovator. It's core the OPENLANE DNA -- a technology-driven company. We were the pioneers, really, of the upstream model -- the idea of selling cars from any location, not necessarily at a physical auction. And we pioneered that concept, and that's a concept that has gained traction in the industry as things have evolved.

A very comprehensive set of online programs that we operate and by that, I mean customers. Very proud of the customer set that we established at OPENLANE over the years and the length and strength of those customer relationships. And that has increased, obviously, with the ADESA acquisition. Our interface with new customers is a big opportunity here as we look ahead.

And on the dealer side, large and growing network of dealers to buy the cars that our commercial sellers are seeking to sell.

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So, a little bit about the history of the company. Around about 1999, a number of companies got in -- came up with similar business models to the one that I've just described, a virtual-only online auction, a B2B auction for commercial sellers and dealers.

AUTODAQ was one of those. I was a co-founder of that company. And there was a company based here in Phoenix called Auto Trade Center that started around about the same time. And there were, frankly, quite a number of other companies too.

We all competed for business. It was not a lot of business to be gained in those days. The idea was good, but the customer adoption curve had to be established. And in 2002, AUTODAQ and Auto Trade Center combined, and that gave us our Phoenix location.

As it happens in the years since then our Phoenix location has gone to become our biggest office through US sales and operations center. But the one group that you don't see here in Phoenix is the technology and R&D group. That's located primarily in San Francisco Bay Area, and then our Toronto office.

In 2006, we acquired a company -- or we combined with the company called ONLANE, which was a Toronto-based company, hence the Toronto office. They had a strong presence in Canada, but they also had a US presence. And we combined that, and at that point the company became known as OPENLANE.

And then in 2007, we acquired a company called CarsArrive Network, which is an online asset-light logistics platform that the group in the office here had a chance to talk about earlier, but an exciting business model, serving the same sellers and buyers as we have, moving the cars from one location to another, specifically designed for online transaction.

And then in 2010, we acquired a company RDN, Recovery Database Network, another technology-driven asset-light business, servicing the recovery segment, repossession. And they service a lot of recovery service provider and commercial clients to an online platform, kind of software-as-a-service business model.

But one of the neat things about that business is they've got visibility to all of these repossession vehicles that are being transacted out there before they enter the wholesale marketing channel. So, it's a very strategic position.

So today, our offices -- Phoenix, Mesa, Arizona, 200-plus people. That's a US sales and operation. Redwood City, California, formerly our corporate headquarters, but also our technology and R&D center. And Toronto, Ontario is our Canadian sales and operation center, but also have about 50% of our technology headcount in Toronto as well. Okay?

OPENLANE has three primary revenue streams or businesses within OPENLANE. The online auction business is the core OPENLANE business and the largest contributor to overall gross margin. We'll talk about that here in a second.

In addition to that, we have CarsArrive, which I mentioned. We move vehicles and generate revenues and margins and earnings from that, and that's a significant part of our business and revenue and profitability. And then RDN, which I mentioned is somewhat of a standalone business, SaaS model, but also a contributor to overall revenue and earnings.

We're going to talk about each of those here briefly. So, with the online auction business, there are two primary channels. There's closed auction and there's an open sale. So, closed sale and open sale. Sometimes we call the closed sale as private label.

But -- what closed sales are basically are private-branded online venue where a particular -- and it's almost always an OEM -- a particular OEM, or finance company will offer vehicles that are in their portfolio to their franchise network of buyers. And essentially, all of the OEMs do this and the captive finance companies do this.

And they have a desire to retain their vehicles as much as possible, as much as it makes sense within their franchise network. and they have a desire to give their dealers first access to those vehicles. So, the online channel is uniquely well-equipped to handle that. And this is an area where we saw the initial adoption of this online upstream segment taking place.

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So, OPENLANE handles a lot of those as does ADESA on a combined basis. We're by far the leader in the segment. And you'll see some of the brands here in a second.

But in the second business model is the open sale. So the open sale is an OPENLANE branded website, openlane.com or adesa.com, where any commercial seller or any dealer can offer a car for sale, and any dealer can log on and buy that vehicle. So, it's more of a [many-to-many] kind of marketplace.

The way the businesses evolved with the commercial accounts, a lot of cars start off in the closed sale environment for a period of time and then a certain fraction will sell. And then whatever has not sold rolled into the open sale, another fraction will sell. And then whatever fraction hasn't sold there moves on to physical auction.

So that's kind of how it goes. On our fee structure, typically, our fees per vehicles are substantially higher in the open and than the closed. We capture a sell and a buy fee in the open. In the closed, the fees per vehicle tend to be lower. So the open sale has been a big driver of our growth even though it's only 25% of our transaction volume last year. It's more than half of our fees generated from buy and sell fees. Okay?

OPENLANE, we see technology as a strong differentiator for OPENLANE. We've always been very focused on delivering the right technology to this industry, to our customers, sellers and buyers. And over the 10, 12 years of our existence, we've developed we think an industry-leading proprietary end-to-end technology solution.

The group here at the office today saw some of the end-to-end aspects of the process, how we handle the title and the funds that Eric alluded, how we get cars up on the site, the presale activity, as well as all the sales and marketing around the sale, CRM systems, what dealers might be interested in what cars, et cetera.

Here at OPENLANE, that's very much one integrated technology platform. Now obviously, there's a lot of different tools in that. We used third-party software for CRM and financial reporting and stuff. But the core online application is an in-house system and it's designed to be very configurable to the needs of our customers, our ability to deploy new releases quickly and new features quickly is the core strength of OPENLANE, and a key part of the longevity of our customer relationship.

And then, obviously, beneath that, we've got data and analytics, so we can provide to our customers all level of reporting around the transactions and dealer activity, and all of that sort of thing.

I talked about the closed sale program. I just want to make the point about the brands that we serve in this closed sale world. So OPENLANE, frankly, as an independent company already has the leading position in terms of servicing more of these online closed programs than any other vendor out there. But, ADESA also had a very strong presence with some very key brand.

So, on the slide, you see the brands that OPENLANE serve on the top, the brands that ADESA serve on the bottom. This is US and Canada. Now, some of these brands we serve in the US and Canada. Some are US only, some are Canada only, but we service all of these brands in either the US or Canada or both.

And on a combined basis, this is certainly the leading position of any provider out there. We pride ourselves on the strength of these relationships. We think they're very strategic. As we look ahead [for] more online transactions will happen, the simple fact that these upstream programs have first visibility of the cars before they end up in any other channels.

And we're in the process right now of migrating all of the ADESA closed sale programs onto the OPENLANE technology platform. So the decision was made pre-acquisition, certainly post-acquisition that the OPENLANE platform would be the platform that we would standardize on for our online business. And that's currently underway.

CarsArrive. CarsArrive is truly a unique business. There is no comparable business out there in the industry. It's a logistic platform purposed design for the wholesale B2B automotive industry. And Mike mentioned a few things on our tour earlier.

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When we talked about moving cars, the trucks that move cars don't move anything else. They're equipped just to move cars. So the truckers, this is their business and they're very focused on it. And what CarsArrive does, it's an asset-light platform. We do not own trucks, but the technology platform to connect the vehicle that needs to be moved and the customer that needs to move it, but the trucker that's got capacity who's looking to find that next vehicle to move.

And it was founded in 2000 by Michael Briggs, acquired by OPENLANE in 2007. The business has grown a lot since the acquisition by OPENLANE. And obviously, with the acquisition by ADESA that opens up, frankly, very large pools of vehicles that may be suitable for movement to the CarsArrive platform as well.

So another big migration project going on there. Some of the strong customer benefits of the CarsArrive platform, automated quote and order. So we can give a dealer or a commercial account an automated quote, real time when they're looking at a car or if they put in the zip-to-zip query in the number of cars.

Automated dispatch. 80% plus of the vehicles that gets loaded onto CarsArrive are automatically dispatched by the carriers, without any manual intervention on our part. Carriers are on the site looking to see what vehicles are coming available and basically accepting them vehicle by vehicle.

Full online visibility. So the end customer can see where is my vehicle, what's the status, or where is my portfolio vehicle, what's the SLA across the portfolio, et cetera, et cetera. So it's a truly unique system and one we're very excited about it, and I know one that ADESA is very excited about as well.

We're in the middle of a large project with CarsArrive, focused on leveraging CarsArrive to increase the efficiency and create other opportunities when it comes to the movement of cars in and out of ADESA auction.

We've got a pilot of seven auctions ongoing in the current quarter. That's been deemed successful and we're about to start a rollout to the remaining ADESA facilities, which will probably take the balance of this year. And that will drive a lot of volume growth with CarsArrive and a lot, hopefully, of increased efficiency in the ADESA network as well.

And then Recovery Database Network, RDN. RDN, a relatively small business but a very unique and, we think, interesting strategic business. It originated as a subscription based work flow to -- for recovery service providers. So, with an online software-as-a-service venue, where a recovery service provider could manage their business.

They could receive assignments. They could update the status of those vehicles that they identified them or recovered them or failed to recover them. They could receive instructions from the commercial client as to -- what to do with that vehicle next. And they could manage the invoicing and all the stuff that goes with that.

And it grew to have a very strong share in that market. That market is very fragmented as are many of the service markets that service our industry, but the recovery service market is very fragmented. RDN grew to have a very strong position with the recovery service providers. And as that base of recovery service providers grew, that created an opportunity for the finance companies themselves to start to automate the processes of assigning a vehicle to recovery agents.

Rather than doing a phone based or a fax based assignment, they could go on to technology and assign that through business rules, to automation. It could get status updates back and forth through the web. So, that's really the business model as it exists today.

Primary revenues, our monthly subscription fees -- software-as-a-service again from the recovery service providers themselves, but some per vehicle fees from the commercial clients as well.

And what we like about the business is, they've basically grown to a point where more than 50% of repossessions that take place in the United States are tracked through RDN. So, in the OPENLANE world, we were looking to expand into that marketplace and start to sell more repossessed vehicles online before they were confined to other remarketing channels. And, obviously, RDN had sort of great visibility into those vehicles; where

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they were located, who the commercial account was; who the recovery service provider was, et cetera. And so, it created a sort of a unique -- sort of strategic opportunity.

And we think it's very strategic in the context of ADESA too for those same reasons. We're obviously looking to grow our share in all segments -- the repossession segments, the big one.

So, the ADESA and OPENLANE combination; strategic rationale for the combination. Why does -- why we believe this made sense for ADESA, for OPENLANE and frankly for our customers. We see it as a win-win-win.

We believe that if executed well and our intention is to execute it well, that this combination will bring very significant customer benefits. So, if we think about the commercial accounts and OPENLANE customers in the past -- while we had a very successful upstream program, we could never extend them to a full remarketing cycle.

Once we got to the end of that upstream portion and the car was on route to an auction that was essentially gone from our online channel. Well, with ADESA and with the network of physical auctions, now we can offer an end to end -- we will be able to offer actually an end to end solution where the car remains visible online throughout that entire cycle in one venue.

And then, on the ADESA side, ADESA perceived the OPENALANE technology platform to be stronger. So, those customers that are historically on ADESA technology, migrating to OPENLANE will have a more purposed built system, a more automated system, and hopefully, feature benefits in terms of the feature set available to sellers and buyers.

For dealers, obviously consolidating inventory in one place the network effect benefits the dealers. They want to go to one venue and see as many cars as possible. So, bringing the OPENLANE inventory and the ADESA inventory into one venue, creates more value and makes that a more desirable destination for dealers to get some more choice, et cetera, et cetera.

And, obviously, technology and process enhancements which were always core to the OPENLANE DNA. We'll be extending though across a broader base of inventory.

On the benefits -- OPENLANE and ADESA enabling us to compete more effectively, on the technology side, benefits to ADESA. And with CarsArrive and with RDN expands the set of market opportunities that might be available. And with OPENLANE, a more complete solution. Again, we've got that end to end opportunity now which we think will lead to deeper customer relationships. Ultimately, more cars transacting through the entire process without any blackout periods, et cetera.

So, an update on the integration. As I mentioned, we're in the middle of a very substantial project or multiple projects aimed at integrating OPENLANE into ADESA and getting the most out of the technology and the investment that ADESA have made in 2011.

So, a couple of updates on that. On the sales side, we've integrated some key sales teams. So, we had a question earlier today, do we have a field team at OPENLANE? We had a small field team at OPENLANE; ADESA had a much bigger one. We've integrated that into one combined field sales team out there talking to dealers, under one leadership but servicing the physical auction business and the online business.

We've also recently integrated our commercial account management team because the customers that OPENLANE had a virtual world we're also customers of ADESA in the physical world. So, having one voice for the customer there we felt was very important as well.

Technology migration is well underway. We implemented a single sign on in January of this year. We've just had a release last week -- our 3A release at OPENLANE. And this week, we've now listed our first ADESA auction vehicles on the OPENLANE platform. We're in pilot mode, but assuming successful pilot and transactions profit coming the right way, we will roll out to all ADESA auctions here in very short order with that project.

And then on the closed sale side -- I'm sorry, Eric mentioned that. That's the DealerBlock migration that Eric mentioned. On the closed sale side, we're also in process of taking the ADESA closed sale programs that we looked at on the previous slide and migrating those customers by customer

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to OPENLANE. And we have our first sites already migrated from technology perspective and about to go live here in early April from a customer perspective.

The CarsArrive pilot as I talked about, that's a huge project onto itself. We'll increase the CarsArrive volume very substantially. We'll grow that part of the business but, ultimately, will bring more efficiency in our operations. And hopefully, cut benefits to customers in terms of SLAs, visibility into vehicles, et cetera, et cetera. Leveraging technology has got a better outcome.

You know, I'm very pleased to -- with the customer feedback we've gotten since this acquisition was announced and subsequent to it being completed. I think customers are very receptive to this. I think they see it as a very natural strategic fit and one that will benefit them -- again, once we get all this integration worked done.

So, we're very committed to making that a big success and living up to those customer expectations. And then from a synergies perspective I think they're broadly in line with expectations without going in through all the details. KAR had done some modeling pre-acquisition. You know, I think we're broadly on track with the -- those synergies. We obviously uncovered some new ones and some might not have been as big a thought. But net-net, it's very much in line with our expectations. And I think we're pleased to -- very pleased with how the acquisition is going so far.

Just a few last slides just to kind of maybe make some of things a little more tangible. I talked about some closed sale migration to OPENLANE technology. So, these are our first two sites that are migrating from the ADESA technology platform to the OPENLANE; Hyundai and Kia. Two very, very important brands, huge growth in those brands as we look ahead given their market share gains in recent years.

And we're excited to have these sites now live from a technology perspective and about to go live to dealers here in April. And that's the first closed sale migration, frankly, accomplished ahead of the original schedule that we had sort of set, but we're pleased about that.

We're basically going to be migrating all of what is adesa.com to OPENLANE technology and that's a bigger project. The first phase of that was DealerBlock, which I mentioned is just going live in pilot mode right now. But our goal is that by -- well, our goal is that by -- in the shortest amount of time possible we get to a point where there is one venue running on OPENLANE technology, but branded ADESA.

ADESA is still the biggest brand from a dealer awareness perspective out there. So, an ADESA branded venue running on OPENLANE technology with all of our combined inventory in the open sale environment. So, that's really what we're aiming for. And that will be a multi-phase project, but it's on track and on schedule as of right now. This is just a sample screen shot. That will probably evolve before we get to the complete finished product.

And, finally, I mentioned the CarsArrive implementation, integrating CarsArrive across ADESA auctions for inbound move and ultimately outbound move. Just a couple of screenshots here of CarsArrive. You know, one of the unique things about CarsArrive is you get the view at the portfolio level. In the aggregate you can get it by the list of vehicles. And you can drill into the vehicle, and get to the specific bill of lading of that car.

So, a unique product and that -- we're moving vehicles in and out of ADESA auctions today -- have been since December, so that's a very positive development.

You know, as we look ahead, I think we're very optimistic about the prospects and the industry for a number of reasons. Eric talked already about how the volume trends are looking, and how 2011 and 2012 really are the trough years and volumes will increase from there. So, that's obviously a good thing for the industry and a good thing for our customers too.

We also see, in parallel with that, increasing adoption of online technologies. We don't think that train is going to reverse at any point that we can see. There will be progressive further adoption of online technologies. So, more and more of these transactions will tend to happen online. But the physical infrastructure to support those transactions will be very, very critical to the process, as Eric mentioned.

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So, the -- so it's really a bringing together of those two assets; the technology assets and the physical assets to create this winning solution for customers. We're very pleased with the customer relationships we have, our market position particularly in the closed sale translating into open sale and, ultimately, into physical auction volume.

We believe the integration will deliver a significantly enhanced offering for our sellers and our buyers in terms of feature set. Given the diverse nature of the business both online and physical, we're -- if the trend towards online turns out to be faster or slower than we might predict, it doesn't really matter because we are -- we've got strong presence in both. But we want to be -- we want to have the best solution as possible in both channels, and let the market decide the pace of which set of auction ought to take place.

And, finally, the recovery in industry volumes and particularly in the off-lease segments. And OPENLANE is historically very concentrated with off-lease volumes. Those volumes are recovering. We like the numbers, the way they're trending, and obviously the customer relationships that we have -- they've been able to share with us some of the trends there. So, that's going to be positive for our business.

So, to summarize it all up we would say that a successful integration is the core project for 2012 that we're working on. We think it's going very well, and we think that this will provide a platform for an enhanced service offering and business growth over the long term.

Thank you, Eric. With that, we can take questions.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

Very good, Peter. I think what we'll do is take a few questions while we're webcasting and then conclude the day, if there aren't any questions. We'll start right behind you.

QUESTIONS AND ANSWERS

Matt Fassler - *Goldman Sachs - Analyst*

Can you talk a little bit more about the economics on CarsArrive? If it's $300 (inaudible) the car from place A to place B. How does the economics work for you guys in terms of how does it charge and (inaudible)?

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

Are these my slides on the table?

Peter Kelly - *OPENLANE - CEO*

Yes.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

Okay. Well, the economics here are fairly straight forward. The CarsArrive network actually gets a quote from the transporter and we will then charge the customer arranging the transportation a fee with some margin planned into what we're charging that customer. But we will know the direct charge that we're going to pay to the transport driver and what we will collect from the customer when they hit the button that they spoke of and arranged the transportation.

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So, again, the average price is -- one of the things that we -- I don't think Peter really got into is one of the things that we do at the auctions where I think there's really an opportunity for us with OPENLANE is we make a lot of moves that are within 50 miles. And that's an area, as an example, where the CarsArrive network hasn't had a lot of penetration.

They actually did better -- as I recall Michael Briggs in the room on -- from 50 to say 350 to 500 miles.

Peter Kelly - *OPENLANE - CEO*

Well, yes. That's part of the agreement.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

I mean, that's your sweet spot. And with our availability of temp labor and the ability to efficiently move cars, we can be perhaps more competitive and more effective even on these short duration moves, and generate margins using the CarsArrive logistics model and make money on it.

I mean, the goal here is that we think we can have a more controlled cost structure relative to what we charge the customer and generate margin on each of these moves for what we're doing.

Matt?

Matt Fassler - *Goldman Sachs - Analyst*

If we -- just to take a step back and assess the -- sort of the purpose and -- of the transactions -- of your acquisition of OPENLANE and what's actually transpired. It seems like that your most compelling drivers are ADESA getting accessed to the OPENLANE technology to enhance its online effort, and also getting access to the closed auction customers that OPENLANE has which I guess is the biggest piece of OPENLANE business and roughly a small piece it sounds like of ADESA's business.

Are there any other kind of high level, big revenue or cost drivers that you see supporting the decision that you get?

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

Well, I'll start and then maybe Peter will add to it. I think there's tremendous opportunity both at ADESA and at OPENLANE. We have the ability for OPENLANE to extend its service offering to its customers when the car does not initially sell upstream.

Peter, maybe you can talk a little bit about that. Today -- well, prior to the acquisition, you basically took down the listing and it moved into the physical auction. You can continue offering the ability to sell that car in transit. You can sell it from a grounded location at ADESA.

You can enhance the vehicle like we saw this morning, Matt, where they could actually do some work on the car because it wasn't getting the value maybe. But a little bit of work and a little bit of reconditioning as we saw today, just cleaning the car and posting clean pictures might help the process.

And I -- and that's something that you did not have available to you because you just didn't have the physical presence to do those services.

Peter, any of that from your side that you're seeing?

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Peter Kelly - *OPENLANE - CEO*

I think that -- I think that summarizes -- I think that the end to end solution that the customers were asking us for was something we weren't equipped to deliver just as a purity virtual business. So, this creates more of a -- more of that opportunity.

And I think on the ADESA side, the technology and then the ability to combine that inventory and just have a more compelling online offering both from a feature set technology but also inventory volume perspective made a lot of sense.

Matt Fassler - *Goldman Sachs - Analyst*

Where did you previously direct cars that didn't sell? They must have sold somewhere where you -- did you just basically dispossess yourselves with the relationship to that vehicle, or did you actually direct it to --?

Peter Kelly - *OPENLANE - CEO*

No. It was -- it was and is the seller's decision. You know, the seller would direct that car to whatever auction that -- they were -- they wanted to. In some cases, we would support that through technology, through business rules make that assignment ourselves, but it was always at the seller's direction and continues to be at the seller's direction.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

And from the ADESA perspective, maybe with a minor exception I mean OPENLANE in some regards with certain majority of the customers we serve from the commercial consign -- not all but --. And the same, ADESA -- because, again, if it went to the physical auction, we have a pretty good presence across all of the names that you see.

But what's really important here is -- listen, I think the value to the consigner is an end to end remarketing solution where they can call -- make one call -- and Peter hit this. The combined sales team, we can handle the -- you know what? We're going to sell that car for you. We're going to start here. If that doesn't work, we're going to take it here.

We're going to go -- we can go to a closed -- we saw this morning in our conversation at ADESA Phoenix, on Tuesdays, every other week, they're running a closed -- General Motors are a closed sale. Right, Matt? We heard about that.

Well, it may go from a sale at OPENLANE to a closed physical which is the franchise dealer -- they can come and see the car, and from there, it might move into an open physical, simulcast live block feed. And if that doesn't work, it could -- it could continue. We could put it back on OPENLANE with some revised pricing expectations, things like that.

I mean, it's just -- it's an end to end remarketing. And we think KAR Auction Services through OPENLANE, ADESA, CarsArrive Network, Insurance Auto Auctions even -- any car in any condition, we can handle any aspect of the wholesale remarketing to the dealer. And ,again, we're not a C2C but we're the -- we're kind of a B2B or the C2B in some cases.

Matt Fassler - *Goldman Sachs - Analyst*

May I ask a follow-up?

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

Sure.

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Matt Fassler - *Goldman Sachs - Analyst*

What are the economics to the seller selling through OPENLANE in a virtual sell versus the car of -- ultimately moving to the physical spectrum or starting out in the physical spectrum?

Peter Kelly - *OPENLANE - CEO*

Well, the fee structures are comparable in terms of the buy fees and sale fees. So, it's really a question of what are the costs. So, one of the benefits particularly in the off-lease segment of the upstream channel, we'll sell the car but without having to move it so in -- pure direct cost and less time. Those were the benefits that we sold heavily in in that segment.

Now, I will say that in other segments those benefits are missed substantial. You know, repossessions, for example, you have to hold the car for a period of time for -- I can't recall the exact word right now. But there's a period of time it has to elapse before that car could be sold.

So, in that case, you need physical assets to sell cars. Rental companies actually don't really desire to sell cars off their airport lot because they're often space constrained. So, get those cars off site to a different facility.

So, in the off-lease segment, there was a very compelling cost equation before you could sell the car from a (inaudible) dealer location and that drove a lot of adoption. That's the segment we've seen the most adoption in, but in other segments, that benefit has been less. Or, another way of saying it as the value proposition of the physical assets -- the physical auction is a lot stronger.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

And, Matt, along those lines, the expectation as a consigner is that will result in a higher bid because, for example, if a car is returned to a grounding dealer and a dealer within, say, two miles, it doesn't have -- the consigner doesn't have to worry about the cost of that dealer having -- he's going to pick it up right there, a mile or two away -- not going to move until the physical auction which might have been 30 to 50 miles away.

So, the goal I believe is to optimize or maximize the bid on the vehicle through the online auction. And part of that is by cost avoidance for even the buyer.

Matt Fassler - *Goldman Sachs - Analyst*

And the economics to the company selling via OPENLANE versus selling through the traditional ADESA channel? Do you have a preference?

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

Well, first and foremost, we do not have a preference.

Matt Fassler - *Goldman Sachs - Analyst*

Okay.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

But there is a difference. And our preference is to sell every car that can be sold in a wholesale used marketplace at one of our sites. And we're very -- and Jim Hallett is more passionate about that than even I am, and I'm getting pretty passionate. He's wearing off on me.

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But more importantly, though, you have to understand, the average fees generated on a car sold virtually even at through DealerBlock will tend to be less, but the margin will tend to be higher because you're not touching the vehicle. So, really, the trade off here is can we generate sufficient margin dollars to have it decision neutral?

At this point, though, the advantage of the physical auction is the ability to provide ancillary services and pay an average revenue of $300 which was kind of a pro forma OPENLANE numbers that you looked at, or the numbers for 2011, and convert that into something near $600. $585 is what we generated average revenue per vehicle at ADESA. And, can we do that within a margin structure where we're optimizing the dollars?

But, we really want to just sell the car. There is very strong percent margin. Currently, though, I mean, the average revenue per unit is quite a bit lower if we sell it. Now, Matt, I'll point out also, it differs by customer as well. Some customers -- the revenue model for us is a little bit better than other customers depending on what contract we signed and when they came in. And that would apply to both ADESA and OPENLANE.

Matt Fassler - *Goldman Sachs - Analyst*

You obviously have a fixed cost net in your facilities that you want to cover. So, I'm sure -- that's part of the thinking. I guess it sort of has to be. But, as you think about the very long run, are you considering the kind of physical capacity that you want to operate as with the new acquisitions, new openings, the way you're managing your existing site now that you have this very good tool which, to your point, these are pretty attractive margins, particularly if you don't have to think about that overhead, which is a real consideration?

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

We clearly believe that the physical auctions are not going away. And the reason being is because they're not virtual; only the transaction is virtual. But, we do think there is the potential that the nature of each location could change over time.

In fact, we're doing some work right now which is leading us to believe that there may be an attraction to -- in some regards for the commercial consigners very large locations, which maybe contrary to -- Matt, to what you were thinking. You might be thinking they get smaller. They might like their cars concentrated in very large locations because the efficiency [its given]. And then when you get to the deal of consignment network, I'm going to tell you there seems to be a tremendous interest in having more locations as opposed to concentrated large location.

So those are things we're looking at. At this point in time, we're comfortable with our physical footprint. We think OPENLANE enhances the ability to utilize that footprint very, very cost effectively. And we think -- ironically, when we did the acquisition, and this is where people learn that I'll just say things -- right -- at these things, that are inappropriate.

I think their next step would have been to have to find a way to get access to physical properties, because they were selling probably as many cars in that market. Maybe they'd incrementally be able grow a little bit, but at the end of the day, you had to sell the car, what, Peter -- in probably four to 10 days?

Peter Kelly - *OPENLANE - CEO*

More or less, yes. Four to six days.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

Four to six days, or something had to happen to the car. And without them controlling the land, they -- the transaction is gone from them at that point.

Anything to add, Peter? This is your chance to be brave and bold.

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Peter Kelly - *OPENLANE - CEO*

I would just say to Eric's point is we're taking -- we're taking a look at what is the auction of the future. How do we bring the technology and the physical assets together? The purity of the need for both -- the nature of both evolves a little bit. Right? And I think in this industry, it's more evolution than revolution. That's kind of how the industry evolves, I guess. So, we're looking at that closely.

Eric Loughmiller - *KAR Auction Services, Inc. - CFO*

So, with that, I think what we're going to do is conclude our event. I'd like to end with a personal thank you to Matt Fassler and Goldman Sachs who have helped us host this event in Phoenix, Arizona today.

You know, again, Goldman Sachs has followed our company since the IPO providing view points on how we're performing as well as what's happening in our marketplace. And we thank them for continuing to follow the Company, and hope -- hope that, again, it's a beneficial relationship for all that are here.

And thanks also for those investors who attended today. That's what makes this successful. We can get up and talk to a mike or we can talk to you, and it's much more helpful for us to have people that are interested in our business. So, thanks for coming. And, with that, we'll conclude our formal presentation and the webcast. Thank you.

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