KARAuctionServices

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Matt Fassler: Good afternoon. I'm Matt Fassler from Goldman Sachs. And as we kick off this afternoon of the first day of our conference, it is my pleasure to introduce members of the senior management team of KAR Auction Services, and then to moderate this fireside chat with all of you.

Sitting to my far left is Eric Loughmiller. Eric is Executive Vice President and Chief Financial Officer of the company and has served in that capacity for slightly more than the past 10 years. Sitting directly to my left is Jim Hallett. Jim is the Chairman and the CEO of KAR Auction Services. He has been at the company most of the time since 1993, a brief period midway through running an auction business in Columbus, Ohio. But he has been CEO of the company for the past 10 years. And I think it's been a very good 10-year run for the industry and for this business. And we've seen, I think, KAR Auction Services which as you know is one of the leaders both the whole car auctions and salvage business; innovate significantly. And we can certainly talk about that.

But I recall when we worked on your IPO back-- I guess it was 2009-2010, all of the threats to the sector that we had considered being the paranoid analysts that we are, and you sort of subsumed all of them. And you're now really on the offensive in most every element of the business, which has been very good to see.

I'd like to start off with a big-picture question that relates to the whole car business. So there is, obviously, a cycle of supply of whole cars on the marketplace, tied largely to off-lease, but also to other pieces. Can you give us an updated sense of where you are in the cycle?

Jim Hallett: I think in terms of the-- I guess where do you want to start with? With the volumes, I would say with the volumes that have come to market, the market has been driven primarily by these off-lease vehicles. If you think about leasing and the leases that are being returned to the market, we're going to see probably about 300,000 incremental leases returned to the market in 2017. And there will be another half million units returned in 2018. And then we have visibility right through 2019, where we'll see another 400,000 or 500,000 leases returned to the market. So there's no question there's an oversupply of these off-lease cars that are coming.

The other segment that we're seeing growing strong is we're seeing the repossession segment continues to grow. Consumer credit is pretty much in full swing, as I say. At the start of the recession, we've seen repossessions coming back in the order of 2.2

million vehicles on an annual basis. And then with the recession, we saw repossessions drop down to 1.1 million when the vehicles weren't being able to be financed. We're seeing now repossessions creep back up in that 1.7-1.8 million area. And again, the repossession segment will continue to drive.

And then the other area that we're seeing increases in is we're seeing increases in the number of off-rental vehicles that are coming back to the auction to the market. If there's anything that's been on a little bit of a decrease, it's been the dealer consignment portion. These are the dealer trade-ins. I think the dealer trade-ins, there's fewer of them. And I think they're being somewhat displaced by the oversupply of off-lease, rental, and repossessed vehicles.

Matt Fassler: I want to digress for one second on the rental piece of the business. Obviously much of the rental car industry has kind of been in a world of hurt over the past year or two. They probably have things more so on their mind than insourcing their auction effort. This was one of those concerns that had emerged in years past and that a couple of the companies have made efforts to run their own auction business. Where are the market dynamics now with regard to your own access and the other-- your largest competitor's access? But really focusing obviously on ADESA to off-rental vehicles.

Jim Hallett: Yeah, I think for a number of years the rental car companies were trying to take care of their own remarketing, trying to liquidate their own vehicles. And they tried that with their own dealer-direct platforms, dealer-to-consumer platforms; various initiatives. But at the end of the day, and certainly no disrespect, they just don't have the buyer base. I mean when you think about the buyer base that we would have in our industry and the number of buyers that we can bring to the market either through physical or through online or through mobile; it's just so much more powerful in terms of the buyer base. So I think that they've seen that those initiatives haven't panned out all that well for them. And they've become more dependent on the physical auctions than our online auctions to be able to dispose of those vehicles.

Matt Fassler: Now, if we could talk also a bit more about the dealer channel; where are dealers at today, particularly with regards to inventory and in-stock? I know that the SAR has been coming off. Used has been better. That's not up to the minute, but generally that's been the case. Where are the dealers today in terms of their need for inventory, and how does that interplay with the demand you're seeing from the dealer channel?

Jim Hallett: Yeah. So on the used car side, dealers continue to want to buy inventory. But I think they're focused on buying inventory, what I would term as just-in-time inventory. First of all, they want to come to the auction, and they want to buy inventory that's fully reconditioned. They don't want to have to take the time to have to do body work to these vehicles or to do a lot of repairs to these vehicles. And we're seeing more and more of the commercial sellers when we think of the OEMs and we think of captive finance companies. We're seeing them doing that reconditioning at the auction, getting the cars front-line ready, being able to buy a vehicle today that you can take back to your lot and sell the same day, and more and more vehicles that they're able to put through the CPO process, being a certified pre-owned that they can put through the program, also be able to put a warranty on it, which adds a great deal of confidence and comfort to the retail consumer.

So all in all, I would say that there continues to be strong demand, and especially on those CPO vehicles and vehicles that are ready to go. And I don't know exactly what the percentage is. But my understanding is that about less than 30% of franchised dealers

even have a body shop today. So to think that you would buy a vehicle that would need any kind of paint or body work repairs is almost out of the question, because the turnaround time would be too expensive.

Matt Fassler: And you talked about the vehicles coming off lease. And we know where we are in the credit cycle. Does the dealer channel remain tepid relative to the rest of your mix as you look over the next couple years? Do those trends, contrasting trends, persist in your view? Or is there any reason for the dealer business to reaccelerate any time soon?

Jim Hallett: I think as we continue to go forward, I think we continue to see the franchise dealers continue to absorb as many of these off-lease cars as they possibly can. Now they do have more selection, and obviously they're not going to be able to buy the same volumes that maybe they've always bought in the past. This will give the independent dealers much more of an opportunity to get to some of those off-lease cars that they hadn't been able to buy in the past. And it may be an opportunity for more cars to find their way to a physical auction rather than being sold in an online auction. But overall, Matt, I would say that I think it's very much more of what we've seen here in the past couple years.

Eric Loughmiller: And Matt let me add, what's causing dealer consignment to decline for us is the availability of the commercial vehicle that Jim mentioned. We've been predicting this for a couple of years. And it's just that's the vehicle that the dealers to try to buy at auction. And as a result, they're bringing fewer trade-ins, right? I mean and what's happening is that the dealer is buying a 3-year-old off-lease car instead of a 5 to 8-year-old trade-in that previously was the only car in the marketplace. So it's really a displacement more than-- and then we have a product called TradeRev. It's an application that we're trying to say, if they're not going to bring the car to auction, we know they're still taking their trades and trading them amongst dealers. Jim, you might talk a little bit about TradeRev. Because that's something that we feel very strongly will be part of the marketplace and successful for us.

Jim Hallett: Yeah. Maybe I'll talk a little bit about TradeRev. TradeRev is a mobile application that allows dealers to trade cars. You know, if you think of a physical auction network, physical auction network for the last 15-20 years has been 9 and 10 unit market. If you take a look at the vehicles that are sold outside of physical auctions, there's another 20 million vehicles that dealers take on trade. So if you were to suggest that dealers would keep half of those trade for their own retail purposes, then there's another 10 million units that are going to get retailed.

What TradeRev is, is a mobile application that allows dealers to trade through a mobile network. And now for the first time we have a product that stands in the middle of that transaction. So before the dealers used to get together. They used to exchange their own titles. They used to exchange their own funds. They used to arrange their own transportation. Now with TradeRev on a mobile application, we stand in the middle of that transaction. We take care of transferring the title, take care of the funds, take care of the transportation, and we really help facilitate that transaction. And we think there's an opportunity through TradeRev to truly expand the market beyond 10 million cars.

And there's a Canadian company that we invested in, in 2013, 3-4 years ago now, and it's done exceptionally well in Canada. We introduced the TradeRev product in the UK, and we've got a number of pilots going on in the UK where it's been very well adapted. And now we're focused on the US. We're specifically focused on 10 markets in the US, as we roll it out, and we've seen very, very good traction every month. We continue to see month-over-month improvement and I like to refer to it as the flywheel. The flywheel is

starting to get cranked up here in the US, and I believe that it's going to become an alternative source that number one, will expand the market; but I also believe it's going to disrupt the market. And in our case, we've seen it as an opportunity to disrupt ourselves.

Matt Fassler: And if that were happen, and it sounds like you have tons of market share of dealer-to-dealer trades to capture before you have to worry about self-cannibalization. But what do the economics look like for TradeRev as you facilitate or intermediate a transaction?

Jim Hallett: Right. So first think I would say is cannibalization, Matt, we would love that to take place. We would love to cannibalize ourselves. If we're going to be disruptive, we'd definitely want to disrupt ourselves. And that's very much been at the forefront of our mind. In terms of the economics, it's obviously fees are lower, but a much higher margin business. Because you can really scale it across the mobile application. Eric, do you want to add something?

Eric Loughmiller: Yes. The fees are slightly less than we get at physical auction on a dealer-to-dealer trade. But it's not meaningfully less. And the margins are significantly greater relative to gross margin.

Matt Fassler: So if you compare a TradeRev transaction to an online-only transaction?

Eric Loughmiller: It would be very similar to an online-only open transaction, because it has the equivalent of a buy fee in it. So it's several hundred dollars, to give you a ballpark figure without being specific.

Matt Fassler: And with less capital presumably?

Eric Loughmiller: With less operating expense as well.

Matt Fassler: Great. You know, we've talked a bit about the institutional and consignment car matrix. Then there's the physical and online matrix. I have to believe that it's somewhat misunderstood by the Street. But I know it's getting a lot of-- got a lot of focus after last quarter in particular, when your online business was exceptionally strong, and your physical business was somewhat-- well, up I think, but somewhat more subdued. So how should we think about the online only and physical mix for you? And how do we think about the implications for your economics if that continues to tilt towards online?

Jim Hallett: So first of all, our physical auction business was only up 1% last quarter. But I will also tell you that's the most cars we've ever sold at physical auction in our history. What I think people don't get is our online business has grown much faster, but it's grown as a result of a smaller-- coming off a smaller base. And it's this onslaught of off-lease cars, it's the oversupply of off-lease cars that is really driving the online business.

So from that standpoint, there's no question from an economic standpoint when we sell a car at a physical auction, it is the best economic outcome for us. Because not only are we able to sell the car and get the buyer fee and get the seller fee, but we're also able to add in the ancillary services, which really drives our revenue per unit. However, on the online, it's a much smaller fee, a higher margin business where we don't get the ancillary services. But we've always taken the position and maintain the position that we should never try to dictate to the market where they should sell a vehicle. We think it's up to the customer and up to the market to determine where that car gets sold. And I believe that our responsibility is to provide the best venue, best platforms, best technology, best

customer experience, and let the market decide where the car gets sold, and the economics will take care of themselves at the end of the day.

Eric Loughmiller: And Matt the key is, you know, 1% increase in physical volume is same store. We've done acquisitions to acquire properties. So our increase was 7% in total. But we generated a 13% increase in adjusted EBITDA. And you know, the leverage in the business is really coming off at the physical auction. So even if the revenue growth isn't there, this mix shift from more dealer consigned to less dealer consignment, and more off-lease vehicles is really going to drive performance for us.

We do not need the volume to go up. The mix shift over the next couple of years will be a contributor to increased revenue per unit, and increased profitability for us.

Matt Fassler: I want to stay focused on ADESA and talk about acquisition integration, what your experience has been. Have you been satisfied with what synergies have ultimately played out, the cultural fit, just the broader weaving into the fabric of the ADESA business?

Jim Hallett: So on the acquisition, we did-- I think it was 13 brick-and-mortar acquisitions last year. There was one large acquisition which had eight auctions, and then there were some independent auctions that we acquired. So from the outset, we're exceptionally pleased with what we purchased. We purchased those brick-and-mortar auctions, very pleased. The integration has not completely taken place yet. But we have integrated some of those auctions. And so far I would say we're pleased with the integration, probably not as fast as I would like. I would like to move a little bit quicker.

Culturally, I think a great fit in all cases. That's one of the things that we really focused on is making sure that culturally that we are aligned with the acquisition in terms of retaining the employees and retaining the management and bringing them into our culture. And then I would think from an opportunity standpoint, then there's the opportunity to really get more of these synergies as we go forward. We certainly haven't realized all the synergies that are there. I think that will happen over the course of the next 6-8 months here, as we complete those integrations. And then there's the opportunity to expand the organic share by bringing in additional customers who we have existing relationships with that based on previous relationships with ADESA, we'll sell at our new locations based on the relationship and based on the service that we've been able to provide to them over the years.

Matt Fassler: Now after having done the Chicago startup, which I understand is ramping, are you happy and are there more opportunities to open up stores organic-- I mean doing a startup in a major market is, I know, a big deal. And it will cost some dough. And there's-- I know you felt great about the site. So you didn't feel like it was a risk. But you haven't done it that often, since I've been covering you.

Jim Hallett: Yeah, you know, normally we would always look to do an acquisition first, as we say. Doing a greenfield is not always easy starting from scratch. But we have had a lot of experience over the years in doing greenfields. Our most recent one before Chicago was Las Vegas. That did very, very well, it cash flowed positive in the first 12 months, very successful. And we go into Chicago. We know Chicago is the third-fourth largest car market in the United States. We knew that the market was underserved. We identified a great location. We built a great facility. If there is a criticism, we didn't build it big enough. Because we're already at a point where we built the facility big enough, but we didn't develop enough land around it. So we're already at the point when we probably need to expand the land.

So in the early stages, Chicago has been open about a year now. We think it's a success. We think it will continue to be a huge success. And we think it will become the real dominant auction in our auction network as we go forward, just based on the size of the market and the number of cars and the number of dealers in that market.

Matt Fassler: Now one last question on ADESA. Your expense growth there has been quite well controlled. What kind of growth do you need? What kind of gross profit growth do you need to leverage EBITDA margins at ADESA?

Jim Hallett: I'm going to defer to the master.

Eric Loughmiller: Well, essentially what we're looking to do is grow the SG&A a little bit above the inflation rate within that business. As we grow the business and add auctions, we're adding SG&A for it. So our target is to keep the SG&A growth at a significant discount to the growth rate of revenue within the business. And that will do it. And the gross margin is pretty consistent there. We're in the low 40s. I mean we're generating typically a 42% to 44% gross margin. And again, the revenue mix affects what that number is more so than anything. That's sufficient.

So really what we're focused on is can we control that SG&A and keep that growth down again, just above inflation somewhere, and see if we can have revenue growth from the offering of services that's greater than that. And that will drive EBITDA leverage. And it's actually operating income leverage as well. There's not a big difference now in the rate of change between operating income and adjusted EBITDA.

Matt Fassler: Now I do want to move on to IAA and while this is not in my prepared questions, I do need to ask you about Harvey. This is probably the right time, as we transition. You know, historically storms have had more impact on the salvage business than on the whole car business. Because they create so many instances of total loss. First of all, if you can, just a general update on your Houston and operations in other affected areas, whether there's impact on any of them. But what I'm most focused on is your initial assessment of what this can mean, what Harvey and the devastation-- which is obviously regrettable-- can mean for the IAA business going forward.

Jim Hallett: Yeah. So obviously, it is a horrific event and regrettable. With that said, nobody really knows at this point in time what the true numbers are. You've all heard probably the same numbers that we've been reading about-- some are saying there's 500,000 cars, and some are saying there could be as many as a million cars that are flooded and underwater.

We don't know what that answer is. We can tell you that we are in constant communication with our insurance customers every single day, if not twice a day. And we're getting updates on a daily basis. And every time we have one of those calls, the numbers change in terms of the number of assignments and the number of vehicles that are being brought in.

But from our perspective, what we do is we have a CAT team, a catastrophic team that we mobilize into the area. We move our technology in. We acquire additional land, additional leased properties on short-term leases. We move our equipment in, our front-end loaders and our forks, our equipment to be able to navigate getting these vehicles moved around.

We have a database of tow truck drivers that we move into the area. So we start preparing for that all in advance of the storm hitting land, just as we're preparing a separate team right now for Irma as it gets ready to hit land on Friday. I think it's Friday or Saturday this week. So we create all that, and then we wait for the assignments to come in, and we bring those vehicles into the leased property and we sell those vehicles right from that leased property, rather than having one sale a week, which we typically have at an auction site, we can have sales every day.

These insurance customers, they need to get these vehicles sold. They need to get them liquidated and off their books. Normally from the time the vehicle comes in, we have to get a title. Usually the title got washed away in the flood. Usually they didn't go home to get the keys when they picked up the car. So we have to get keys cut for these cars. And so when you think of turn time, it's probably 60 to 75 days that it takes to turn a vehicle. So a number of these vehicles will get sold before the end of the year. But many of these vehicles will get carried into 2018.

In terms of how we size this thing, if you can think back to Sandy and events that took place here in Long Island, New York 4 or 5 years ago, there were about 150,000 cars that actually made their way to a salvage auction during that time. We think this event will obviously be greater than Sandy. How much bigger will it be? We can't really put a number on that. As we said, we got out of the forecasting business back a few years ago. But we think the number will be bigger than 150,000. That doesn't really give you real close numbers, but directionally we think it will be probably somewhat north of that.

Matt Fassler: And what is your presence like in Houston in the salvage business in terms of the existing facilities, et cetera?

Jim Hallett: Well, a couple things; number one, we have number of salvage auction facilities in the Houston, Texas market, as well as having the-- in the salvage facilities there that specifically focus on selling salvage vehicles, we also have four very large ADESA whole car auctions in the Texas market in Austin, San Antonio, Dallas, and Houston. And then we have a total of 13 auctions within what I would call a 250-mile radius of Houston. So in terms of physical presence, we have a very strong physical presence.

As you know, Houston is the fourth-largest marketplace in the country. We have a huge physical presence there, and we have in excess of 1,000 employees in that market, plus the employees that we bring in and mobilize to be able to serve our customers in that market.

Matt Fassler: And how does the volume typically get absorbed? Who steps up? You have this huge bulge in salvage. Are there intermediaries who opportunistically buy the vehicles up? Is it absorbed by the scrap metal market, the export market? Where do you typically see that volume gets--

Jim Hallett: So maybe just a comment to preface what I'm going to say here is a big difference in a flood is whether it's a freshwater flood or whether it's a saltwater flood. Saltwater flood being worse case, because it causes a lot of corrosion, a lot of damage to the electronics and to the systems in the vehicle.

In the case of Houston, it was primarily rain. And so it was primarily what we would refer to as a freshwater flood. So number one, a lot of parts off these vehicles are very much re-sellable. But we would expect there would be a very large number of these vehicles being sold to the international markets. We sell vehicles in over 110 countries

around the world on our online platform. Many of these vehicles will get shipped. Many of them will be put back on the road. Legislation is not quite the same around the world as it is here in the United States. So many of these vehicles could get put back on the road in the international markets. Many of them could be parted out and scrapped. And many of them could be crushed just for metal.

So there's the international buyer base. Then there's the parts redistributors, the aftermarket. And then I would say also there's the opportunity just for the metal and the crushers to take place. Eric, would you add to that?

Eric Loughmiller: No. Again, in Sandy, we did see a large number of luxury cars getting shipping overseas. They were great values and again, that seems to be-- these are cars that look great. They're clearly going to be able to operate, depending on the level of flooding. But this will have a heavy international impact, and especially because it's Houston. It's a port. It will be easy to ship. There will be-- I'm guessing-- supplies coming in on shipping containers, and they'll be dead-heading back out, and that's an ideal use of shipping containers is to move these vehicles to additional markets.

Jim Hallett: And Matt, one thing that I would add is all these vehicles that come in, as we get these new titles, then we have to transfer them into a branded title. So they become a branded title as a flood vehicle, and not able to be resold into the retail markets. So again, we work with the local governments and legislators to make sure that we do everything we can to protect the consumer from getting these vehicles back into the market.

Unidentified Audience Member: (Inaudible) historically you guys have lost money on CATs, and can you guys in the industry make money on this disaster?

Matt Fassler: I'll just restate the question for the webcast, which is that historically the company has lost money on CAT events. Can the company ultimately turn a profit on the business associated with this particular situation?

Jim Hallett: So in the history of the company, we've only lost money on one CAT, and that was right here in New York. That was Sandy. We lost $24 million on that deal over the course-- we reported over the course of three quarters, so $24 million loss. And Sandy was very, very unique because of the density of Long Island and New York and where the storm actually took place.

First and foremost, land was extremely, extremely expensive, and very, very difficult to get where we could park these vehicles. The infrastructure here in New York was extremely difficult, the roads, the bridges the tollways, and being able to navigate. Typically where you would have in Houston a tow truck that may be able to do eight deliveries a day, you were lucky if you could get two deliveries done here in New York, and it was probably at 4 times the cost of getting it done.

The other thing, if I can say it gently, is the bureaucrats were much tougher here in New York in terms of who they would permit in and the tow-ers that permit in, and the licenses that were required to be able to operate here, versus I think people were a little bit more lenient in the Houston area. It was more about let's get these cars picked up. Let's get them off the roads. Let's get these cars moving as quick as we can. So there was that.

Just the expense and the density was much, much more difficult here in New York. With other CATs we have historically made money. With Houston or in Harvey, in Irma

coming right behind it, I think it's a case of wait and see. I think what Eric and I have been kind of saying is we would ask people to think about it as being neutral. It's certainly not going to be a Sandy type event where we're going to lose that kind of money. But we wouldn't want to be projecting that's going to be huge profitable event either.

Eric Loughmiller: And Seth, one thing, it does look like it loses money, because early on we incur costs before we start getting revenue. So it will have a cost impact up front. And then as you get later into the process in selling cars, actually the margins are fairly normal. But I had that upfront cost to absorb. And we expect in this case having it be essentially an early September event that will have some cost up front before we start generating revenue. But we don't see it as being material. It really doesn't look like it will be material to the quarter. And so there's no announcement yet on anything. And it's actually not a bad time. As all of you know, we've had such a strong performance in the salvage business.

If there was a time to absorb a little additional cost, this might have been it. We're able to do that pretty easily.

Matt Fassler: Eric, as you just alluded, your salvage volumes have been super strong. And I guess the very simple question is what has made that surge? Is it market share? Is it in fact total loss occurrences? What's made the business sing to this degree?

Eric Loughmiller: Well, we have 290 million cars on the road and an infrastructure that was probably built for 150 million. So if you're driving, you're going to run into something sooner or later. That's the bottom line. So the number of accidents is up. And then severity is up. The average age of a vehicle on the road is 11.5 to 12 years. Vehicle values are declining. Collision repair costs are going up. So that means severity. So as a percent of the value of the vehicle, the repair costs keep escalating, resulting in the only way the insurance company can reduce claims costs is by totaling the car, and getting the value out the component parts and having a net claim that's lower.

So I think we're in a unique position. The other thing is new cars have more electronics. It takes less physical damage for there to be a very significant repair bill. So there's a lot of things going in our favor, lots of cars, miles driven increasing, values of vehicles declining, repair costs going up; all leading to a higher loss ratio.

Jim and I talk about it all the time. You know, we're nearing 20% of all claims resulting in total loss. And it's not going to get better for you that have automobiles here in New York. That isn't always the case. Why? Because the premiums aren't able to cover the cost of insurance right now. The cost of your claim is greater than they're charging in premium because of all the advertising and their chase for market share.

So at this point, it's set up very well for the next several years. Jim and I have gone out in our earnings calls and said, we expect above what we would call normal trend rate growth for the next 3 years. We said 5% to 7%. Our competition was more bullish than that, even a higher percent growth.

So we feel good about the marketplace. I don't think there's a big market share game going on right now, Jim, would you agree with that? There's two leaders. And I will tell you, things like Harvey and Irma-- why there's only two leaders? There's very few people that can step in and do what we do, with all this volume and breaking even.

As I said to an investor this morning, we have to handle these catastrophes so that we can make hundreds of millions of dollars on all the other business. I mean that's really what this is about. And there are very few that could step into our shoes and handle this type of activity from a capital perspective, from a wherewithal in terms of resources, people, knowledge and systems. It's very significant.

So Matt, that's why I think we're in a good spot. The market is growing and it will continue to grow for again, the next several years, I'm pretty sure.

Jim Hallett: I think just recapping that, Matt, is you think about all the drivers of the salvage business and what drives salvage proceeds; they're all wind at our back right now, in just every case. And Eric's mentioned them all, but metal prices, miles driven, international currency against the US dollars, parts replacement, cost of collision repair; just every single one of those are very much blowing in the favor of insurance auto auctions as we speak.

Matt Fassler: We have less than four minutes left. We have time. I have at least one more to add. I need to ask, we have time for others in the audience to step up as well. We have (inaudible) right up front, if you could bring the mic please to the front row? You got it? Great.

Unidentified Audience Member: Just a quick one on TradeRev. I think we're approaching the 3-year anniversary of when you guys originally invested in that. And I was just curious if you might be able to provide some context for hypothetically if you were to increase your investment, which I think you might have the ability to do now?

Jim Hallett: Yeah. We do have the ability to buy the other-- we bought 50% of the company up front, and we have the option to buy the other 50% of the company. And I think that we like what we see. We certainly like what we've seen happen in Canada over that period of time, and just the year-over-year increases. And I would say that it's something that, along with other opportunities, it's something that we'll take a look at. But we like the product a lot. There's a lot of different companies chasing this space and trying to get a piece of it. We think eventually they will become one or two major players in that space. We would hope that we would be that number one or two player in that space with a very large share of the market.

Matt Fassler: Great. We have another question here in the front row, if we could get the mic-- you can start and I'll repeat it.

Unidentified Audience Member: (Inaudible)

Matt Fassler: The question relates to, I think, expectations for pricing of cars coming off-lease.

Jim Hallett: Yeah. Well, as I like to say, sometimes these financial institutions and capital finance companies and banks have very short memories. What you've got is you've got a situation now where the residual values have actually outgrown the wholesale values. In other words, the car is less worth than the estimated residual value that was placed on it 3 years ago when their lease was originated.

So you've got negative equity. And that's a concern for the manufacturers and the captives that are selling these vehicles. But on the other hand, we've got to find the best means we can to liquidate these cars. As I like to say, these cars are going to be sold. They're on a one-way ticket. Because as I mentioned, there's another 500,000 coming

right behind them. And we've got to keep moving these cars through. But I would say right now dealers really have an opportunity to really, as I say, cherry-pick, to really pick and choose their inventory, versus a few years ago when inventory supply was very, very tight, and you didn't have the kind of supply we had today. So there's definitely, definitely, definitely downward pressure on these off-lease vehicles.

Matt Fassler: Great. Next up in this room we have Zalando, Lowe's next door, Cigna downstairs. Please join me in thanking the management of KAR for their time.