Company: KAR Auction Service, Inc.
Executive/s: Jonathan Peisner – Vice President, Treasurer and Head of Investor Relations
Event: InvestINDIANA
Date: September 13, 2012

Good morning. We'll get started with our second session. Again, I'd like to welcome you on behalf of Vice Miller and thank you for participating in this years InvestINDIANA conference. As I said upstairs, my name is, Steve Hackman. I am a partner in the business group and lead arm securities and public company practice. As one of the largest all term space in the Midwest we represent many of the representing companies in business and finance and [scc] matters and we are honored to be a titled sponsor, of this years conference.

Today, it is my privilege to introduce one of our long standing clients. Carmel, Indiana based KAR Auction Services. KAR Auction Services is a holding company for ADESA Inc., Insurance Auto Auctions Inc., and Automotive Finance Corporation. ADESA is the leading provider for wholesale used vehicle auctions, with 68 North American locations. Its subsidiary OPENLANE provides a leading internet automotive auction platform. Insurance Auto Auctions is a leading salvage auction company with 161 sites across North America. Automotive Finance Corporation provides floor plan financing to independent and franchise used vehicle dealers and has 103 locations across North America. Together, KAR Auction Services and its subsidiaries, provide a unique comprehensive end to end solution for their customer's vehicle re-marketing needs.

Representing KAR today is Jonathan Peisner. Jonathan serves as KAR's, Vice President, Treasurer and Head of Investor Relations. Jonathan is a CPA and holds a Bachelor of Arts degree in Accounting from Michigan State University and an MBA in Finance from Wayne State University. He has taught accounting and finance courses in both the undergraduate and graduate levels. Jonathan serves as President of the Indianapolis chapter of FEI and is also a member of NIRI Senior Investor Relations round table. So please join me in welcoming Jonathan Peisner.

Jonathan Peisner

Thank you Steve. I appreciate when you said Michigan State University. I know those words were hard for you to [inaudible]. I do appreciate that.

I am going to talk fairly quickly, so we can do the questions, because that is my favorite part. I am not going to redo the slides, you can go to the investor relations section of the website. You can read the slides, you can hear the webcasts. I want to give you a sense for the company, what makes us unique and how we make money. I think that's the interesting part. KAR Auction Services, as Steve indicated, is the holding company for 3 three business units. ADESA, its whole car, used vehicles; Insurance Auto Auctions, salvaged vehicles (smashed up racks); and AFC floor plan financing for used vehicle dealers. You and I can not buy vehicles at ADESA auctions. Its used vehicle dealers only.

Our business is exactly like the stock market. We don't own any inventory. We don't care if you're buying or selling we're going to make money from the buyer. We're going to make money from the seller. We through off a lot of cash flow. When I talk to investors, or potential investors for that matter, that's really what attracts them. Our two businesses ADESA and IA they're basically oliogoplies. It's us and another strong competitor in each segment on the salvage side and whole KAR side and then a bunch of independents which overtime has been consolidated and I anticipate overtime we'll continue to be consolidated. A lot of data, a lot of color on this Slide. Let me boil it down for you.

In North America there are approximately 240 million units in what we call the 'vehicle park' on the road. Our focus is the 40 million that blue circle, those are used vehicle transactions and they go down various pikes. The box that says, whole [??] auctions, virtual auctions that's what's adventurous to us, that's where we currently play. A couple of other points there's 10 to 15 million units that enter the KAR park every year and about 12 million units that leave the KAR park. Some of them leave because a young man or young woman has gone overseas and they did not re- register their vehicle and it's parked in a parents garage. A lot of those vehicles are totaled. They're wrecked, sitting in corn fields or out by the highway. We're really interested in those. Currently we get about 3 to 4 million units going to the salvage industry. We along with our primary competitor, we have pretty equal market share, again, about 30 and then the independents get the rest.

A couple of other points, 3 to 4 million units going to salvage auctions,
12 million units de-registered, some we didn't get because when that young person comes back from serving in the military they want they're vehicle.
All those vehicles that are sitting in highways, on your driveway, etc that are wrecked and smashed up we want those vehicles and we're going after those vehicles in a big way.

What an auction provides whether it's a stock market or business like ours is two things, we're going to maximize the value of an auction. This is not only the basics of auction industry, this is the basics of economics. The more eyeballs that look at an asset, you can maximize the asset in value. That's the value the we bring. When the gavel drops, as my CFO likes to say, we provide guaranteed check to the seller and guaranteed title to the buyer. That's something that eBay, Auto Trader, blah, blah, blah, they don't do that. We stand behind it. We take that risk we stand behind it. That's a value that we add to our customers whether they're a seller or a buyer.

This chart gives you a perspective of the whole KAR Auction industry on a historical basis, where it's been and from a forecast perspective what's going on looking forward. Ours is a demand driven industry. Used vehicle dealers need used vehicles to sell. In the auto world there are franchise dealers which I anticipate most of you all visit when you're looking for a new vehicle but there are a lot of independent dealers out there. You can tell them they're on a street corner, they've got those bright and cheery yellow-green plastic flags around them. The vehicle might be-they'll have a sticker $300 a month, $200 a month. You're not going to shop there but there are millions and millions of customers who do. Since you're not going to buy a new vehicle from them these

individuals have every right to be in business as much as all of us. Where do they get their supply? They get their supply from the auction industry.

I want to just briefly mention the trough, we're currently in the trough right now. By that 7.7 million units this year for the industry excluding OPENLANE. I'll be talking about that shortly and then rising back. I'll need to talk about why we're in the trough just so you'll have some context. When you look at our business, used vehicles, a huge source of used vehicles is vehicles coming off of lease. When you see a trough of 7.7 this year you say, "Why did that happen?" You say, "Well, 8, what happened three years ago, a typical lease term, three years. Three years ago we're in the Great Recession, [??] plummeted, the majors pulled out auto leasing. All those vehicles that weren't sold back in the Great Recession, all those vehicles that weren't leased back in the Great Recession that's what we're seeing now. What's the impact of that?

Well, the impact you read it weekly if not almost daily in the papers, used vehicle prices are really high. Again, it's economics 101. Why are used vehicle prices high? There's demand and if supply is low, price is high. This has a lot of implications for a business units. I'm going to get into the details when I close out. It's kind of a complementary nature of our business model which is weird. High used vehicle prices while they ain't great for the used vehicle business, typically it means supply is low, they're really, really good for our salvage business. It provides them with high salvage prices at auction. It's really good for AFC. Steve works a lot with AFC, he knows that when you used vehicle prices are high the loans turn really quickly, dealers can buy in the lane, we up-sale again and also the average revenue per loan is really high. It's kind of a natural hedge, I'm hesitant to use that term for a lot of reasons but we really like that.

Importantly when I leave this Slide it's visibility. Right now for those of you who follow the auto industry, even modestly, the industry experts are saying, "Well, it's going to be 14 million or a 14.2 or 14.5 SAR, that's up from 12.9 last year, it's up from 10.9 the year before, so you say, "Mmm, okay, how does that-what could I do with that information to tell me what's going to happen with whole KAR business three years hence? Which is why you see 2015 rising. And so you know you say, "Hey, SAR is rising and least penetration is way up that's a good guide for this business." We like that, we like that a lot.

Last year we made a major acquisition of a company called OPENLANE which is a leading Internet B2B automotive re-marketing company. From my perspective it's fascinating because ADSESA, we've always sold vehicles physically in the Lane as well as online. Our Internet presence that was never our strong suit. We ADESA were an automotive company with that culture and that capability from an Internet perspective while OPENLANE was an Internet company, very high tech that use that technology to channel, to sell used vehicles on a wholesale basis to the marketplace. The combination from our perspective was kind of a best of the best. Bringing the best Internet platform together. With ADESA we do have the second largest position in North America. We

fell from a service perspective that we're number one. Bringing those capabilities together so we can provide our customers what we call 'end-to-end' vehicle re-marketing services. I'll discuss that briefly. It's significantly enhanced, what we provide our customers and it's significantly, honestly enhanced our management team because Peter Kelly and his crew really brought on some top-notch talent.

Let me get into a little deeper dive for OPENLANE. I think I owe that to all of you. We spent $210 million on this acquisition. You spend that type of money you say, "What did you get?" We got two primary benefits. The company benefited as I described, more importantly our customers benefited. We were a [??] I believe, personally speaking in our Internet capabilities before the acquisition of OPENLANE, after the acquisition of OPENLANE in my perspective we are clearly the leader. We clearly have the strongest capabilities. If you listen to our CEO and you look at any of press releases we talk about something called 'end-to-end vehicle re-marketing capabilities' the most unique comprehensive end-to-end vehicle re-marketing capabilities. You say, "What is that? Is that a cliche?" It's no. What it means is that regardless of your vehicle whether it's whole car or salvage, regardless of what services you want performed on that vehicle, regardless of what channels you want to sell it; you want to sell it physically, do you want to sell it electronically, do you want to sell it in both simultaneously through one phone call, one e-mail to our company we can handle those services. By the way, if you're a dealer on the whole car side or a recycler on the salvage side and you're looking for financing to help your working capital needs we can handle that too. If you've ever looked at our financials and go to our website I encourage you if you're interested in learning more about it you'll see we threw off a lot of cash. Obviously, I have a Slide on that in this deck and we have very strong adjusted EBITDA margins.

I'm frequently asked by investors, "How do you protect the franchise? It seems pretty easy for someone to get business." I say, "Well, I want you to step back and think, not only are there significant financial requirements for establishing, whether it's whole car or salvage facilities you have significant zoning and regulatory requirements. Again, you think of salvage facilities we've got one on the south side of Indie by 37 and 465. You'd think it was a junkyard and the neighbors do too accept the vehicles are always changing. They don't work the same because they're always smashed up but they're always changing. These are really, really nimby businesses, not in my backyard. The zoning is tough, you've got to find the right amount of land. The whole car businesses take a lot of land, 50, 75 plus acres. The greatest requirement or barrier, if I can put it that way, is customer relationships. If you want to start into this business, let's say you've got the capital financing and blah, blah, blah, say, where do you begin? Are you going to get buyers first? If I'm going to out and say, "Hey, come to my auction Mr. Buyer. I'm going to get cars". They are going to say, "Where's your cars?" If I go to the sellers I'm going to say, "Give me your cars. I'm definitely going to get buyers." I was going to say, rightly so, "Where is your buying base?"

Our CEO Jim Hallet loves to kind of codify this. I think it's a great analogy, "the boys go where the girls are and the girls go where the boys are". It's so true, it's so true that we've got relationships with thousands, tens of thousands of buyers and sellers throughout North America, dealers whether it's on the whole car side, dismantlers on the salvage side or you're getting financing from AFC. It really is a relationship, a strong relationship business.

Turning to AFC, again, I'm not going to read from the Slide, that's boring you can do it yourself. I want to give you a little overview of insurance auto, I'm sorry AFC. I think I need to go back here. Here we go,
insurance auto auctions, perfect. Insurance...why aren't we going back. There we go. Little dysfunctional this early in the morning. Insurance auto auctions has customers on the buy side and the sell side. Let's talk about supply, our supply about 80% approximately the vehicles come from insurance companies. You wreck your vehicle it's declared what's called a 'total loss', they're still going to....

monetize that. That vehicle still has value. About 80% of our supply are consignment supply. We don't own any inventory, it comes from insurance companies, 20% comes from charities, it might come from you if you've got junker or know someone who has a junker and you Google 1-800-BUYMYJUNKER. We've got Internet box and our competitors do too and they're funneling it to call centers and we'll walk through, again, these are very low cost vehicles. We'll walk through a set of pictures with you over the Internet, does it look like this? Or this? We'll buy your vehicle from you. That's a rapidly, rapidly growing area, it's a great area of growth for us.

The title of the Slide, we say Providing the Advantage in Salvage Auto Auctions. Why do we say that? Why does the company say that? We've got a very strong competitor. We both own about a third of the market in North America, independents own the other third. They're a fine company, strong footprint, great Internet technology. What they don't provide that we provide that we feel strongly gives us an advantage is if you want to buy from primary competitor you can only buy on the Internet. You cannot physically go to salvage auction. I think at insurance auto auctions [Indie] I want to say it's Thursday is the sell. You can not physically go there to buy. Well, we think that's not in the best interest of the customer. If you want to buy a salvage vehicle from us you can buy online in the LANE or online. In fact, like our primary competitor we offer a 100% of our vehicles on the Internet. However, we only get bids on 80% of those vehicles. Of that 80% about 50% approximately the high bid is an Internet bidder. The other 50% it's the guy or gal that's in the LANE buying. Our competitor doesn't have it. Again, to me it seems very basic.

The whole premise of an auction is maximize eyeballs, maximize bidders.
It's like a garage sale, in big terms. This is how you're going to get the most that asset. I will tell you that our main competitor clearly I think gets a benefit because they don't have the cost to have a run-in auction and allow bidders to come to the auction, the salvage auction the day of the sale. That's great for them, we think it's not great for the customer. Again, what we call the high-bred model, not high-bred vehicle but high-bred you can buy online or in LANE, we really think that's in the best interest of the customer. At the end of the day we think that wins.

Now we'll talk about AFC, Automotive Finance Corporation. This is floor plan of financing for used vehicle dealers. A couple of things it's not a bank. I know they have a finance track going on in the room next to us. Nothing to do with that. It's nothing, it doesn't look like any other finance company you've ever looked at. Because the loans are extremely short term. I mean, 30-60 days so I think on our second quarter we talked that the average loan duration was about 50 days. You think about it from a portfolio perspective, we're turning that portfolio 7 times plus. Again, I said 30 to 60 days. The other thing that makes this very different from a bank or finance company is it's a fee driven business. If you want to get a loan, if you qualify for a loan from AFC, what we'll do is we're going to charge you a fee, you know it might be $60, $75, $90 depending upon the time duration plus you're going to pay interest. It is a heavy charge. It's prime plus 400 basis points to begin with. With a prime floor of 5% and we borrow in the ABCP market so there is a spread. But importantly it's a fee driven business. Interest contributes about 40%, interest is 40% and fees are 60%.

We talk about discipline growth and that's really key and I want to talk about that. It's the title of the Slide. You know this business, go look at our financials. We're making 60-70% adjusted EBITDA margins, 607, I mean, that's insane to me. And so banks look at this and they say, cha-ching, we're getting into this market. And the problem is that, and I've got some wonderful banker friends here so I'm gonna turn me attention to my other wonderful friends here, banks apply a bank model, which is I don't want to touch you. I want to automate you. There's a reason that our customers are borrowing at prime plus 400. I meant there's a significant amount of risk. You have to touch them. It's not an automate and put in an ATM. It's, you know, when you're going to pay off your, make your payment weekly, you're going to come into our branch and we've got 103 branches around North America to do that. Oh, by the way, when you sign up for a floor plan line of credit, you give us the right to conduct, what we call lot audits, which means we'll show up any time, unannounced and if you have 10 loans for 10 vehicles and each vehicle is a separate loan, you might get a line, OK, 100,000, you buy 10 vehicles, that's 10 loans, we're going to go there and what we call 'count the sheep'. We do 70,000 plus of those per year. Those vehicles better be there because otherwise you go in what's called the KO book which means, you know you're out of business. Not just with us, it's industry monitored. So it is a very, very tightly controlled model. I will well you banks and finance companies come into this business all the time and the thinking, the way to be successful is the antithesis of a bank model. We really like this business and very importantly it's great from a complementary perspective. Oops, I've got fast fingers

There we go. It really complements both ADESA and insurance auto auctions greatly. Well, let's see I think I missed a Slide. Let's talk about our Second Quarter performance. Due to the complementary nature of our business, we'll let me go back we had a 6% decline in volume at ADESA. ADESA is the big dog for the business. You would think that every metric would be down but it wasn't. That get's back to the complementary nature of our business that we talked about. During the Second Quarter revenues in gross profit were both up slightly, adjusted EBITDA and net income per share were down from the year-ago levels. A couple of things to keep in mind, if you will, as I said before 2012 is really low water mark in terms of industry volumes for ADESA. We talked about that being the fall out from the Great Recession due to the declines in SAR and lease penetration. ADESA volumes were down 6% excluding OPENLANE which I don't think really came as a surprise to us or anybody who follows us, obviously, this impacted our Second Quarter.

Relative to adjust income net income per share I do owe you a comment there. In the Second Quarter of this year re-incurred an effective tax rate of 46% versus an effective tax rate of 32.5% in the Second Quarter of 2011. The reason for that very high tax rate was we incurred a number of discreet items. I won't reiterate guidance but on the earnings call which was effective only at the time that our CFO said it he expected a more normalized tax rate in the 40% range.

Turning to our capital structure, this Slide shows you the capital structure as of the end of the Second Quarter. You can see net leverage at about 3.8 times. I want to give you some context there. When we did our LBO back in 2007 we were levered up to 6.7 times, at the end of 2011 we were at 3.9 times, we continue to drive this down again. We generate very strong cash flow that we use to de-lever. I'm going to talk about that in a little more detail. By way of reference just to save you some reading our senior term loan facility is at an interest rate of Lplus 375 and it's got a [??] of 125 bips [sp], it puts you at 5%. Floaters are Lplus 400. We have $250 million revolver. You can see importantly that that was un-drawn at the end of the quarter.

At the quarter, what we discussed on the earnings call was our goal because that's a question we get asked all the time relative to net debt [??]. Our goal is to get to about 3 times adjusted [??] to debt. As we indicated in the call we see that incurring happening sometime in 2013. Before turning to Q&A I want to give you the investment thesis because that's my job, in terms of why anyone should invest or even consider an investment in KAR. First and foremost I believe it's a management team, it's management team, it's a great management team I think that delivers these results. What make us really compelling is two things, a complementary business model which is the far graph for me and then the free cash flow which a broken record I've been saying over and over again.

In terms of the complementary nature of our business model let's talk about that for a second. Over the 2009, 2011 time period we grew adjusted EBITDA 14%, pretty good growth. Look at the composition, the green or teal at the bottom that represents ADESA, that's 60% back in 2009. In 2011 it's down to 42% and insurance auto auctions and AFC

are almost 60%. You say, "What's going on?". What's going on, again, hopefully it all ties together, is before the hangover from the Great Recession hit and used vehicle supplies plummeted ADESA's making money because it's a volume driven business.

I'm a manufacturing guy and I look at our facilities and some of you have been out to them. You can actually...Before I forget, go online, go to the IR page of Car Auction Services and click on 'virtual auction tour', it takes like four to five minutes, it'll virtually take you to a whole car auction and a salvage auction, it's really cool. If you've never seen it amazing. ADESA had huge volumes, go back to that Slide that I showed you early in the presentation, the industry had huge volumes. Now at three year subsequent due to the decline in SAR, the decline in auto leasing the volumes aren't there, tight supply. We read about it everyday for used vehicles.

Again, back to Economics 101, tight supply, fairly constant demand, what happens to price? Go back to your Econ 101, prices go up. That's really good for insurance auto auctions because of their structure it drives high average selling price. That drives it to the bottom line. As I indicated earlier those high-used vehicle prices are really good for AFC. It's high revenue [??], it helps keep the portfolio really strong, it allows you to turn really quick. If you're a dealer and there's a shortage of used vehicles it's a great time to be a used vehicle dealer. You buy on the LANE and you know pricing and you can make your 20%. That's kind of the model for an independent used vehicle dealer and then you keep re-upping. That's great and we love this, it's kind of a quasi-natural hedge. We understand, we understand that as supply increases prices will decline.
That's fine because as I've said before ADESA is the big dog of the family, we believe that the good guy at ADESA will more than set off any weaknesses that we see as used vehicle prices decline overtime at IA and AFC.

Lastly, the only reason you invest in any investment is free cash flow.
Cash has always been king at KAR, particularly, when you're owned by private equity, it's all about cash, it's all about investment. We continue to use that cash to de-lever and hopefully continue to create value for all our investors. That concludes my formal remarks. I'd be more than happy to answer any and all questions you have in the time that we have. Yes sir.

Questioner

[??]

Jonathan Peisner

I'm going to repeat the question because we are being Web Cast, the question is the fee that we charge how does it vary based upon volume?
That's a great question. For both the whole car and the salvage businesses we have some very large customers, DOEMs, major finance companies on the whole car side, major insurance companies on the salvage side. When they're bringing tens of thousand so units that's a negotiation, it's a fixed fee on the buying side. The buyers, all the buyers on

the whole car side are independent dealers. On the salvage side are buyers, are dismantlers, re-builders, re-cyclers, they really don't have a lot of [??]. On the salvage side there's one large company that we do negoitate with, for the most part it's like you going into Home Depot. If you don't like the price of the hammer you're not going to negotiate with the clerk, you can go to Lowe's, it's the same thing. We have price flexibility which is code for the ability to get price on a buy side, not so much on the sell side with the one caveat that when you look at our vehicle supply on the whole car side about half comes from dealers. Again, the price that you as an individual dealer are going to pay us to sell the vehicle it's going to be a lot different than what we're charging GM or Capital One or JP Morgan
Chase to sell a vehicle.

The same on the salvage side, the 80% what the insurance company negotiated, 20% that we're getting from charities and that, it kind of [??] the price. That's a great question. Thank you.

Questioner

Thank you very much Jon, that was a great presentation. We're now scheduled for a 15 minute break. This room is actually open but [??] and Old National are in the other two rooms at 10:30. Thank you.