

KAR Auction Services

KAR Auction Services presentation delivered at the J.P. Morgan Auto Conference on 08/13/2013.

SPEAKER 1: Okay. We'll get started again. The next company to present is KAR Auction Services. I am pleased to have with us, KAR's CFO, Eric Loughmiller and Treasurer and Vice President of Investor Relations, Jonathan Peisner. I have enjoyed working with Eric and John for some time now, and I am happy to be covering the shares at J.P. Morgan as of April of this year. KAR operates in a highly interesting sub segment of the auto industry that has additionally come on more investor radar screens recently because of the high margins, high barriers to entry, low capital intensity and strong free cash flow, but principally because there's a lot of focus on its key end market for whole car auctions, it appears to be inflecting higher in recent quarters. Eric joined KAR in 2007. Prior to that, he was the CFO of several other companies and a partner with PricewaterhouseCoopers where I began my career. Jonathan came to KAR from one of its predecessor companies, ADESA, and is active in the investor relations community and a novelist. So with that, I'll turn over to Eric. Eric, John thanks so much for coming.

SPEAKER 2: Thanks Ryan. And thank you everyone for joining us today. I will have to get used to looking the back of the screen, which is backwards and I look down here. Let me first introduce KAR Auction Services to you. We operate in 3 primary business segments. The first is ADESA, which is a whole car auctions. That is the wholesale transactions around used cars. It's what we drive. We called them clean cars to some, but they basically are operating vehicles that are sold B-to-B and we are consignment business. And this is our largest business segment and we do operate in 67 locations in the U.S., Canada and Mexico at this time. Our salvage auction business, insurance auto auctions is 163 locations servicing primarily the insurance industry. Over 80% of our volumes come from insurance companies where they total a vehicle and then sold the vehicle whether it be scrapped to be repaired by someone else or to be dismantled and sold those parts, and again, very strong business for us operating throughout the U.S. and Canada. And then AFC is our finance business. The finance business is interesting. It's really not an independent finance company as we look at it. It's a service we offered to the dealers at both the whole car and the salvage auction businesses. This allows dealers or dismantlers, whomever to floor plan vehicles so they-- they can buy more inventory and have access to a greater amount of inventory, then they might be able to on their own. And this is a very profitable business, great margins and has been growing. In each of these businesses, we operate primarily in Indianapolis where there are 2 major players that account for 70% or more of the market that we're operating

in. And again, we would probably describe ourselves are number 2 in each of these industries as we look at it, although in the salvage space, we're neck-to-neck with our primary competitor there. How we look at the market space that we served, it's right here. It's the vehicles and operation on the road. And you can see in the middle of this circle, there are 272 million vehicles on the road in North America, which is predominantly U.S. and Canada when we do this statistics. Each year, 15 to 16 million new vehicles are sold. Those are new entrants into the market and 13 million vehicles are taken out of service. Of the 13 million taken out of service, 3 to 4 million, it's really closer to 3.5 to 4 million now are sold at salvage auctions. Most of which are total losses, taken out of service by the insurance company on behalf of the policyholder. Within the U.S. car marketplace, there's about 43 million transactions a year where cars change hands that are on the road. Of those 43 million, you've got 12 million that are consumer-to-consumer. Craiglist, eBay, auto trader, cars.com, all of these sources assist people getting to know a seller, finding a buyer and transacting that business amongst themselves as private parties, not involving a dealer or any other third party. There are 31 million transactions where a car changes hands using a dealer of some sort. And how do they get that inventory? 20 to 22 million of those units are trade-ins, purchase directly from consumers. The dealer is somehow getting that vehicle directly. An 8 to 10 million is the marketplace in which ADESA operates. 8 to 10 million units are source through the wholesale auction marketplace that we operate in. So, it's a pretty sizeable entry and that's a fairly steady amount of volume that is being derived from the wholesale auction marketplace and I'll talk about that in a few minutes. How do we make money? We make money by charging fees for everytime we do. We charge the seller to sell the car, which urge the buyer to buy the car. That's both in the salvage business and in the whole car business. Within the whole car business, we do a lot of work once the car arrives at our location. We do detailing. We can do body work, mechanic work. We replace the windshield if it's cracked. We can actually reproduce the keys as if it was a reposition and they, for some reason, didn't leave the keys in the car when it was taken out of the driveway. They have all of those services as-- Everything we do is for a feat. Ironically, what a lot of people miss when this has first been introduced to our story is our business is not built upon taking risks on the value of the vehicle. It's a consignment business. We do purchase a few cars, but it's really in significant number. The consignment business means the title is retained by the seller and to let transfers to the buyer. What is our value proposition? We guarantee check and guarantee title. What that means is when you have a car to sell in any of our businesses and you sell it, you do not have to worry about who bought it. You have to worry about the credit worthiness of ADESA or insurance auto auctions. When you're buying a vehicle and let's even go to the salvage space, LKQ cannot dismantle a vehicle without knowing it has a valid title. There must be proof that this is a properly owned car. If you're rebuilding the car, the title must be legend that it was total low of some damage to it. And if you're scrapping a car, there's affidavit to say this car has now been taken off the road crushed or

whatever. In all cases, the title is very important. While we guarantee if you buy that car, we will deliver a title that works for whatever you're trying to do with the vehicle. So, guaranteeing check and guaranteeing title are very important. It is not the value of the car. We are based on the number of transactions and that's how our business model operates. What do we do this for? Well, in the buyer's side, we have over 150,000 registered buyers. And a registered buyer is not just someone who walks in and says, "I'm here to buy today, I'm gonna sign up." You must give us credit information. You must be qualified, provide appropriate licensing depending on the state. You must be a certified dealer or license dealer depending on what you plan to do. You must qualify to operate and have the credit limit to buy and you must pay for the vehicle before we allow it to leave our lot. So, that's a key element of the credit risk here. Who sells the cars? Virtually, everybody. The dealers would have signed up as buyers also sell age inventory or dealer trades that they take. There's all kinds of inventory that they're going to-- to take in from the consumer that they decide. They cannot or do not want to retail. We also have captive finance, company's banks, private lease and fleet companies, the OEMs, rental car companies, insurance companies virtually every commercial entity that has to take a car imposition and disposal, but would utilize the auctions. One of the key concepts that we have been talking about really for the past year is ADESA, a wholesale auction business has been under significant pressure. And you can see from this chart, this is a supply at the physical auctions, the wholesale used car auctions. This is in triple A data until you get to the forecast period, which is put together by our management team. And as you can see, this was a steady performer 9 to 10 million-- 9.3 to 9.7 really for over 10 years. And then, we ran in to 2008 and 2009, which was not really the inflection point for ADESA. But what we saw was an end of leasing temporarily. We saw new car sales drop. We saw the inability to finance a vehicle, a fewer consumer and the net result was disruption in the market in 2009. So, as we look at the growth drivers over the next few years for our business, KAR Auction Services, a primary driver of our growth is just the cyclical recovery in the used car auction space. ADESA, while we've experienced these declines anticipated them and had a respond to them. We can also anticipate that 3 years ago leasing took off in the United States and Canada. I'm sorry Canada is behind us a couple of years. But in the United States, the SAR began to grow. And what we've seen is the development of a pipeline of supply that began hitting the market in the second quarter of 2013. I'll let John tell you, but we posted a 10% year-over-year increase in volume sold at the ADESA auction business. And that will continue with a ramp that you can see on here that extends at least through 2015. And as I look forward in 2000-- here we are in 2013 with the SAR, the last couple of months, has approached 16 million, for the years expected to be in the high 15s. And now, they're putting out some initial projections at the SAR. I don't know what Ryan's official position as yet. But they're putting out numbers that are above 16 million SAR for 2014. All of that will result in a continued ramp because as we sell more cars on credit, or we sell more cars through leasing transactions, the net result is 3 years

later they're becomes a used car transaction that will have a likelihood of ending up at one of the auctions. So, we're excited to be faced with after several years of headwinds, shifting of the winds to tailwinds as a cyclical recovery will drive increased volumes into the marketplace. One of the things we did as part of a response to what was happening in the marketplace is look at the shifts. And in October 2011, we acquired an internet-only auction site called Openlane. And we've now through 2012 completed the integration in the United States of Openlane and ADESA.com. So, we now have a single venue. And as you can see from this picture, we represent virtually every label. Private label sales is kind of a key element. And what this is, is if you think of it as a funnel, this predominantly serving the off-lease marketplace. Every off-lease vehicle is returned to a grounding dealer if not acquired at residual value by the consumer. The grounding dealer gets an option to buy that at residual value, which is in the lease contract. If that residual value is above his perception or reality of wholesale market value, he is not going to buy that because that car will end up in the wholesale marketplace. The first step in that for virtually every off-lease car is the Openlane platform where they're offered in a close private label sale by the manufacturer and the captive finance companies to their franchise dealers. For 2 to 3 days, the dealer-- the franchise dealer of that brand has the option to buy-- bid on that car. And if they bid enough money, it is a static auction; it is not a live auction. And it's accepted by the consigner. They can buy that car with limited competition. After 2 to 3 days, it will typically be listed in an open environment on Openlane. Keep in mind the whole time this car is sitting at the grounding dealer where the consumer returned the car at the end of lease not been cleaned. Nothing done to the car. For 2 to 3 days, it's then made available to a broader marketplace, any registered dealer on Openlane. After 5 to 7 days, the car will be transported away from that dealer to a physical auction site. But what we thought about here is this is a chance to capture share. At the top of the funnel, we will get substantially all the cars listed with an opportunity to sell. At the bottom of the funnel, the cars that have not sold will end up a physical auction. If you look at our most recent 10K in 2012 results, we had about 23% marketshare. Our largest competitor is between 40% and 50% somewhere. So what that tells you with these cars listed, if they get through the funnel to the physical auction, there's a chance they're going to one of our competitors. In fact, I like to say 1 out of every 3 cars comes to us; 2 out 3 go somewhere else. However, we get a chance to sell every off-lease vehicle virtually. There are a couple that don't use our private label setup, but only a couple in the U.S. All those cars are listed, and if we sell them, we are able to generate that business without competition, because we are the private label site for all of these manufacturers. And the real strategic advantage, the other things since we've acquired it, we now allow the cars to be listed on Openlane while they're in transport to a physical auction site. So when it arrives here, I may say, hey, that gives you another few days for the online commerce, which is viewed as a way to get to the market faster by the consigner and generate value in the transaction. So, it's been a real positive for us to own this business. With the salvage market, a lot of people are

asking we've gone through a very strong period of time with high used car values, you know, very high repair cost. Therefore, the after-market recycled parts of them very well. This business is still a study and consistently profitable business because of the demand for after-market recycled parts in the collision repair industry. If you think about it, we've got all these vehicles; the valuation isn't that important because some of the parts is greater than the whole when that car is in an accident. And these parts are very valuable because about 14% of accidents result in a total loss. What that means? For every 7 accidents, one car is totaled, 6 are repaired by the insurance company. Think about that math. I've got 1 car providing the least expensive parts for 6 cars that are needing repair. And that is what you see on the right side on the lower chart. The utilization of after-market recycled parts has continued to grow and will continue to grow, especially as the vehicle part is getting older. We are now over 11 years old for the average vehicle on the road as you're driving around, over 11 years old. 4 or 5 years ago, John, I think that was 8. About 5 years ago, that was only 8 years old. These cars need repaired. What are the chances that current supply chain is manufacturing parts to service an 8-year-old Ford Taurus that isn't even today's Ford Taurus? These are the types of cars that really rely on dismantlers to find the components so they can get the equivalent of an OEM part, because really we don't have the parts manufacturing that we would have had 5 to 10 years ago where we were producing everything that we could and there was an abundance of inventory. So, this business is held up very strong and we think we will continue to grow. It will grow at a slower pace and we're seeing in the cyclical recovery of ADESA, but it will be an opportunity for steady growth, low single digit organic volume growth with strong pricing, not at the peaks that we experienced a year ago, April and May. That was the height of the salvage auction proceeds, but still very strong. If you look over a period of time, we are still at very high levels of auction proceeds for the salvage industry. So, a very important business as part of our platform. How we grown up? We have grown both organically and through acquisition. We've been very successful in gaining marketshare by servicing the insurance industry. We utilized a method of auction that is slightly different in our primary competitor. We offer every car online, As to the differences, simultaneously, we are offering every car in a live auction with live buyers and we believe we do that-- It is an increased cost to us and no we can't really charge more than our competition for the services. But the difference is we can yield a higher return for the consigner. And that's been a great part of our success over the last several years in gaining marketshare within the insurance base. It is again, in the competitive environment, we can differentiate ourselves by having a higher return to the insurance companies on the car that they took out of service, how much of that claims cost that they paid you for the value of the car. Did they recover from the disposal of that wrecked car? So, again, that's cost us to be a technology leader. 10 years ago, 7 years ago, maybe even 5 years ago, we were behind our competition. But our investment in technology over the last 6, 7 years has-- has gotten us to a leadership position. We announced earlier today, a new iPad app for

purchasing vehicles at the insurance auto auctions online auctions. So, again, you can be sitting in the lane and you can be manipulating, you can be buying at other auctions, or you can be buying live right there. We feel we are in the leadership level of the industry in terms of technology. The last leg of our three-legged stool as Ryan and I talked about at times is the floor-plan financing business. And what this is, is we are providing short-term financing to independent used car dealers to finance the inventory they have on their lot. If you are a franchise dealer, you have a captive that can provide that so don't come to us, because if they said no, we kinda take that as we shouldn't say yes. So, we typically are not dealing with any franchise dealers. It's independent used car dealers. Many of you may not know there are 38,000 or more now independent used car dealers in North America compared to 18,000 or possibly fewer now franchise dealers. So, this is a very significant market. The average loan is outstanding less than 60 days. We generate two-thirds of our revenue or slightly more than that right now from fees and not interest rate spread. So, this is a business in which we charge a very nice interest rate. It's attractive financing for both the buyer and us. And with low interest rate has a strong spread, but it's really a fee-driven business and we charge again fees for everything. We charge you a fee to originate the loan. If you need to extend it because the car isn't served, we charge you another fee. If you wanna-- If we have to inspect the cars on your lot, which we do every 4 to 6 weeks, we charge you a fee for that. And if you want to check on the value of the car, we probably charge a fee for that, because this is again a fee-driven business and we add a lot of value. But it's more than just loaning money. We have 104 loan origination offices throughout the U.S. and Canada located in the backyards of all of our dealers because they need help sometimes. We do a lot of title processing. We provide a lot of back office assistance that prevent them from having to add to their staff because these are typically small businesses. Our average line of credit is under $150,000. And when you borrow, you borrow for the specific car. When that car is sold, you must pay off that loan and you must then by another car to borrow more money. It is not a revolving line of credit, so a very attractive business. It's also a significant competitive advantage because we are offering any services to our salvage business to all kinds of dealers. We can-- We can offer as a promote-- We can offer some perhaps relief on fees if you're buying more cars. We can extend additional credit to use at our auctions as opposed to our competitors auctions. There's all kinds of strategic tools we can use by having the financing arm, and most importantly, we have ample liquidity to give confidence to the dealers. In June 2013, we announced that we were able to extend through June 30, 2016, our securitization facility and increased its size from a total of 750 million to 900 million. We now have 900 million to securitize receivables, 100 million of that is in Canada, 800 million in the U.S. And at this point in time, if you read our footnotes, we're advancing on about 75-- it's actually 78% in securitize with the remaining 22% held on balance sheet where we used our own capital to provide that financing. Very profitable business, very high EBITDA margins. Operates primarily in auction locations or right next to competitors' auction

locations right outside their gates, so we're in a very attractive business, very high ROE for a finance and we asked investors to really study this more as an ancillary service 'cause it does not operate like a traditional finance company and have the multiples that you will see there and our profitability actually demonstrates that. How do we grow the business going forward? We've had a good run of success in a very difficult market by growing our EBITDA, adjust EBITDA every year. But not growing in a rate that we had hoped for when we did this deal in 2007. But we were back to a cyclical recovery period where we believe doing more of what we've been doing will yield sufficient growth and then adding to that some longer term growth levers and those are looking to expand our option platform into adjacent space. So when I say that, we're looking at heavy duty equipment, you know, over the road trucks, RVs, boats, motorcycles more than just cars. We do like things that move and have titles or evidence of ownership because that's our business platform. So, we're not looking at artwork. We will admit that now, livestock or anything like that, but typically equipment and machinery-related things. We're looking to expand of this to consumers. I've mentioned that there's 12 million consumer-to-consumer transactions a year. One of the greatest barriers to those transactions occurring at the right price or even timely is trust. If any of you have ever sold a car to another individual you didn't know, it's something to overcome. You know, do I take a check? Do I not take a check? When you buy a car from an individual you don't know, did they steal it or did they own it? What's title looks like? And so, that's what we do for a living. And so our thought process is over time we're actually introducing a pilot in one city, in North America and it's not really that important. By the end of the year, we hope that they operated to see if there's a take rate on the value proposition of doing this on behalf of this. You know, we do it everyday B-to-B for million of transactions in a year. Can we do this for a small subset of the C-to-C transactions and make an economic model that makes sense to us and to them? We think we can. And especially with the success of Craiglist, I think most cars now are on Craiglist. eBay Motors is a listing service. Autotrader and Cars.com are listing services. There's a lot of places to find a car. There's no place that we'll stand in the middle of the transaction and provide value. On top of that, we have all these facilities, we can detail the car, we can do minor repairs for you before you sell it. A lot of things we do B-to-B. We have the ability to do on C-to-C transaction. And the last international opportunities are great for us. We've operated-- We say international, we recognized Canada is not part of the United States and Mexico are 3 sites-- are 2 sites there. On the same hand, it's really kind of a similar market and we're looking to see especially with our Openlane acquisition, we had the ability to go asset-light into new markets, and especially where many foreign markets have a heavier concentration of leasing than we have in the United States. And so, if-- you know, if you go to Europe, it's over 50% of new car transactions are in leases. At the end of those leases, they turned-- they have an opportunity and we're looking at opportunities to take our processes of inspections, inspection reports, handling the cars selling online without moving the vehicle around the various

geographies, that's very attractive and something that we're pursuing right now as a longer-term gross strategy. Nothing built into our current estimates for the year or anything that we're looking in the very near term, but we think long term asset-light low capital deployment we can get into this and really be successful at a very rapid pace. So, key investment highlights I've kind of covered them, but we're taking advantage of the cyclical trends where market leader in our 3-core businesses that operate is responsible duopolies. We don't compete on price. We compete every day, but price is not the primary lever, which we compete. We have a diversified business mix. We aren't relying on one segment or another. We have an attractive financial model that generates significant free cash flow and John is gonna go through the financials in a minute; he will show you some of those, and multiple avenues for organic and acquisition-related expansion, and lastly, an experienced management team. And as we had our earnings call last week, Jim Hallett summed it up by saying, "We face many challenges over the last few years as the auto industry has been under pressure, but we learned a lot from that and we really look forward to the next few years where there's a little bit of a tailwind, we recognized that not everything will go as planned. But we feel with the experience of the last several years, we can handle whatever is thrown at us and continue and grow at a faster pace or adjusted EBITDA on our free cash flow." So, I look forward to talking to you. I'll let John speak to the financial overview for a few minutes and then we'll take questions.

SPEAKER 3: Thank you Eric. I'd like to take you through a brief financial review and then hopefully we'll have plenty of time for questions. So, looking out over the last 5 years despite an industry decline in our whole car business of over a million units, we grew revenue by 10%. We achieved the 400 debt expansion in our gross profit margin to 44.6% and grew adjusted EBITDA by nearly 30% and expanded these margins by over 300-basis points. This performance speaks directly to two things; both are diversified business model in the strength of our management team. So as we discussed on last week's earnings call, our second quarter results were quite strong as we're posting 11% increase in revenue, a 9% increase in adjusted EBITDA and a 31% increase in that in computer share. Volumes were up doubled digits for 3 businesses with our largest business unit, ADESA, posting a 10% increase. And for those of you familiar with our story, that really was the newspaper headline. Just a word on Sandy, I think as Jim talked about on our second quarter call, we're glad this is behind us, but still, you know, Sandy did have a major impact on us for both the fourth quarter 2012 and Q1 in 2013, again, fortunately, it's behind us. More importantly than that, as we talked on the earnings call, we ended the quarter with insurance auto auctions inventories up 15%. So, I think that's a nice way to beginning a Q3, and by way of reference, we ended Q1 with insurance auto auctions inventories up 10% and they did post nice volume for the second quarter. So, just a couple of quick comments on our capital structure, which we continue to improve. Net leverage continues to come down. You can see we're at 3.3 times at the end of Q2. We're 3.5 times at the end of Q1, and by way of reference,

we are 4.6 times levered at the time of the IPO. So just a recap some of the capital structure actions we've taken. In Q1, we upsize their term B loan by $150 million and lower the effective interest rate by 125 bps. In April, we used that 150 million to take out our floaters. In just last week, we put on a $1.2 billion cap. The cap has a 2-year tenure and it caps 3-month Libor at a 100 bps, and by way of reference are current rate on our term B is L plus 275 with a Libor floor of 100 bps. And again, as Jim mentioned on our call, our goal of achieving net debt-to-adjusted EBITDA of 3 times or less remains unchanged. So, before turning it over to Q&A, I wanna share this slide, which pictorially represents our greatest investment attribute and for those of you who are familiar with car, you know it's our ability to generate significant free cash flow and we're gonna use that free cash flow to return capital to shareholders, to pay down debt, and to pursue strategic opportunities to profitably grow. And with that, Eric and I would be happy to answer any of your questions.

SPEAKER 2: One thing I should add, we have declared a 19 cent per share dividend payable October 3rd, shareholders' records September 24th that was on the slide, but that's an important attribute. We're a dividend paying company. Thank you.

QUESTION: Thanks, Eric. In fact, you are the highest yielding dividend company of the 20 that we cover. And so I would say that as I picture stock long, people are attracted to the fact that all of the key ingredients for the whole car recovery are kind of already in place, they've already happened, recovery in new car sales, recovery in lease penetration rates and lease originations some years ago. One of the questions I do get sometimes though is, you know, when those leases were written, the lease purchase options, you know, might be seen as potential bargains now and so could potentially more consumers opt in 2013 or so to, you know, to buy those cars with the grounding dealer look to hold onto them. I know in the future years that won't be an issue, but could you-- how do you respond to that?

ANSWER: Yeah. I mean, that was definitely the case in 2011 and early 2012 where there was positive equity in the residual values. Meaning, the residual value was lower than the current wholesale market value. Beginning about midyear 2012 according to ALG, that actually transitioned across the line and the second half of-- mostly the fourth quarter, but the second half of '12 and now in the '13, we're not seeing the level of conversion of the grounding dealer buying the vehicle at residual. They may try to buy the vehicle, but they're gonna try to negotiate a price below residual; otherwise, I'll just let it go to market and then buy in the wholesale marketplace where they can get it for, in many cases, thousands of dollars less right now. So, Ryan, you brought up a good point. This is always a variable you can't control because it's a function of wholesale values. But right now, there seemed to be pretty well and balance where the residual values are set reasonably well to the wholesale value at the end and what that means is generally the residual value is close enough that if-- if I need that car I can buy it, but not in the money to

the point where I'm gonna make it a financial transaction. And so, we're seeing more of them end up in the marketplace right now.

QUESTION: Okay, great. Thanks. And then maybe another question is that one of the things that exacerbated the decline, I think, in the whole car auction volumes during the previous downturn was that new vehicle dealers were selling so few new vehicles, they were desperate to sell anything, and so they kind of held on to more of their trade-ins than they traditionally, otherwise, would have been. They kind of like kept lower-quality older vehicles, and is there a school of thought as new vehicle sales come roaring back that new vehicle dealers will be new vehicle dealers again and maybe they'll send incrementally more of their trade-ins to whole car auctions like ADESA auctions?

ANSWER: Well, we clearly believe new vehicle dealers enjoy being new vehicle dealers and especially with the service component they get in their shops. At the same time, I think we read a lot of articles about the franchise dealers in the national retailers wanting to have more balance than they've had and more balance than they had before between new and used. And so, there seems to be a focused that they've-- and I hear numbers. I mean, who knows what they really mean, but they want kind of a balance between new and used, and if you go back to '05, '06, '07, they were all predominantly new. And you go to 2000 late '10, '11, and '12, they had an abundance of used and they'd like to kind of balance those out for both periods of times. They found that there is some value to their enterprise to have closer to 50. I don't know that it's 50-50. I think if the SAR went to '16 for next year, they'd be 60% new, 40% used. Because, again, we help them not have to hold inventory for long periods of time. They can let it-- They can let the car go. And interestingly, there was an article that was just written about it that the dealers are now, especially the national retailers, are retaining more trades and trying to retail them. But if you keep reading in that same article, it says they're selling more cars at auction than they ever did. What they're to do is do better trades, but when the trade does not fit their profile, they're selling it because there's 38,000 independent used car dealers that are gonna buy that car that the franchise dealer doesn't want. And that's a great marketplace and high-- It's worth more than that dealer than it was probably in trade-in value to the new car dealer. So, you know, as we look at it, we're seeing a robust supply-and-demand situation here for the next few years. And you know what? The biggest-- The biggest concern I have and you're going to ask about it, but we should start asking again, as well the OEMs start discounting putting pressure on used car prices, which will be disruptive actually to the supply chain with the used car marketplace. But it won't be the numbers of cars. It will be do we start playing with valuation. They've been pretty disciplined for a few years now and I think low-cost financing helps that, you know. They don't have to put and send those to get the car affordable right now 'cause the financing is affordable. But that would probably be the one thing Ryan and I worry about. More than I would, used versus new mix, I'd

probably more-- worry more about will they start putting aggressive incentive programs like we did 308.

QUESTION: Okay. And then, Eric, you mentioned that you participate in duopolies in most of your markets. One of them would be the salvage car auction market where I think the duopoly controls something like 70% or more, 75% of the market. There is kind of a duopoly, but then there's a lot of little mom and pops in some of these pools. We've been reading about a trend toward like national accounts where a single insurance company wants to sell all of their vehicles through one company. Maybe that insurer is in a lot of geographies as opposed to just one single place, you know. So does that benefit the largest players like so for example IAAA? Is there like a market share tailwind because of changes happening in the insurance industry?

ANSWER: Clearly, the insurance companies are aggregating because they don't have the infrastructure to support multiple providers and we provide technology, reporting, all the things that are valued to them so the consolidation has occurred. It is hard for the mom and pops to compete for anybody who operates outside of a single geography. And so, that's an advantage. And what you've read about the consolidation, but the national contracts, the exclusive national contracts are not the way it's going. There are some of those that exist. But generally speaking, you have to look at competition on a more regional basis. It is very difficult even for us that insurance auto auctions to say that we are the best place to sell that car when the wreck happened here. And the reason is the transaction is becomes cost. Why would you tow a car past my site to get to my competitor site and spend hundreds of dollars to do that? Because the value of the transaction has gotten so low with the wrecked car. So, I will tell you we have 163 locations. That's the answer. The answer is that. Our primary competitor has a lot of locations as well. Not quite that many, but very close. And so, you know, we service the markets and it's really-- the race to the top has occurred other than when you do get some local place that they can still participate in, but they have trouble-- The independents have trouble competing for the national player because they can't provide enough services across the whole network. So, thank you. I think--

SPEAKER 1: We still got--

SPEAKER 2: One more, yeah.

SPEAKER 1: We ran out of time. Okay, we'll go to the client.

QUESTION: Yes. Thank you. Just one question here. You mentioned that you're a consigner and maybe it's getting into the winds here a little bit, but you don't take title to those cars. Does the-- Does the seller-- Is the seller required to make all of the title labels to the DMV or is that a service that you provide? Does the seller represent to the buyer? And secondly, what happens at

AFC for the title process?

ANSWER: Okay, yeah. The seller-- We required the seller to be responsible for our reps, but we take-- we guarantee title. Meaning, if there's a legend on a salvage title, we ensure that that legend is properly identified before the sale and after the sale. So, and again, we receive this question a lot in the New York area during Sandy. You wanted your cars processed through a salvage auction 'cause that title is properly marked. There were over 250,000 cars damaged in Sandy and we know only about 100,000 or less were processed through us and our competitors. You better worry about those 150,000 cars. Ours are marked. I mean, because we, you know, again, we belong to organizations and have a lot of government oversight, very good question. In the title processing, again, we held the title as collateral at AFC. We won't release the title until the cars paid for. It is the collateral. We can protect that consumer by, again, if that title is processed through us, when that consumer buys the car, he's protected, because we will deliver the title and, ultimately, if there's a dealer that is perhaps not as clean as he should be and that consumer proves they paid for the car, we will have to deliver the title to the consumer even though we weren't paid 'cause they're protected through consumer protection laws. Again, that's a generality in a very state by state. But generally speaking, we provide a lot of professionalism to this whole process and it's really-- I would describe it it's very above board and very much in the open because we do it everyday. I'd worry more about the one-- the transactions that are happening between two parties that don't have tell anybody and possibly face, you know, the media. Thank you Ryan and thank you everyone for attending.

SPEAKER 1: Thank you.

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