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

Well good afternoon everyone. 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 salvaged cars and also offers floorplan credit to dealers. We're very pleased to have with us today Eric Loughmiller, the Chief Financial Officer and Executive Vice President; and Michael Eliason, the Vice President of Financial Planning and Analysis. We're going to begin with a presentation from Eric and then we'll have plenty of time for a fireside chat.

At this time, Eric take it away.

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

Thanks Craig. Can they hear me, yeah there we go. Just a quick introduction. They want to do this in fireside chat format, so I am not going to stand up. We operate in three major segments. We have a used car auction business called ADESA. We are one of two leaders in that business. We have about 24% market share. We operate on 67 sites in US, Canada, and Mexico. And the largest competitor is a company called Manheim owned by Cox Media which has 40% to 45%, they are not a public company, but 40% to 45% market share.

So we consider this a duopoly with the two of us combined having about 70% to 75% of the market in North America. We have a salvage auction business, which sells primarily total loss vehicles for the insurance industry. And the salvage business operates also in a duopoly. Us and a public company by the name of Copart, have probably about 80% of the market. We as an industry sell roughly 4 million units a year. We operate on 167 sites in the U.S. and Canada.

Interesting aspect, I will tell you a little more about the business as I go on. I won't do it here. And AFC is a floorplan financing business which is focused on floor planning, independent used car dealers. In addition they do provide floorplan financing to some of the dealers that are buying cars at the salvage business. And we do a little bit of business in the RV, boats, recreational vehicles, power sports, a little bit there. But not very much. It is substantially focused on the independent used-car dealer space.

Again, in this space it is a duopoly although this is a very unique niche market. We are focused on providing the floor planning to independent used car dealers so we exclude franchise dealers, but, again, Manheim has a captive finance company similar to this that is serving the independent used-car dealers like we are. And there the rest of the

competition very fragmented whether it would be credit cards, local institutions, financial institutions, et cetera.

In terms of investment thesis, one of the key concepts since I have only got a few minutes to introduce the Company before Craig gets into questions is to really look at what is happening in the used car marketplace. That is our largest contributor of adjusted EBITDA, our major performance and our largest contributor of top-line revenue. That is the used car auction business. 45 million cars change hands every year in the United States and Canada. That is really the market we are focused on. Of that 45 million cars, you are going to see something in the neighborhood of 13 million will be consumer to consumer for the younger people. You go on craigslist, you identify someone, you call them that's how you do it. But there is nobody in the middle of that transaction.

The remaining roughly 32 million vehicles are going to be somehow through a dealer connection or some professional connection. Of those, you are going to have at this point about 9 million units, the dealer is going to acquire at an auction run by ADESA or one of its competitors. The remaining roughly 23 million, they are sourcing direct purchases from other dealers, trade-ins from the consumer. They are going to source them in some manner where they get that used car without going through the auction network.

What is interesting about our business is we are in the big – I would say the early stages that has already begun, and the cyclical recovery in the used car marketplace. On this page, you can see we went through a period of call it recession, might have even been depression, where the volumes of cars that were being sold through our auction declined substantially from historical levels. This industry, the auction portion of this industry was selling between 9.2 million and 9.8 million cars for about roughly 15 consecutive years, very little volatility other than hundreds of thousands up and down and then 2008 occurred, late 2008 into 2009. It didn't affect our volumes quite substantially early on because there is a three-year lag between when a commercial vehicle, predominantly an off lease vehicle, is returned and been processed through auction. Because that is a major source of the commercial vehicles.

There is also going to be a lag between the time someone buys a car and when it gets repossessed if they miss the payment. Often that will be 6 to 18 months after the initial purchase. So we didn't see the real impact of what happened in the second half of 2008 until we got into 2010 and most substantially 2011 and 2012 as you see here. But beginning in 2013, we are seeing a recovery in our industry volumes and really this is predictable. We have good insight into this. It is heavily driven by the commercial vehicles. We have more cars coming off lease.

We have more new-car sales which are going to generate to the extent that they go to the subprime buyer in particular, or more repossessions. And then the dealer consignment, which makes up half the industry, is really going to be highly correlated to the trade-in of vehicles as they are buying new cars. And we all know that the new car sales have been increasing quite substantially over the last couple of years. So that is good for dealer consignment business. I am watching my time, Craig.

One of the moves we made in 2011 which has given us, in my opinion an advantage in the market, serving the marketplaces, we have acquired company called OPENLANE and integrated our technology with their technology. And we now are the primary supplier of the private-label closed sales platforms for the OEMs and their captive finance companies. General Motors operates – has operated through Smart Auction, which is owned by Allied Bank. So General Motors have their own solution. There is one foreign manufacturer that uses our primary competitor and there are two luxury brands that actually communicate directly with their dealership network for the closed sales and use the auctions behind it. All other brands, so there are roughly 33 or 34 brands in North America, 30 of those brands utilize ADESA for private-label closed sales. And this market is predominantly going to be the off-lease vehicles sold directly to the franchised dealer at end of lease.

In Canada, we operate the sites for every manufacturer. No exclusions, general Motors included. In the U.S., Smart Auction operates for them. So in Canada we actually have all of the manufacturers. The funnel we're showing here is why we are confident of our performance in this marketplace. Because as the off-lease cars are returned in much higher numbers over the – in the current year over the prior year and for the next several years it's an increasing number, because those leases have already been written and their termination date is already determined. We get a chance for five to seven days to sell exclusively on our platform with no competition.

First, we must offer 2 to 3 days to the franchise dealers. If it does not sell to the franchised dealers, it then is offered to our entire buyer base, independent, other dealers of other brands. They have a chance to buy it. After five to seven days, the grounding dealer insist that that car be taken off of their lot because they had the choice early on to buy that car at residual value, contract value. So now it moves to physical auction. The reason this is exciting for us is we get 100% of those vehicles to sell. When it gets down to the physical auction, our share of the off-lease cars is roughly one out of every three comes to an ADESA site. Two out of every three go to a competitor. So you can see the tremendous advantage we have by having what we call the top of the funnel.

This is a major topic when I discussed this with investors who have followed us for a while. Craig asks a lot of questions about it. What is the impact? The major issue our industry is facing is there, has there been a secular change where the cars are not going to make it to the bottom? And the reason being my revenue per transaction at the top of this funnel is significantly less than what I generate at the physical auction. And you can see that on here. On the auction fee side you are looking at the very top of the funnel, something roughly$100. It goes up when you get to the online only open to three times what it is on the private-label close. And my transaction gets to a much higher number nearing $400 in many cases at physical auction. And at physical auction on that same car, I can do anywhere from $600 to $800 in ancillary services that are not in the auction fee revenue. So a much higher revenue opportunity if it gets to physical auction. This is receiving a lot of attention from investors.

Real quick, let me conclude by telling you just a couple of facts. The salvage business, values remain quite strong. There is a real demand for this because the only way they are going to afford to fix your fender bender if you have an insurance claim is using aftermarket recycled parts. Otherwise, it becomes too expensive for the client. So there is a heavy emphasis and you can see and many of you may follow the company LKQ. They talk about this all the time. About 40% of parts used in the collision repair industry right now are aftermarket recycled parts. So that's a way to keep costs down.

We have plenty of demand for whatever supply comes out of this. An interesting statistic I share with investors is out of every insurance claim received, one out of seven results in a total loss. What that means is that one car must supply the parts to repair six others if the claim results in a repair. That's, as I say, a pretty good ratio for the economics of our salvage business. And we sell millions of cars – and 4 million a year are coming out of the salvage industry, which tells you how many cars are being repaired. In rough numbers, that would be somewhere in the neighborhood of 25 million a year. Now you get into again is the part available on time.

There are a lot of manufactured parts. Very interestingly, the lowest cost part for that repair and the highest margin for both the collision repair shop and the provider of the part is the aftermarket recycled part. The manufactured part is more expensive and has less margin for every player in the supply chain to get it into that vehicle. So that is why there is such an attraction to this marketplace. And on the floor plan lending business, the average loan is less than 60 days in duration from inception to payoff.

The maximum term is in the 90 to 120 days, they can't extent beyond that and each loan is per car. There is a – we retain the title as collateral. While we give them a credit limit the loan is not a revolver. When they sell that car they have 24 to 48 hours to repay the loan. If they extend the loan, they must pay down principal; pay additional fees to extend it. It is car by car. It is not a revolving line of credit. And this is a great business and it has been a top-performing business. And we are actually have been for the last several years 99% or more current on the entire portfolio, which currently is over $1 billion in size. And it has been over 19 and that means over 99% of loans are not even do, they have not even reached the maturity before they are paid. So that is a fantastic business. So Craig, I give you 16 minutes and 31 seconds to ask questions.

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

Well done. So we do have a moment in time for our Q&A if you have questions. Feel free to raise your hand and ask it. If you'd prefer to send it to this device, I can read it for you. And I will kick it off with a high-level question on technology. Over the course of the last decade we have seen the Internet come in and play a huge role in this space. What is it doing for you today and what are some of your investments you are making to make technology a part of the future?

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

Well, the great part of technology is it gives access to a broader buyer base and when you are dealing in an open market like we create a market for the buyers and sellers to transact. We do not take principal risk on the vehicles. We don't participate in the value of that vehicle. We charge a fee for getting the buyer and seller together. And with the Internet, and the ability, we can increase the liquidity in the marketplace and all of you are investors, you know what that means.

More liquidity allows us to have a better pricing based on supply and demand equations. So providing greater liquidity is high – providing higher returns to the consignors, providing more opportunities for the buyers. A buyer sitting in Chicago can be buying today in our Indianapolis, Kansas City, Cincinnati auctions, can be buying online from cars that are in any city where it is reasonable to transport the vehicle. They have a greater opportunity to choose what inventory will best meet the need of their retail consumer. The consignor loves it because I am expanding, if you go 20 years, it is whatever – whatever dealers could get to the site and buy the car that day. I have a lot more discovery that can occur, a lot more interaction.

We are investing over half of our CapEx per year which I didn't cover those details because of the short time, but last year we spend about $97 million, we have provided guidance in our last earnings call that this year is estimated to be $015 million, over half of that capital expenditure is into technology because the technology is the differentiator in the marketplace, it's how we bring them together. We're very focused on mobility. You can now stand in the lane, and confidentially be bidding on the car through your mobile device. As opposed to raising your hand and having everybody say, that dealer makes the most money in my marketplace. I am going to buy, I am just to outbid and buy one bid on every car because he makes so much money. And there must be one more bid and that for me and I can make money.

While, they can do things like that, but they can also be standing in the lane in Indianapolis and bidding on a car in Kansas City, simultaneously. When we run these auctions in the used car marketplace, we sell our car in each lane every 45 seconds, every 45 seconds, and we are running in Boston, we run 16 lanes simultaneously. In Indianapolis, its 12 lanes, ten are usually running, but sometimes up to 12, Kansas City, its 8 to 8, Dallas over 12.

This is a is a fast-paced business and I am not running the Chevy Malibu here and I make sure there is no other Chevy – I mean it's any car going through and it's at the speed that they can operate. This is a high volume transaction based business technologies critical to it. When I am in the lane, I can see whether it's an Internet buyer or a live buyer. So I know who I am bidding against. And it is very transparent. So it is a great system. Technology is really important. It increases the trust in the system, it increases liquidity, increases the transparency and I think that is all very good for us.

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

Thanks. And another question on a new development in the industry, multiplatform remarketing. Maybe you can explain what this is and what you are doing as an experiment in this space to partner with Manheim and market vehicles?

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

Well dealing with competitors is a difficult process, but we have some customers who have come to the industry and said, we would like to have our cars offered to every buyer in the industry. Now there is an argument as to whether there's that many buyers that aren't transacting with the two major players because basically we all use something called Auction Access for registration. So, if you are registered on an Auction Assess, you can walk into any of our auctions and in theory by cars. But nonetheless, a couple – it is a very small number at this points, of consignors have asked that when they list a car that it be made available to any buyer on any of – whether it would be independents, Manheim or ADESA.

And we have agreed and are participating in the development of the technology solution that might – initially offered the listing of cars and ultimately offered the opportunity that you could bid through anybody's online site on any car no matter where that car is being offered. It right now is in development of technology. We expect a pilot to be issued, perhaps by the end of this year. And there's really not much more to talk about because at this point it is really the development of the technology. There is not much more to say about how it is going to work beyond that. So we are at the seat – we have seat at the table. We are very interested in how this affects the transactions, the economics and all that, but we really don't have any more information than that. And we are going to sit at that table to not only participate, but to protect our interests as well.

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

That's great. Getting back to that funnel slide, you noted that the economics continue to get better, at least the revenue per car, as the cars trickle down that funnel. A lot of people are focused on what franchise dealers are doing. They have an insatiable appetite for their own volume and, as such, a lot of cars are transacting at the top of the funnel. What gives you confidence we will see more cars trickle down the funnel as supply grows?

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

Well, a couple of facts. Number one, in the first quarter of 2014, CPO sales for used cars were up 15% year-over-year, how long can that continue. What is the level of the insatiable appetite of the consumer to buy a three-year-old vehicle? And is off-lease vehicles. So a three-year-old vehicle would say less than 45,000 miles on it, generally less than 40,000 miles on it. Yes, at some point some of those consumers will say a new car is an alternative. I had just as soon have a new car. And in some cases it becomes expensive for the CPO car and they are going to go down and buy the five-year-old, the seven-year-old car that is not quite as expensive without the warranty of a CPO. So first

and foremost, there are more cars coming off-lease, therefore there is more supply of vehicles.

Our position and we really believe strongly in this is at some point there are more cars than they can buy even if they intend to increase their share of that marketplace in terms of the franchised dealers selling the vehicles. And only franchised dealers can buy in the private-label closed sale. In the open sale online before it gets to auction, perhaps the dis-intermediation of the physical auction marketplace, but there the fees gets higher, my market share in that is high enough that I would believe that that will be beneficial to ADESA if more transactions occurred in open. That is not yet happening. They are all getting caught at the top of the funnel in the private-label close sale.

So our belief is and I have statistics if I had a chart, which is not in my deck, the number of lease terminations that will occur in the current year according to CNW is about 300,000 more in 2014 and 2013, it is 700,000 more in 2015 and 2014 and 500,000 more in 2016 and 2015. So our basis is what's that many cars coming off lease with residual values being set at a high dollar amount, which is what kept those payments low, which is what permitted the high SAR and the high lease penetration rate over the last three years is going to cause more cars to get down this funnel because there aren't going to be more franchise dealers that we are confident in.

There is no emphasis on expanding the franchise dealer network. So we really believe this. Now, you said something. The economics may not be better at the bottom of the funnel, but at the top of the funnel, they're different. At the top of the funnel, I have my highest gross profit, I have my potential for the highest leverage into my EBITDA margin which is what we measure. The difference is like revenue pro transaction is so much lower. But if there were a lot more transactions there and I could adjust some of my – I could probably make that work, the difference is I have such a higher revenue, so better – define better.

At the bottom of this funnel, I have my highest revenue but I have my lowest margin ancillary services. So I wanted to define better. Be careful that, in our view at this point there is more EBITDA dollars per car sold at the bottom of the funnel. But I want to be careful not to characterize that as better because I do get very high performance on a margin basis at the top of that funnel, I just get less revenue dollars. And the question is the assumption everybody makes is I can't change that. I believe if the buying patterns of the dealers change such that they were buying more cars up there, there would be reason to believe it would be a higher value transaction.

And over time, the industry would move that pricing up. Over time. I am not committing to that. I am just saying only if the pricing stays the same would the economics be better at the bottom. Right now I have no proposal to increase those economics because it is a small portion of the marketplace and we have the chart that I showed you here on the – here is where I am projecting out the three or four bars to the right. That little reddish-brown at the top is the online only. The rest of it is at physical auction. It is still a very small component of the industry.

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

We have a question from the audience on market share. Got a substantial share already, how much higher can you take this market share in other regions or categories where you are underrepresented?

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

The industry is clearly interested in better balance in our opinion in the used car marketplace. Not that anybody's market share is too big, but better balance creates greater liquidity. Greater transparency. In the salvage industry, if I go back to 2007 before insurance auto auctions was part of the creation of car, insurance auto auctions had market share that was somewhere probably in the low to mid 20s of the market. And Copart was significantly bigger. Probably not unlike what we have at ADESA. We are now roughly 40% each. Copart acquired a company last year called QCSA that probably gives them a little bit more share than us temporarily, but generally speaking we are both right around 40%.

And both of us will tell you it’s no longer a market share gain, it’s a performance gain in that industry and the insurance companies are realizing the benefit of that as we are competing to get the highest returns for the insurance carriers, because if we compete for the highest fees for us and the insurance carriers lose, we will lose in the long run. So it is really about how you and get the highest return for the insurance company, and it is a very responsible duopoly but a highly competitive marketplace. So we believe on the ADESA side, we aren't predicting that we could be at the same market share. Maybe we will, maybe we won't. But we do believe better balance between number one and two because the industry has agreed there is a one and a two and there is not a number three.

There is a bunch of independence. There is nobody out there in the used car marketplace that can represent 2% of the market other than the two top players. It’s very fragmented beyond. There is a conglomerate of independents called Servnet that is 32 I think independents now. But they are just trying to pull resources to compete. They are not single ownership. They do not serve the customer individually so there really are two players. But the rest of it is fragmented so I think there is real opportunity on the used car front. I think the market share game on the insurance auto auction front has played itself out and we’re fighting each other give and take more than there is going to be significant moves in market share there.

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

And...

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

When I said that but I will not lose the opportunity to tell you, we are only selling 4 million of the 13 million cars that are going out of service annually. We may have fought the market share gain, but now we are looking for more share of the total cars that are taken out of service as an industry. There is still gain there on the volume side, but it will come from getting more non-insurance vehicles that are no longer operating on the road to be realizing of value. We can sell on behalf of any of you who have a car sitting in your drive that doesn't operate, get my number. I will arrange for an auction to call you. Because if you have the title, you could actually sell it at a salvage auction and we would give you the proceeds less the fees you owe us, and you can turn that junker that you think you are going to pay a couple hundred dollars to get hauled away, you might turn that into a couple hundred dollars cash for a Friday night out on the town. Who knows? That is my marketing for today, Craig. What do you think of that?

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

I think you have got the...

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

I sound like a used car salesman don't I?

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

I think you have got the wrong audience, but...

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

No, you never know. If any of you have teenage kids you might have that someday. A car that they ran into something and they aren't going to fixed.

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

Well said. So with a limited amount of time I am going to combine a couple of questions. One, talk about what your free cash flow expectations are. How much visibility you have given the graphic we are looking at behind you and then talk about your priorities for cash including international opportunities? All in two minutes.

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

All right, we generate a lot of free cash flow. In the current year we provided guidance in the earnings call on Tuesday and I will let you read the transcript. I am not reiterating that guidance, but I will repeat that we expect $309 million to $319 million of free cash flow on the current year on an adjusted EBITDA. And the adjustments are predominantly around non-cash items such as stock-based comp and some non-recurring items of which are fairly nominal right now. I mean most of it is – one of the adjustments is – the interest paid on the AFC portfolio is not to us corporate interest. So we are actually reducing our

performance for the interest on the securitization because we think it should be a reduction of revenue because it is a net spread business.

So they're not all positive adjustments. But nonetheless, from $580 million to $600 million of adjusted EBITDA that translates into $309 million to $319 million of free cash flow after cash interest, cash taxes and CapEx. That number is up slightly. I have a significant increase in my cash taxes this year because I have been able to avoid paying taxes through NOLs and some tax planning over the last six years and now I am coming up to a more normal tax payer. So the growth in that number will not be the same year-over-year as it was for 2014 over 2013. And so I expect growth, I am not going to give you any guidance, I am not going to give you a forecast, but our trend has been we've been able to grow our free cash flow every year year-over-year and I think there is an opportunity in the market with a cyclical recovery at ADESA that we can continue that.

Our priorities are to take that free cash flow. We are paying a dividend of $1 per share, per year. It's approved quarterly at $0.25 but we have committed to that dividend level as being what we expect to do over the course of the year and we would expect to grow that as our performance grows and as our stock value grows. So that's a $140 million right now of commitment of that free cash flow to return to shareholders. Beyond that we are always looking at strategic growth opportunities, acquisitions, investments and new locations that can be significant that are beyond our CapEx needs on an annual basis. Technology investments like when we bought openly and things like that. We are also though looking at what's the right return to shareholders, if we don't have needs. We have a recurring free cash flow generation.

We can do multiple things. We are also evaluating whether there are other opportunities that we would take advantage of to enhance shareholder value as we go along, but nothing has been decided because we're measuring them all on a regular basis and we have made no announcement other than our commitment to a dollar per share dividend on an annual basis, which by the way is about 45% of our current free cash flow. We have stated in the call on Tuesday for the first time given the low interest rates at this time, we do not intend to repay debt as we generate cash. As our EBITDA grows you can see our net leverage decline if we don't do anything to increase that debt. At the same time, we are not going to repay debt other than required principal payments which are very nominal.

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

So, really, if you like cash flow if you like a lot of visibility and you like really high-quality company in an oligopoly, personally I think it is a great opportunity. So with that I will say thank you and management will be available for presentation – or Q&A just after this.

<<Eric M. Loughmiller, Chief Financial Officer & Executive Vice President>>

Thank you.