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<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

So, good afternoon, I think we will get started. Welcome to the KAR Auction Services corporate presentation. I'm Craig Kennison with Baird Research. KAR Auction Services is a leading provider of auction services for used and for salvage cars. It also offers floorplan credit to dealers to support its business. We're delighted to have with us today, Eric Loughmiller, the Chief Financial Officer and Executive Vice President. I think Eric, you're going to walk through a slide or two, and then we'll jump into Q&A.

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

Thanks, Craig. And I'll just sit here and enjoy the comfortable seat. I'll just introduce very briefly the company. We operate three business segments. The first is a used car auction business, where we're selling 3.2 million vehicles a year that based on 2017 and that number keeps growing. We do that through 75 locations as well as a number of online venues that we run private label sites for the OEMs as well as the product we call, TradeRev, which is a dealer-to-dealer marketplace, creating online without a physical presence.

In this space, we operate and what I think is a responsible duopolies, our primary competitor is Cox Automotive, which operates physical auctions to its Manheim brand, and as a number of other services through the Cox Automotive branding. And they're bigger than us. We operate with about 30% market share of the used car business and they're in the 40% to 45% range in terms of their market share in a private company. We also operate, I'm going to skip to the right AFC, which is the floorplan lending business, focused on lending to independent used car dealers, who are acquiring their inventory at auction.

Now, we'll loan money to them if they acquire their cars in different ways, but a majority – a significant majority of their cars are acquired at auction, because then we know that the amount they're flooring on the car is a true fair value. It's a very diverse business. We do not loan to franchise dealers. We do not loan to CarMax or other large enterprises that have access to other capital. We're helping provide liquidity or capital to a part of the market that's very fragmented to very small dealers.

So, we operate with about 13,000 to 14,000 active dealers at any point of time. The average line of credit is in the neighborhood of $250,000, and the average amount outstanding is under $200,000 per dealer for all their portfolio of vehicles. So, again, it's a credit diverse portfolio, and these loans turn on average every 60 days. This is floorplan lending if the car is sold to a consumer, and we hold title as collateral. So in order for that consumer to finance the vehicle, they need that title. So, therefore we have to know the method of payment and we're paid back including fees at that time.

The third leg of my stool and the reason I left it for third, even though it's in the middle is Insurance Auto Auctions. And in February, we announced our intent to spend the Insurance Auto Auctions offers a separate public company. Until your questions, I won't spend much time on that, but that's the reason I left it. It's a salvage auction business focused on selling total loss vehicles for the insurance companies. About call it 85% plus or minus a little bit in any quarter of the vehicles they sell will be totally loss vehicles, low value vehicles that have been in an accident. They sell 2.4 million vehicles per year and again that number continues to grow.

The remaining business is, what you might think could be a used car, but it's predominantly low value, high mileage, very old used cars, cars donated to charities, we have a very significant charity presence, where when you donate your car to charity, many of you probably heard radio commercials about that. That car has been sold through a salvage auction in an as-is condition, but not with a salvage title, and the cash has been returned to the charity for its stated purpose whatever that may be. So, we have a number of opportunities and some low-end repos will run through that business.

It's also one in duopoly with a public company called Copart, and we operate with about 40% market share in North America consistent with their market share. We also have a very significant position in Canada. They have a very significant position outside of North America and the UK, where we have a very small position. But generally speaking, you would compare those two companies. And again, I'd call it responsible duopolies, where we're operating the market share, again, we're not sharing it, but the market share isn't shifting significantly right now. So, that's the three businesses. I think that's an adequate introduction, Craig. And we'll turn to your questions and maybe dig into some details on these businesses.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

So, if you have a question, feel free to raise your hand or shoot an e-mail to me, and I'll do my best to answer that question. Maybe to start, Eric, talk about the spin-off, the rationale behind it, the timeline as well?

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

So, we're looking number one, car auction services, we believe is a very complicated story with these businesses to get together. And as we look at it, we have a pure play comp out there that's trading at a significantly greater multiple than car auction services, and looking at the opportunity that could we unlock value for our shareholders by having a portion of that business, solely focused on salvage, it'd be a separate independent public company.

And doing that that's not an adequate reason for a tax free spend I might tell you, you need a business purpose. Well, as we look at it, we have conflict in capital allocation. What we would do at IAA, if it were an independent company, it looks quite a bit different than what I do with our Board of Directors on allocating capital.

We're allocating capital in technology plays that give us long-term growth prospects. We're allocating capital to dividend 45% to 50% of our free cash flow is paid in the dividend to our

shareholders. And we're also allocating some capital to share repurchases on a quarterly basis, because we're seeing a 15% return if you take my free cash flow yield plus growth rate and that's with no execution risk.

So, we're looking at it that way. On the other hand, there are differences with IAA and Copart. In our business, model we spend about 12% of revenue on occupancy. Copart spends only 2% of revenue on occupancy, because they made the decision probably seven, eight years ago to focus on repurchasing or buying out leases, and when you buy out leases, our operations in the salvage industry to predominately land. There's very small infrastructure needed. If you're parking wrecked cars, you don't really have to do much to the land, the parking wrecked cars.

And as a result, there's no depreciation, so there's no EPS, there's no leased. I'd lease 175 plus properties in North America, and 11 in the UK by the way that all leases. Lease expense runs through my P&L. Not through to – there's no depreciation is lease expense. And so that's why on 12%.

On a separate basis, I don't know what they'll do, but that's a difference in the business model and perhaps if I look at IAA on a standalone basis, and look at the return I get for buying out leases with an immediate improvement in my performance perhaps, I'd reach a different conclusion on the proper allocation of capital.

The other thing that I look at there is international expansion we have focused on the ADESA business while they have seen their competitor began early stage entry into certain geographic markets. International growth is part of our platform, but I'm seeing a greater opportunity to property in the near-term in other parts of our business. And so we focused on buying just – we did buy a salvage business in the UK, that's very small. So, we're not ignoring them. But we're also looking at better opportunities in other parts and we're saying they have their own capital.

Last they're growing at a different pace. They are in a position where there are 293 million cars on the road today, with an average age of nearly 12 years that's in U.S. and Canada. Many of these cars are going to be taken out of service over some period of time. So, we're expecting a higher unit volume growth rate, the economics of that are far more predictable. We think its performance might generate a higher multiple.

So, I look at all of that and say as an independent public company. Do they have a management team? The answer is yes. They have a business standalone? Yes. Am I giving up synergies, that's the last component, the answer is no. It doesn't mean putting them together with a car in ADESA, did we generate synergies.

In 2007, we announced plans to generate $25 million to $30 million in savings by putting our business together and having a single savage, and we generated about $28 million in annual savings that we've sustained overtime. We also had $35 million to $40 million of savings in ADESA by putting it together.

As I look today, I don't give up any of those synergies by separating them, because they're isolated savage, and I don't see the opportunity to generate the level of synergies required to enhance

shareholder value of what I think we can generate if they are a standalone public company. So, those are long-winded, but those are all the reasons and I got into some of the business model differences that I always like to highlight. So, there's no confusion between us and Copart.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

And just to follow up based on a question we received on the iPad. Are there any other main differences between yourselves and Copart other than the ownership of land I would explain margin differential?

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

There is one. We spend 1.5% of revenue on running a live auction, and they do not know. We do run all of our auctions online simultaneous with the physical auction, but we have auctioneers. We set the sale, if you wish to come to the auction and not get on line to buy a car, you can do that. And the reason we do that is, not because we want to waste 1.5% of our revenues, because it generates a higher return for the insurance companies based upon our statistics. And that higher return has allowed us to become to go from a distant second player 10 years ago to a co-leader in the industry in North America.

So, it's been a differentiator, it's allowed us to get additional business with the insurance carriers. And so we actually at this point, don't see it going away ironically. We've done some auction tours, Craig, in some markets. We are not running live auctions the same way as we used to.

In some parts of the country, where we're seeing the live buyer attendance a little lower. We're running screen sales. We're doing things to lower that cost, but we still see the value in the auctioneer getting in the middle of the transaction and actually getting higher proceeds, but also closing more transactions. That auctioneer when there's a difference between what that seller wants and the buyer, he can prod that buyer and bring in their bid up even if there's none of the bidder saying that won't get it done. And then they say it in ways, none of us can understand, if you've ever heard an auctioneer. But you won't get it done at that right.

For $300 more, I think we got a deal, because he might – he has information that the market doesn't have. He has a rep sitting next to him, who might be saying not enough, I need a little bit more. There's a value to that. Where if you go to the pure online with an automated voice auction, it's a countdown that has my count down if I know there's someone thinking as an auctioneer, I'm going to delay the gavel dropping.

So, we still see value in that, but we aren't running the live auction in the same way and overtime we might close a little bit gap, or if we see it's not providing an advantage in the net auction proceeds, the gross auction proceeds, we will discontinue it. At this time, we've planned to continue it.

Those are the only two differences. I should point out, they have gone to Europe, they have gone to Brazil, the Middle East that we have not in certain jurisdictions that would be the last difference.

But again, as we disclose in the Form 10 on a standalone basis IAA, I think you'll find that the differences in performance are not as great as some people tell me.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

And sticking with salvage and combining a couple of questions here, thinking about the buy side and the sell side of the salvage market. On the sell side, what are the trends in total loss rates that drive volume to you, and what does that mean for your growth rate, and the buy side, who is the main buyer at auction?

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

Well, I carry a chart you want to see it, you just look at the trend line even from the far, you'll see it. This is the percent of our auto auction claims being declared total loss. And last year, it was 18%. In the third and fourth quarter, we were at 18.8% and 18.7%, and that's what increased frequency of accidents. So what's happening, the average age of the car in the road in the U.S. and Canada is nearly 12 years old, and the values are declining in the wholesale marketplace and collision repair costs are increasing predominately due to a shortage of low cost labor.

As a result, the only way that you're going to afford to fix a car is if you maximize the use of aftermarket recycle parts. And as a result of that, you need aftermarket recycle parts coming from total losses, and they're going to total more vehicles. and I'd compound that with the average age of a vehicle going up, that means the value is going down the likelihood of a total loss if you have a fender-bender in your eight year old Ford Taurus, it will get totaled, because that $3000 of repair cost is on a $5000 or $6000 car in the wholesale marketplace, and it's more likely to get total. And they need the part for the less severe damaged eight year old Ford Taurus, because nobody is manufacturing any aftermarket parts for Ford for an eight year old car. But just not doing that anymore, that supply chain dried up 10, 15 years ago.

So, as a result, we're nearing 20% of all auto claims resulting in total loss. And as a high value proposition – so the sellers are selling more vehicles, it's a very – it's a way for the insurance carrier to reduce net claims cost, it actually is cheaper to delve a car and then sell it than to fix the car and put it back on the road, that's the math they do.

On the buy side, you have companies that I'm very fond of like, LKQ, and all of their competitors, which there's hundreds of thousands of very fragmented buyer base. LKQ is the largest buyer in the industry and they'd buy, I think less than 3% of the vehicles sold at salvage auctions.

So there's no concentration. The local guy, pick and pull, what you think is a junkyard is actually a viable business that has a lot of value, you can go in and save a little money, if you're going to fix your car by going in and taking the part-off, but not paying someone else to do that like LKQ. So, who is here at this conference by the way given an advertisement.

So, I see them buying and the demand continues to increase for these vehicles. There is a huge demand for aftermarket recycle parts. About I'd say 65% to maybe 70% today of the cars we sell at savage auctions will be dismantled for parts, the remainder, some will be recycled meaning their

crushed car bodies that are sold into the recycle market and a little another portion of that call at 30% will be rebuilt.

In fact, there's a number of businesses, I don't think there are at this conference or trying to build a platform about rebuilding salvage title cars, because you didn't get a great deal on them. I would just tell you my children aren't getting in them, and they're adults. If they did, I'd go replace the car immediately. I mean, I just – not that just I don't say, I don't think it's a bad business model, but the car has been totaled, it's been declared a total loss.

I don't really think and my daughter has grandchildren. My grandchildren are definitely not getting in that car. Because one of the airbag, I mean it's a high risk, but it's also for people looking for a value, there's a market for that. So about 15% get rebuilt and put back on the road. Again, strong business model your exchanging risk for cost of the vehicle. I'll let all of you make your decision and if you're a car guy, no mechanics you can probably do it very safely. I would not be that person. I'm a car guy that knows money.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

So, let's shift gears to address that whole car auction business, who are the buyers and sellers there specifically talk about your sources of supply and some of the trends there?

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

Well, we're in a situation, where our supply and demand, our demand stays relatively flat in my opinion even over through the recession and supply varies quite a bit. We're at a position. We're in our most recent quarter. The first quarter, we were 59% of the commercial sales at the physical auction and 41% dealer, and we were probably on the online only portion, which is separate from that. We were probably 15% dealer and 85%, because we added TradeRev to the equation typically.

We would be nearly 100% commercial, but the TradeRev is now online only and we sold 22,000 out of – I've got my number sheet here out of our online only volume of 309,000 in the quarter, 22,000 were dealer cars roughly, and the remainder. So, there would be 287,000. So, I guess I'm still over 90% commercial. The commercial seller is captive finance companies, OEMs or the manufacturers of cars, banks, other financial institution, private leasing companies, corporate fleets, rental car companies that they're anyone, who sells a car that operates a business that does not have a retail license.

If you own a retail license, Penske, Group 1, CarMax, who doesn't use the auctions. They run their own chose auto sales on the corner. You would be in our dealer consignment category, which was the 41%. So, those are the sellers and what they're selling is off-lease vehicles' repossessions, end of service rental fleets, corporate fleets where you hit some mileage target that they've set. New trades aged inventory, where you're retailing a car and nobody's interested in is the wrong color has the wrong interior or whatever it may be. All of those cars and you're looking to move those not retail, but wholesale to another dealer, who might have more success.

So, the market is growing. We're in a cyclical period, where the commercial business is growing and the wholesale auction business for the dealers is declining, because used car prices are coming down, Craig. And as used car prices come down, the dealers tend to get very price sensitive and try to avoid transaction fees and we have plenty of volume to meet demand from the commercial consigners today.

In our materials, I could go to this chart very quickly on page 6. you'll see, if you look back the gray bar is our institutional or commercial business and the kind of bluish bar going from – you can see the trends as the – this is how it works, as there's more commercial vehicles they squeeze out the dealer consignment. The dealer consignment does not – and the reason is the commercial vehicle has no alternative to sell the car. They do not have the legal ability to retail a vehicle unless they get a retail license, so Hertz s can, Avis does as well, a small amount, but most of my commercial business doesn't own a retail license. Therefore, their cars come to wholesale, that's why they will squeeze out or if their volumes decline, create opportunity for the dealers.

I will tell you what's driving the movement is the commercial supply. and then the dealers fill the gap as they did, as we came out of the big recession and you're looking at 2013 to 2015 in particular, 55% roughly of the vehicles we sold were dealer consignment cars, because the market was demanding more vehicles, paying a premium to get them, because they had a short of inventory on the retail lot and that dealer would not hesitate to sell and pay the fees.

Now, here I am in 2018 and in 2016 and 2017 somewhere. I had more supply of commercial cars, a higher value car typically lower mileage in some of them. that's the car in demand that dealer's going to go away and say okay, how do I continue to repeat my economics, when and when I got to get rid of the fees, because my values are going down. And to do that, I'm going to trade with other dealers.

We have introduced the TradeRev product, Craig. to counter that, because TradeRev is a dealer-to-dealer mobile application on this device, where you can transact in 55-minute auction platforms finding out there's a market for your vehicle at time of trade. And that's helping serve that market that is part of the market that was never in my blue bar. The time of trade 55 – these are scheduled events of car has to be at the lot, you have to register ahead of time a much different transaction.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

So, you've brought up TradeRev, maybe talk about the size of that addressable market in terms of volume relative to other markets you serve.

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

Sure. I have a slide for every question you have today, Craig. So, on the bottom right corner, if you look at there's $45 million used car transactions a year, $31 million of them are through dealers, $13 million are consumer-to-consumer. Craig's list whatever you're going to do, find a way, you can list it on cars.com also attending this conference, auto traded their competitor. I won't talk much about them, but they're part of Cox Automotive. But you can find a way to list that car

to a buyer and seller can have $13 million. Of the $31 million at dealers, they get $11 million of their inventory; I just showed you they buy that inventory at auction.

That's the off-lease car, the rental car, maybe a dealer took a trade of a late model car and that's not his market too expensive and he somehow got it. They're going to move that car. That leaves 20 million units. Of those 20 million units, those are trade-ins that they're going to retail and of those, we estimate that half of them change hands, 10 million and of those half that change hands before they retail, 5 million to 7 million are through a wholesale transaction that we think is our addressable market.

We used to say 10 million. We didn't know what portion would really use us. We've now gotten details about 5 million to 7 million of that 10 million, the rest of them there's dealers just trading them. There is no transaction. It's just like-for-like or who knows what they were, who knows what they do with them, but there's no evidence of a wholesale. So 5 million to 7 million, Craig, is the addressable market and it's a market that we're all interested in, because it's very – we're looking for a market, where there's physical interaction is very inefficient and costly.

There are wholesalers that do this now, Craig. They go and buy from one dealer and sell to another dealer and make a profit on that transaction or why you as a dealer need to give that wholesale of that profit. Especially, when you're under pressure to recover the trade-in value, it's getting harder and harder, and you want to eliminate the friction cost, the profits in the wholesaler or the fees. And so we're able to do that with a fixed fee. So, we will charge you based upon the activity on the bidding. You can do that at a very low cost and the idea is you can also get a better view on the value of the vehicle.

Jim Hallett, our CEO, always tells the story better, because he was a dealer. He said, I would have loved this, because I'd spend that each evening calling up my wholesaler, said okay, here is the cars I've got that I'm not going to retail, give me a number on then. And if they've got good enough relative to what he gave in trade he took. Because I never knew what the market was. If he had a Chevy Store, he didn't really know what the market was. He knew the book values, but he may be selling afforded average when it's worth more than average, because there's a shortage in his local market or maybe the mileage is a little bit or maybe there's some option on it that he doesn't understand, because he's always using averages.

So, he is able to confirm it and you can do this in 55 minutes. the trader of application in the United States and Canada includes a self-inspection tool, where in three to five minutes, you can provide a comprehensive inspection including a video with the engine running now, where you can actually hear if there's something wrong with that engine, post that and within 55 minutes know the value of the car while the consumer, who is trading the vehicle and is still on your lot you don't even own the car. After 55 minutes, if you say that's a good value and it helped me get a retail transaction, you can have it, there is a five-minute run-off between number one and number two, the top better and second. We're saying this car is now available for purchase and number two can now be, and you have five minutes to resolve as their more value in the vehicle.

It's a fantastic tool of the cars listed. We're seeing similar conversion rates or success rates equal to what we get at physical auction. I won't give you a specific number, but I'll tell you it's

historically 40% to 45% of physical auction if you bring a dealer consignment car successfully sells. It's in that ballpark. So, it's really working well and it's the efficient low cost, and we're seeing them get more money for the vehicle than they're estimating on book value.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

How will we measure the penetration of trader and whether or not you are the most successful firm in that category? I'm guessing it's a winner take most market.

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

We think it's a market that will have, like all of our markets, there's probably room for two and not more than that, because are you going to log in to two apps to trend – you want to be more efficient. So, it's probably a winner take more. I don't know that's the most and the competition is very fragmented. But we have an unfair advantage that we'd like to talk about and when I say unfair advantage is being, we have assets we can offer than no one else can.

Our competitors tend to be startup technology companies that maybe get a little private equity money involved, being focused on local markets and try to expand it. But they don't have a transportation company. We own a transportation logistics company called Cars Arrive. We own a floorplan financing company. We can provide if you get a credit line, we can provide you an instant payment mechanism, nobody can. We own ADESA.

In the United States, not in Canada yet, we stand in the middle of the transaction if you're a seller of a vehicle, you did not need to know the creditworthiness or the viability of the buyer, because you have to know ADESA will guarantee you payment within whatever terms we agree 24 to 48 hours, we will guarantee you payment or when we get paid, we'll guarantee payment. But we also have done a credit check on who's buying. So, we're standing in the middle, making at a low risk financial transaction and we know none of our competitors today can do it, and we know there's only one other company can offer all that. And they're not yet in the business, which is a little scary by the way, that sooner or later they come if this works and that would be caught to automotive.

They have all of the same, but there's nobody else out there that has all of these tools and a national footprint, and that's why we think we'll measure, and we'll measure based on market share. Ultimately, how many cars are we selling? Now we're public and nobody else is. Maybe, we won't have clear information, but we know what the market's doing and we'll figure it out.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

And the last question just has to do with the future call it ride sharing economy. You can imagine a world, where we have car fleets and a ride sharing more so than cars owned by individuals. In that future, what role would ADESA play?

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

Well, we see it as a very active role, because our primary motivator for a transaction is miles driven, not ownership, not yields. So, what will happen is yes, you might have a concentrated fleet of vehicles, but they're going to drive more miles, because they'll be used more ride sharing concept as I can use the asset a greater portion of the day, right. I can share that vehicle. You'll have – I mean are you going to get in a car with 300,000 miles comfortably? Maybe or maybe not. Somebody will. But you might be me, who I want a newer vehicle, I want a car that I might be willing to pay for a better ride or whatever. They are still trying to change hands. They'll still move through the ecosystem of car ownership and so we see it as an opportunity.

Also, fleet operators are better customers than individuals for us, because they don't have the ability to deal with one car at a time, they have to deal with fleets, that's our specialty, if you wish to sell your car, there's a 100 options for you to do it. If you wish to sell 1000 cars this week, your options are severely diminished. You need to find someone that has the capital, has the financial backing, do you know that on any given day, I have to be willing to front $150 million in my used car business. On behalf of giving the sellers the money before I collect from the buyers. There are a lot of companies out there that know the business and that's one day.

Now here's the thing. I've grown to a size, where I actually have a net positive flow, but when you're starting the business, you are completely negative flow. You will have to pay the sellers before you collect from the buyer. So we have a lot of opportunity and the other thing is, we don't take risk on the transaction. So, we can keep our costs down. I don't have to put a valuation risk into my fee structure, because of the consigner; the seller retains risk on value. On a lot of advantages we can sell lots of cars. I'm out of time, the red light is flashing.

So, it's been great talking to you, but I think that's why you look at it there's a lot of advantages and that will not be a deterrent to our market. especially, if their fleet ownership versus individual ownership, because they sell fifty – that's 59% of the cars today that we're selling, are four fleet oriented companies.

<<Craig Kennison, Analyst, Robert W. Baird & Co.>>

So, that is all the time we have, but we're lucky to have Eric for a break-out session if you have further questions. Thank you very much.

<<Eric Loughmiller, Executive Vice President and Chief Financial Officer>>

Thank you.