KAR Auction Services, Inc.

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Eric Loughmiller: Good morning. I am Eric Loughmiller, the Chief Financial Officer of KAR Auction Services, and pleased to present today at the Barclays High Yield Bond and Syndicated Loan Conference.

Let me tell you a little bit about our Company. We don't have high-yield bonds out there right now. We just redeemed our last floating rate notes that were issued in 2007, earlier this year. But we have a $1.8 billion of term loan B. And the nature of our business with strong free cash flows, we like to stay in front of lenders, because over time as we look at things you never know when the opportunities arise for us to access the markets.

So, let me start by giving you a brief background about KAR Auction Services. First and foremost we are the aggregation of three distinct businesses, each of which operate in responsible duopolies in their marketplace. ADESA is our largest business segment in both revenue and contribution of adjusted EBITDA, and that is a whole car business or a used car wholesale auction business. So, we think of those cars, they call them in the industry straight cars. These are the cars we all drive on the roads today. This is the used car marketplace. We compete there with a major player who is quite a bit bigger than us. Mannheim has between 40% and 45% market share. We are currently at 23% market share in that industry.

Insurance auto auctions which is based in the suburbs of Chicago, Westchester, Illinois, is our salvage auction business. Now these are the cars we used to drive. A majority of these cars are total loss vehicles processed by the insurance industry. So, when someone's in a accident and they declare the car a total loss, it will be sold at an auction. Here we are a co leader in the industry with a public company, Copart, where we each have 35% to 40% market share.

And then AFC, Automotive Finance Corporation, is a floor plan lending business. And by that what we are doing is lending money to independent used car dealers. We are providing the financing for the inventory that sits on their lot that they're trying to sell to you every day. It's a floor plan finance business, a very high margin business. There, while there's a lot of different types of competition we do not loan money to the franchisee dealers. They have captive finance sources for that. We're really looking at the independent used car space and there is one other competitor owned by Mannheim that is -- Next Year Capital is their name -- that is competing with us directly in this space.

Our marketplace is really defined by the number of cars on the road. And that's what this wheel represents. There's about 273 million units or vehicles on the road in North America, US and Canada is what we focus on. There's 15 million to 16 million new cars

sales a year. Those are sales that will go onto the car park as they are new cars entering the marketplace and there are about 13 million cars a year that go off the car park. Those would be the total loss vehicles I just mentioned. Cars that are inoperable that aren't processed by the insurance company, cars that you just decide not to operate any longer. Some of these vehicles might come back on the road. They might be in storage because someone no longer needs the car. I think of this, my nephew has just returned from Afghanistan. He did not reregister his car while he was in Afghanistan with the military. Those are the types of vehicles that may come back to the road. But generally about 13 million cars are not reregistered when their state registration comes up for renewal. Of those, only 3.5 million to 4 million are being processed by our auctions. So, keep that in mind when I discuss insurance auto auctions. You'll hear a little bit about what we're doing to try to identify more of that 8 million to 9 million that are not coming through our auctions.

And at the bottom of this chart you'll see these are the used cars -- there are 43 million cars on the road that change hands every year. Those are US and Canada. Of those 43 million, 12 million are consumer to consumer. So, think of Craigslist, eBay Motors, someone lists the car on their own behalf and tries to find a willing buyer who will buy that car from them directly, not utilizing any type of car dealer. Then there are 31 million transactions where a car dealer is in the middle of that transaction. Of those 31 million transactions, about currently 8 million to 8.5 million this year but 8 million to 9 million generally every year are automobiles they put on their lot through our auctions environment. In other words they are coming to auction to identify and purchase inventory for their lots.

The other 20 million to 22 million that you buy, they took in trade or they purchased directly from a consumer or they may have gone to a wholesaler who bought the car with no intent to retail it and sold it to them through a wholesale transaction. This is the marketplace we operate in. You can see the green boxes are where we're sourcing the vehicles that we're sourcing at our auction. How do we make money? This is an important slide. We make money by charging fees for our services. We charge the seller to sell the car. We charge the buyer a fee to buy the car and any work we do prior to sale, we do body work, mechanical work, transportation, we recondition the cars, we clean them, we detail them. We charge a fee for each of the services we provide from our auction locations. We also do things after the sale. We do post-sale inspections. For some of our independent use car dealers we are doing the prep work so they can put the car on the retail lot and find a consumer who's willing to buy the car. That's light body work, light mechanical work. We replace windshield. Ironically a lot of cars end up with not enough keys. We actually manufacture keys, we have the license to do what they do at the factory. We can produce those high tech clickers that can start a car with the push of a button. We have all of the licenses necessary to do that. Believe it or not that's an expensive proposition if the keys aren't there.

So, we do all of this work and we provide financing in the after market for the used car dealers. The key concept here is we're not generally taking risk on the principle value of the vehicle. We are a business services Company. We make a fee for providing the marketplace, not taking principle risk by buying the cars. We do purchase some vehicles in our businesses but it's a very small percentage of the cars in which we are involved in the transaction.

Who do we do this for? We do this for about everybody. We have over 150,000 registered buyers on our platforms. They come from over 100 countries. People that are interested in buying cars. A lot of the international demand is in the salvage space where

they're buying wrecked cars either to repair or to use for parts in their marketplace, whether that be in -- Mexico is the largest but behind that are several African countries have become active in this marketplace where they're importing wrecked cars, repairing them, arbitraging labor rates to put a domestic vehicle on the road and they also may not have the same focus on safety that we have and they may be removing airbags, sensors, and things like that that are required in the United States.

The sellers of the vehicles are every OEM, every captive finance company, every rental car company, and every insurance company, as well as all the dealers who might be wholesaling their inventory, whether it be age, something that didn't sell in their local market. So, virtually everybody that's in this wholesale marketplace will be utilizing us.

Why is this an exciting business to be in in 2013? Well, it's exciting because we've gone through a very difficult period of time in the auto businesses -- auto related businesses through '08 and '09. We have a low new car sales number, low lease originations, and we are entering a period that we talk about all the time. It's a cyclical recovery. The number of wholesale cars that will be sold at auction will increase in 2013. I don't even have to say it's expected to. They are increasing. The reason they're increasing is our marketplace is determined by activity that occurred two and three years ago. Those new car sales that were leased, when those cars are returned to the dealers a residual value was determined. That residual value ironically is higher than the current wholesale value generally across. That was not the case in 2011 when the residual values were set in 2008 and the residual values tended to be lower than the relatively high wholesale prices. So, we're in a marketplace where more cars are going to come to auction.

We're also in an environment where repossessions will increase. Despite the fact the economy has not really gained ground, we've seen a reduction in car repossessions that is not expected to continue. Why? Because there's more new car sales. When I go to our Indianapolis auction what they're really proud of is first payment defaults. Believe it or not people buy a car on credit, the captive finance companies provide that credit and they do not make even one payment. By the way, those are very attractive cars. They tend to have 1,000 miles on them. They're not new and they're sold in the used car marketplace. And there's early payment defaults. We sit in these meetings and we -- what? The defaults are a reality, particularly when we're taking this sort of 15.4 million units sold this year. How do you do that? You provide credit and when you provide credit we do get repossessions.

The good news is discipline in the industry is very strong. You missed that payment? You've probably got 10 to 15 days before that car's gone from your driveway. The value of that collateral is so strong, let's get it to our marketplace and our marketplace is where they can prove they had a viable commercial market for selling the car because we have hundreds if not thousands of buyers online and in person who are bidding on the car to give it its best value. We're really looking forward to the next few years, not for the repossessions, believe me, but for all the cars that are coming back to the marketplace. And it will be an exciting time for ADESA.

We acquired in 2011 a company called OPENLANE. It was an online only provider of auction services predominantly for the captive finance companies and the banks that did leasing. About 90% of their vehicles sold were off lease vehicles. ADESA participates in this marketplace and what we've done is we now represent over 90% of the off lease and other cars marketed through the online only channel. These are the virtual auctions where there is no physical footprint from which the car will be sold. It's sold from the dealer lot when the dealer did not buy the car at the end of lease. It's sold from the rental car

Company's airport lot when they're taking a car out of their fleet. They may attempt to sell that from that lot without moving it to an auction location and this is a great business for us. One of the concerns everybody asks me about is -- Is this going to cause you to have all this excess land from all your physical auctions that you aren't utilizing? The answer is no.

The marketplace has typically five to seven days to sell the car from the time it LAN distribute wherever it lands. That's not a lot of time. If it's a one to three year old off lease car with less than 36,000 miles on it, it can probably sell in this venue unless it's been wrecked, has a big dang in the bumper or whatever that needs repaired. But most of the cars aren't in that condition. Most of the cars need to be grounded, marshaled, and will take anywhere from the time that changes hands, 25 to 45 days. So, there's still a need to marshal the cars, to provide services to do repair work. The difference is this is an efficient market for making the car available when a buyer, a dealer -- because it's a B2B business -- needs inventory for a customer who comes in this coming weekend. Memorial Day weekend there will be a lot of sales. Some will say I'm looking for a car in this price range. He doesn't have to have the inventory. He can go online, have virtual inventory, say I can have this car here by next Wednesday.

In conjunction with OPENLANE we have a transportation logistics company where we basically match up the transporter with the person buying the car or moving the car and we subcontract all the transportation out. But it's a technology solution that matches them so they can fill their trucks more efficiently and make more money by moving cars across regions, within areas, whatever their market is. So, it's quite an exciting purchase we've had. We've integrated the businesses and we're very pleased with where we are. It is now integrated with ADESA and it's ADESA.com, one site. We've increased the number of unique visitors to the OPENLANE site and the OPENLANE site is now ADESA.com. So, any ADESA customer looks at the OPENLANE inventory if they can buy it and any OPENLANE customer has access to much more significant inventory levels offered by ADESA.

Now let me talk about the salvage marketplace. This is just a steady, growing, strong cash flow market. It's not as volatile. It's not based on used car sales. The more we drive, the more we wreck. That's just the facts of life. Insurance companies insure your vehicles and believe it or not the more technologically advanced your new car is, the more likely it is to be totaled with less physical damage. Those sensors and those airbags are very expensive and it doesn't take much to damage them. Accordingly the insurance companies, despite all the commercials -- GEICO is nice but they're focused on an efficient marketplace for repairing the vehicles. And what you'll see on this page is the reason there's such strong support for salvage vehicles is because about -- as you see we've grown in the lower right-hand corner. We've grown up to the mid-30% of all parts used in collision repair are after market recycled parts. Alternative parts. They're taken off of damaged cars. About 14% of all wrecks results in a total loss.

So, think of it this way. For every 100 cars wrecked about 15 get totaled and supply the parts for the other 85 that need repaired. This is a marketplace that has strong support on pricing and if you don't use an after market recycled part you're going to use an either OEM part or a manufactured after market part, both of which are more expensive and both of which are manufactured after new car production. So, again, they weren't made to go into that car. They're made to replace parts that were in the car. This is how claims costs are being maintained at lower levels is by using after market recycled parts. Strong demand.

In the aging car park, the average car on the road was about eight years old. It's now over 11. When you drove in today, if you drove in or if you drive in your city, if you're here on an airplane, look at the age of the cars. You can tell they're older and you know what? They need repaired. There's nobody manufacturing new parts for an eight year old Ford Taurus. They discontinued the model. You have to go to these marketplaces and find the parts. It's quite an exciting place to be. Steady growth. Won't grow as fast as the ADESA business in a cyclical recovery but we're very pleased with the growth levels here that can be sustained.

Now let me turn to one factor. We were impacted by Super Storm Sandy. This is pretty much becoming old news. But we processed over 15,000 cars that were damaged during what was a hurricane and is now known as a super storm and we incurred a loss. This is the first time we've incurred a loss on the processing of vehicles due to a catastrophe and we've been doing this since the early '80s in the businesses we've acquired. And what was so unique here was the geography and the infrastructure in place basically in New York City and Long Island. It's the most expensive property with the highest flow cost, the most difficult -- we had to cross bridges, tunnels, everything. You had restricted road access. It made it a very expensive proposition.

However, that's through the end of Q1. That's behind us now. And our goal is to quit talking about it when we announce Q2. We had just a few thousand cars remaining to sell and it was moved quickly. So, that effected our results but not long-term. It's not a damper on our performance. And we've been going through -- we're responding in Moore, Oklahoma this week. And last week we've had hail storms through the Southeast. This is a unique event that got a lot of attention on the news networks. They're happening every day. We have been in volatile weather patterns all spring through different parts of the country and those are the cars we'll be processing and by the way we make money doing it outside of New York City.

AFC is an attractive floor planning business. We generate -- currently we're nearing 70% EBITDA margin on this business but generally it's over 60%. The reason is it's short-term financing, typically 60 days or less for inventory that is sold by an independent used car dealer. We operate in the field. We do lot checks. We're very close to the collateral in this. We hold the title as collateral and over 80%, way over 80% of the vehicles we're flooring are bought at auction and the auction tells us it's the real value. It's not a book value from six weeks ago. It's today's value when they floored that car. It's a very attractive business, very low loan loss activity. We are the lifeblood to the inventory for the independent used car dealer and so -- you know what? They have to take care of us. It's a very good business to be in.

More importantly we're seeing these customers either at an IA auction where they're buying a damaged car or an ADESA auction where they're buying a clean car every week. These are people who are coming in -- we see changes in behavior. We see when they show up and when they don't show up. We see when they're buying more cars and when they're buying less cars. Are they flooring with us or flooring with our competition? We have a lot of insight into the activities of these customers and we're in a great position -- a better position than banks and financial institutions because each loan is on the individual car. We do not give lines of credit. We give them a line but each loan is on the car and our interest in that loan is registered through a UCC filing, a blanket lien typically or some type of device depending on the state. But we protect our interests and we hold that title which is required if a consumer buys the car and finances the transaction. They have to produce the title to get the money. Therefore if they're going to sell that car, we're

going to know about it typically because a significant percentage of car transactions in the United States and Canada are done through a financing vehicle.

This is a business that will continue to grow. It will benefit from the cyclical recovery at ADESA. As I said, over 80% of the cars bought at auction, well, more cars are going to be bought at auction over the next several years. So, they will benefit as I say, a rising tide floats all boats. This is one of the boats that will be floating because they just will have more transaction volume as a result of our focus on the independent car dealer buying the cars at auctions and floor planning it.

In terms of expansion we'll continue doing what we do and that has typically been well received, especially by the debt markets. We generate very strong free cash flow off of our businesses and it's consistent. Despite the pressures on our business in '08 and '09 we were able to grow our EBITDA and grow our free cash flow during that same period. For $2 billion of revenue, our CapEx is relatively modest. So, we'll continue investing in our infrastructure at the pace we are doing now to keep it running but it doesn't require a big investment of capital. In fact, in our earnings call on May 2 I indicated our CapEx for this year is expected to be about $95 million. On revenue last year was just under $2 billion. That gives you an idea of the investment we have to make.

There are some areas for longer-term growth that we think we can do in an asset-light fashion. First, we can expand into adjacent space. We're looking at things like heavy equipment. We own a heavy equipment auction business in Canada that's relatively small, utilizing our physical space and holding auctions around the country. They move around. We're selling motorcycles, recreational vehicles, power sports boats. Those are the types of things we stay in adjacent space. We like things with record of ownership that are portable and can run in and out of the auction and not sit there for a very long period of time.

We can also expand our reach to consumers. When I describe our value proposition it's basically we guarantee check and guarantee title. What I mean by that is in the B2B space when a dealer wants to sell a car or a commercial consigner sells a car they don't have to worry about who they sell that car to. We guarantee the payment to them. They don't have to worry about ADESA or insurance auto auctions or KAR. What we do is we guarantee the check to the seller in typically 24 or 48 hours. They don't have to worry when the buyer buys. What's the buyer need? The buyer knows if they buy the car from us they will be guaranteed a title. So, if they sell it to a retail consumer the transaction can be completed. And that's more important than you'd think.

So, think now about the consumer space, the 12 million units sold consumer to consumer. If you were listing your car on Craigslist, there are probably two things you worry about most. One is who's coming to my house to see the car? Do I really want them here? I don't know them. And two is -- is their check good? I doubt they're going to walk in with cash. Guess what? We have locations that are objective neutral, handle cars, have security. We have been studying and we're doing pilots right now as to whether this would work. We can provide an opportunity for that to occur away from your home. And by the way, with our banking relationships we can guarantee that check as well once we know who is buying that car.

We can also process the title. We're registered with all the DMVs. When you give us that title we can tell you whether it's a legal title or not. And by the way, don't accept a copy of the title. It doesn't work. You've got to have the original except in two states. Washington and one other do online titles. Those might scare you a little bit. The reason

there are not more online titles is the concern over fraud. You need the title with the state seal on it. So, that's another.

Our last opportunity is an asset light entry into international markets. It's in our various 10K, it's in our S3 and S1 filings and all the different filings we have that at some point as we delever we believe we can enter new markets and provide new opportunities to do what we do in markets that are less organized than the North American markets. In particular where there's a lot of leasing and mature used car marketplace. Those are the markets we're looking at.

In terms of our financials, steadily growing revenue despite significant pressure on our business, steadily growing adjusted EBITDA, and we're about to enter a cyclical recovery where we think we can improve on our performance at rates greater than what we've experienced the last couple of years.

Our year to date performance -- well, this is 2012. Here's our first quarter. We've been able to grow revenue. We've grown adjusted EBITDA slightly, adjusted EPS where we take out some of the purchase accounting from the LBO and we take out stock based compensation which can be very volatile. We were flat again in a year where we believe our growth will be much greater than we've experienced the last couple of years and I'll refer you to our earnings release from May 1 where we provided our guidance on adjusted EBITDA and the cash taxes, cash interest paid, and capital expenditures for the year. But those were provided at that time.

In terms of our capital structure, we're about 3.5 times debt levered total. You see on here the $150 million of floating rate notes on April 3. Those were redeemed. We repriced our term loan B in March and upsized it by $150 million utilizing the entire proceeds to redeem the $150 million in floating rate notes that were due in 2014. So, we're 3.5 times our stated goal which was on every conference call this year. We will get to three times or less levered by the end of the year. That's our goal and we're working hard to get there. We believe being less levered does not mean we do not enjoy leverage. We do think if we're less levered we will look at opportunities for growth differently but the equity markets have tended to want us to be a little less levered than we have been and we think it's reflected in our value and at three times or less we'll have more flexibility. We are comfortable with debt. Without a doubt. We're comfortable with using debt to grow our business. So, again, that will be something we focus on once we get to three times or less. We won't be afraid to bring that number back up around three times if it gets below that.

And that last thing to highlight for you and I'll be able tot maybe take one or two questions is free cash flow is the hallmark of this business. In our May 2 earnings call what we talked about is adjusted EBITDA is expected this year of $535 million to $540 million and that will result in free cash flow for the year of over $275 million. You could see that's up from last year. Over $275 million. What are our priorities for using that cash? Number one, pay down debt. We are currently paying down debt to get to that three times. Number two, to provide a return to our shareholders through a dividend. We're currently paying a $0.19 per share dividend quarterly and then the remaining cash flows we intend to utilize for opportunities to expand our business and grow profitability as we look at those opportunities. That's our priority on our free cash flow.

I see I have just a few minutes left. So, if there's any questions, I could take a question or two. And if there's not, we can move on to the next meeting. Thank you, everyone, for your attention today and I look forward to seeing you in the future if we're accessing the high yield markets again.