

KAR Auction Services presentation delivered at the J.P. Morgan Auto Conference on Tuesday, August 09, 2016 at 2:15 PM

Ryan: We're going to move on to the next presentation. I'm very happy to have here with us Eric Loughmiller, the CFO of KAR Auction Services, and also Treasurer and new IR representative Michael Eliason. I'll invite Eric up here, and then we'll sit down for a chat. Thanks a lot.

Eric Loughmiller: Good afternoon, everyone, and thank you for joining us today. I thought I would take just about 10 minutes for an introduction of the company, and then turn it over to questions for all of you and for Ryan to really get into the things you're most interested in.

I'd like to introduce KAR Auction Services as it's a company that operates in three distinct business segments. The first segment is used car auctions. That's ADESA. You see that on the left side of the screen. ADESA is our largest business unit in terms of revenue. It's the sale of used cars on behalf of consignors which are dealers, wholesale dealers, franchise dealers, independent used car dealers. Commercial consignors would include captive finance companies, banks, private leasing companies, rental car companies or any other non-dealer consigner of vehicles.

This business operates in a duopoly with its major competitor about twice or a little more than twice our size, which is Manheim which is owned by Cox Automotive, a private company.

ADESA currently has about 27 to 28 percent market share as compared to Manheim's over 40 percent market share, somewhere there. They're not public, so we don't know the exact number. But it's a really strong business. As I'll get to in a few minutes, a strong driver of our current performance is it's in the midst of a cyclical recovery, but I'll have a couple of charts to show you a little bit about that.

Insurance Auto Auctions in the middle is our salvage auction business. Some of you who were in the room just a few minutes ago with LKQ, LKQ will be buying cars at auction such as Insurance Auto Auctions. They're buying those cars to be dismantled. That's a major use of the salvage auction cars. But there also will be some that are rebuilt and some sold directly to recyclers as scrap.

The salvage auction business operates in over 175 locations in the US and Canada. It is also in a duopoly situation where it's a co-leader in the business with Copart, a company that presented earlier today in fact. Copart is a public company that operates solely in the salvage business and is not operating businesses that are like ADESA or AFC.

The customers there, though, the consigners of vehicles are going to be insurance companies selling total loss vehicles. We also then have a portion of the business that comes from dealers selling aged inventory that's at the end of life. There's a portion of the business derived from charities.

Believe it or not, when you donate your car to Cars for Kids and things like that, many of those cars are then sold at a salvage auction and the cash is remitted to the charity to support whatever their purpose is.

Supply, compared to the insurance companies, it's small but in terms of the non-insurance vehicles, we're seeing charity vehicles coming to the auction market.

Our third leg of this stool, I like to call it a three legged stool, is AFC. This is a floor plan lending business focused on providing independent used car dealers with the financial resources to put inventory on their lot. We call it floor plan lending.

The average term of those loans is about 60 days on average. We have an interest rate that's prime plus a spread. Generally, you can think about eight to nine percent with a cost of funds using a securitization. We have a securitized obligation that has a total cost of about two percent right now.

It's got a pretty good spread. I'll tell you all about the interest rates and the spread. This is really a fee based business. About 70 percent of the revenue generated on a loan is from fees, not from the interest rate or the interest rate spread. It's a very strong business and a very strong performer for us.

Its focus is lending money to the independent used car dealers buying cars at auto auctions. Not just ADESA but any auto auction in the industry.

That's a brief introduction to the three business segments. I'd like to spend a minute talking about the car park. This is what drives our business. There are 283 million units on the road in the US and Canada. Of those 283 million units, 42 million change hands after they're on the road.

If you look at the left side of the screen, you're seeing in the US and Canada about 20 million new car sales. Those are cars that will enter the car park annually. On the right side, you'll see about 13 million cars that are taken out of service each year.

That 13 million, some will end up at Insurance Auto Auctions. Some of them end up in storage. Others are sitting...if you ever drive in a rural area, you might see them along the side of the road abandoned. Who knows where they are?

The recyclers get some direct, about 13 million units. If you look at our market, between us and Copart, and the independent salvage auction businesses, we're selling about four million of those units through our auctions, leaving about nine million cars looking for a home. That's obviously an opportunity to continue growing that business at a steady rate.

When I get into the churn within the car park, that 42 million, how do those 42 million cars change hands? Twelve million are consumer to consumer, so think of Craig's List, eBay Motors. All of those are, even Auto Trader is a match-making service.

It's someone with a car advertising to someone who wants to buy a car, but in each case, the transaction might occur from one consumer to another. The consumer that owns the car selling to the consumer that buys the car. That's outside of a dealer network.

Then you have 30 million transactions which are through dealers. That, again, would be franchise dealers and independent used car dealers. Of the 30 million transactions, where do they source that inventory?

Twenty million of those transactions, they're going to source with trades or purchased vehicles directly from a consumer, or perhaps trading a vehicle, not using an auction, from another dealer who maybe took a trade-in.

An example of that might be -- I always like to use this example -- when you have that Honda dealer that takes a Toyota Camry in trade for that new Honda Accord. He's probably not very interested in selling a Toyota Camry, used, on his lot.

Down the road, he's got the infamous Toyota dealer, who just sold a Honda Accord to someone

who drove a Toyota Camry. They might call each other and say, "Hey, do you have any inventory I'd be interested in?"

They could just exchange those cars, maybe with cash, maybe without. They don't need the auction to do that. They're in their local market. They're not competing with each other in their brand of used cars. They're competing more on the new car nameplate.

When they can't get together on their price, they can't decide on the price, what do they do? Ten million of the units that they sell retail, they are going to source from an auction like ADESA. The sourcing of that is because aged inventory of a dealer, off-lease vehicles from the captive finance companies, repossessions from the banks or the captive finance companies, all of those are coming to auction, and that dealer is going to these auctions to get the inventory to match up to the needs of their community.

CPO is a big part of the retail used car trade right now, and a big portion of those cars are bought at auction, either as off-lease cars or even end of use rental cars. It's a big part of the market, and we see a lot of churn there.

Driving a lot of the investment thesis for KAR Auction Services is that we are in the midst of a continuing cyclical recovery in the used car auction space, the wholesale used car space. That is being driven by a transition from a low SAR of 10.4 million units in 2009, growing to our current SAR levels that Ryan will tell you a number. I will, in the 17 million plus or minus range. Is that fair, Ryan?

Ryan: [inaudible] .

Eric: What was it? 17.9 in July, I think, some quoted?

Ryan: 17.88 million in...

Eric: 17.9, by my book. I need rounding up, not like you.

A lot of cars are changing hands, and over 30 percent of retail transactions have been through leases over roughly the past year. The recent month, it was a little bit under 30 percent, which is a change, but generally speaking, it's been 30 percent plus.

Those cars have an average lease term of three years. At the end of three years, that car comes back, is owned by the captive finance company. The consumer may buy it at a contract residual amount. If they pass, the grounding dealer, the dealer in which you return that vehicle, can buy it contract residual. If they pass, the car will get listed on a private label site, generally, operated by ADESA through its OPENLANE technology.

We have a very significant market share. We represent all but about a handful of brands with their private label sites. It moves through the online offering, then progresses down...I should go ahead.

This is the funnel. It progresses down to an online open, where companies such as CarMax, independent used car dealers, or franchise dealers, can buy off-brand, their non-franchised brand.

If it doesn't sell in five to seven days on the online venues, it then goes to a physical auction, and this is off-lease vehicles only. Other cars may use this same funnel, but they aren't using it. One hundred percent of the off-lease cars are going to go through this process, and the reason being the captive finance companies are not permitted to retail the car. They don't have alternatives, and they don't want to choose which dealer is going to get the car by any means other than who pays the most, and so they run these auctions online followed by physical.

Why would a car not sell online? I might ask why would a car sell online. I would never buy a car based on a picture.

Some of these cars, they have condition reports prepared at the end of lease. That condition report is very accurate, independent...it's done by a third party. That condition report makes the off-lease vehicle a car that is a confident purchase by the dealer.

If there's damage disclosed, they're going to bid less money or not bid at all. Why would a car go to physical auction with all that information? Because the car probably has door dings, a scraped bumper, a hole, it's got a damaged windshield. It could be any number of things.

At the physical auction, not only do we handle the auction of the vehicle, we have substantial facilities for reconditioning vehicles. If you ever get a chance, go to one of our auction tours that we host. We do them quarterly. You will see more activity than you ever can imagine sitting in this room. You will see more facilities.

We operate like a factory. When we do a Boston auction tour in May, we can paint up to four cars simultaneously, four different colors in a single paint booth without any spray of the paint touching any of the other cars. They can remove in Indianapolis. I've seen them have 40 bumpers lined up, repainting bumpers.

I believe that if all of us found that scratch on the bumper, we'd have it repaired if we could pay $150 instead of $1,800 at a collision repair shop.

It's a business that's meant to recondition the cars into a condition that can be retailed. An off-lease car with a little bit of damage is going to come to a physical auction facility, be reconditioned, and then sold retail ready at a higher value.

Why would they do that? To protect the residual values. The entire new car process for leasing is based upon setting a residual value so that the consumer who can't afford, as I like to say, the entire car can pay for half the car. Paying for half the car requires that residual value to be at a certain level.

That's a big part of the cyclical recovery, a big part of the drivers of growth on the top line revenue and now the EBITDA expansion and the earnings per share expansion for our business.

I'm going to stop there and turn it over to Ryan. I could cover a lot more detail on the salvage business or floor plan lending business but I'm sure he's got questions he'd like to cover on more details of what's happening within the ADESA used car business.

Ryan: Absolutely. I'll ask some questions and then we'll turn it over to the audience. Maybe a first question is just, I think we can all pretty much agree that the off-lease volumes are going to increase solidly for years to come, no matter what happens with SAR lease penetration from here on out.

I wanted to get a little bit more granular and see what that progression would look like. I think outside the industry, there's not a lot of sense of off-lease volumes are going to be stronger or softer in the back half of the year versus the first half of the year on a year over year growth basis or something.

Can you help us understand how the ADESA business tracks throughout the year after a very strong first half and maybe comment on ARPU outlook, as well as volume?

Eric: Sure. History was written three years ago when the leases were written. They're going to mature and terminate on an average of 36 months. That's the average lease term. I am not allowed to publish this chart but I have a chart for anybody that wants to come up afterward.

It's monthly lease originations for retail sales in the United States. There are more lease returns in the second half of 2016 than there were in the first half of 2016. That has nothing to do with the volume at our auction. It has to do with transactions for years ago.

As a result, we are confident in the cyclical recovery. Here's the more important news. There are more cars in 2017 that will be returned from leases than 2016 by 400,000 to 500,000 units. There are more cars in 2018 than in 2017 by another 500,000 units.

That is how we grew the SAR at the top of the chart that I have in front of you here because I knew where the question might head. That's how the SAR in part grew from 10.4 million units in 2009 to 17 and a half million units in 2015.

That, in part, is driven by over 30 percent of new car sales being lease originations. The remainder would be, in part, attributable to credit standards. We have subprime lending at an all time high in 2015 going into 2016.

All of that is good for us. It's not just off lease. It's also repossessions. We've never seen a car sold that we couldn't pick up in a tow truck. We have a very large portion of our ADESA business that does repossession processing for banks and captive finance companies.

They aren't set up to have repossession agents. We are the middleman that contract between the lending institution and the repossession agent.

What I'm describing here is a strong visibility into commercial volumes. That is what's driving the cyclical recovery. It will continue for the next three years. It may go beyond that based upon the SAR growing this year and strong lease originations and strong use of subprime credit. Likely we'll see that trend continuing, maybe even beyond 2018.

In terms of revenue per unit, what's interesting is, during the cyclical recovery, we are seeing a transition two years ago, roughly the end of 2013 and 2014, in our industry for the wholesale used car auction industry, 60 percent of the volume was dealer consignment, meaning a dealer moving excess inventory, off-brand inventory through the wholesale auction, and 40 percent was commercial volumes.

Let me tell you a little bit about revenue per unit. The dealers have their own facilities for body work, mechanical work, and cleaning up the car. They drive in on auction day. They drive out. We get a buy fee and a sell fee from them.

The commercial customer, though, doesn't have those facilities. They don't have land to park the car on. We provide a lot of value added services. I believe, over the next two to three years, the industry will move from a 60 percent dealer consignment to 40 percent commercial to 60 percent commercial, 40 percent dealer consignment based upon what we experienced in 2009, the last peak in lease returns. That was the industry volumes.

The good news for that is that the off-lease vehicle in particular, but the commercial vehicles in total are the bigger users of our ancillary services.

At our auction in the second quarter, we averaged $742 of revenue per vehicle sold. That was up eight percent year over year based upon the mix of these vehicles. That number has been growing quarter to quarter sequentially. That number is actually growing in direct proportion to the mix shift to more commercial vehicles.

We have not only a strong visibility into volume, but we have also strong visibility into a segment of the vehicles that's the biggest users of all of our services driving revenue per unit to increase.

Again, that's in the physical auction space. It's an opportunity, Ryan, for us to have stronger top line revenue growth which is generating...

Again, some of the ancillary services are lower margin at the gross margin level, but the leverage in our business makes it a strong contributor to high incremental EBITDA margins, which is how we're evaluated, generally.

Ryan: Thanks, that's a lot of great color, and I know you get a lot of questions. My first question

was about what's happening in off-leave volumes, etc. It is only less than 30 percent, I think, the total volume.

Can you talk about some of these other drivers quickly? You mentioned subprime finance, so I assume you meant as could impact repossessions. Maybe talk about what you see happening with repossession volume, what you see happening with dealer consignment volume as the SAR softens. I think your dealer consignment volumes were off a little bit in the most recent quarter, so the non-off-lease vehicles trends. What are you seeing there?

Eric: Again, all the commercial segments are showing strength within our market, so let's start with it. Repossessions are up, not because credit is getting worse. It's actually up because there just is simply more credit, and when there is more credit issued, over a trillion dollars in automobile loans, there's going to be, at the same default rate, more cars being repossessed.

We all know subprime doesn't make it a bad loan, but subprime is a riskier loan, which will have a higher incidence of repossession. The more that they're focused on the subprime the more likely there will be more repossessions.

We saw in 2008, there were about 2.2 million repossessed cars processed through our industry. That number dropped by 2012 to just over about 1.1 million of repossessed cars, and now it's grown back to 1.6 million in 2015.

We think that number is going to continue to grow. Our industry economist, the National Automobile Auction Association economist, predicts that number is going to grow over the next couple of years to about 2 million units, so there's one source.

Rental car companies talk a lot about how they remarket their vehicles. That is a very small segment for ADESA, and it's less than 10 percent of our industry. It's even less of our business because of a concentration with one provider.

At the same time, they're actually becoming an increased user of the auctions. As car values are declining, we are predicting with this influx of supply. Wholesale used car prices are going to decline three to five percent this year, and be on a trend of declining over the next several years because of, again, the supply of vehicles coming back. That motivates the rental car companies to de-fleet quickly.

When they look at their alternatives to the auction, all of them take more time. They have to balance, "Will they get a higher return on that remarketing with more time, or will speed be their friend relative to depreciating values of vehicles." The rental car is growing a little bit, and for us, even growing a little bit more, but it's a small piece.

Again, the banks are really dependent, a little bit of leasing, and more repossession. That's a good source.

The dealer consignment is shrinking, and I think that's a misconception I've been dealing with some investors on since our quarterly announcement. This is something we predicted, actually, a year and a half ago, and it only took us three or four quarters to see it happen. With this influx of commercial vehicles, it's actually displacing cars that otherwise the dealers might have sold at auction.

The dealer tends to be more price-sensitive, Ryan, and therefore, when they come to auction, if they're not getting a particular value, they're likely not to sell the car, even though they run it.

On contrast, the commercial consignor, whether it be an off-lease car or repossession, is an absolute seller. They do not have alternative channels to move the vehicle. They may not sell 100 percent, because they're looking for top dollar, but 100 percent of those cars that are on our site will ultimately sell off of our site, with no exception. They don't move them. It's too expensive to move the vehicles and pay the transportation, so those cars will sell.

Generally speaking, the dealers are more interested in that commercial vehicle, plus you have a maintenance record, you have a single owner of those vehicles. You generally know the condition of the car. They tend to be lower mileage. A dealer consignment car, the average age is over seven years old, where an off-lease car or repossession, the average age is three years or even less.

Again, it's a displacement more than, I think, a function of what the current SAR is. There is an element of the SAR, but only a fraction of trade-ins on new car sales really result in a wholesale transaction. We're probably more interested in the churn within those 42 million used car transactions.

Half of those have a trade. That's the number of trades that's greater than the total number of new car sales in a year, if you take the half that have...And it may be even over half -- 60 percent, generally, is what they would expect the trade.

We look at the total marketplace. We're not really as tied to the SAR as many think, although that is an influence on the number of trades.

Ryan: Great, thanks. I'd like to ask a sort of similar question, but about the salvage car market. We don't have a national auto auction association on the salvage side, but if you take your and Copart's numbers, it appears like it's growing double digit. Maybe you're both taking some share from the mom and pops, but there's not too many of those left.

What is causing what would ordinarily, I think, be sort of a mid-single digit in a good year of business to grow double digit currently?

Eric: Well, I want to thank everybody in this room for driving their vehicles, because if you're driving, you're going to have a wreck. Now, I know individually, you think not, but the truth of the matter is, miles driven is a direct contributor to accident frequency.

With gas prices lower, there are more accidents, because we drive. Perhaps maybe we drive faster, because we're not worried about fuel conservation. It's actually the density of the vehicle. If you think about it, our infrastructure was built in the '60s throughout most of the United States. I think there were a lot more cars on the road today than there were in the '60s.

We're crowded. New York City, Chicago, Illinois, most major cities, have a rush hour, and there's a lot of accidents. Compound that with...LKQ was up here just before me, talking about the technology in the vehicles, and how that's helping them, because after-market recycled parts.

When you have that accident, and they go to repair the car, you might say, "It was just a fender bender." Yes, and you've got $32,000 in sensors that were just damaged because of the impact.

If you take your computer, take your iPad, and drop it just from shoulder height, you've probably damaged something. That's what you did when you ran into the rear end of that car at 15 miles an hour, is all of those computer elements are damaged.

Now, with less physical damage, there's a higher likelihood of a total loss. Why? Because Rob Wagman was just up here telling you how valuable those parts are. You can't afford to go buy those parts from the manufacturer one at a time. They've estimated that if you were to build a car individually with single components that you need, including the electronics, your average car of $30,000 would cost well in excess of $100,000 in parts if you bought them one at a time.

Those sensors they're selling to the OEMs in huge quantities, and we're buying one or two. We've mandated in the United States that every tire have a sensor on it so we know if that tire pressure is low. The sensors may cost as much as the tires, if you had that front end accident, and it hurts them.

All of this is feeding to a low...Even though frequency has been down -- although it's spiking up, according to the Allstate announcement, and Hartford, I heard, made an announcement -- they're

having more frequency, the severity of accidents, claims cost is actually very high.

The only way you can repair that car is with an after-market recycled part, because you can't afford to buy the OEM part, and here's the great statistics. We're up to about 17 percent. That means out of every six accidents, one car gets totaled, five cars get repaired. That's a pretty good equation for the value proposition for the salvage auction.

We're seeing more growth. Again, I would argue, and I hope if any insurance company representatives here, I'm not insulting you. I don't think they care about the consumer any more. They care about the premiums and the claims costs. It used to be they might not total the car, or they might total it because, "I don't want to drive it again."

It's straight math right now. That car, if it has damage over a certain percent of the value of the vehicle, it's getting totaled, and it's a business. They're trying to reduce claims. Their sole purpose in totaling that car is because that will reduce the claims cost.

What they pay you for the value of the car, less what they recover from a salvage auction, is less than what they were going to pay to repair the vehicle. It's simple as that.

We're seeing more volume. We are seeing a little bit of consolidation with the two major players. I think that contributes to our volumes, but generally speaking, it's been a pretty good run for the last few years in terms of lower gas prices, higher incidents of us running into each other, and generating a lot of volume.

At the end of 2015, 17 percent of all insurance claims in December resulted in a total loss. The highest number in history. I hear it's moderating down, but it's not going down below the mid-teens. I hear in the current months, because probably it's summer, and there's less weather, it might have dropped down to 16 percent, but that's a high percentage. I think technology is a driver of that high total loss percentage.

Ryan: It sounds like just in the relatively recent past, that accident frequency has increased with more miles driven and whatnot. I think the long run history of the last 20 or 30 years has been generally reduced accident frequency with some of the safety mechanisms and whatnot, but increased accident severity and salvage frequency because the higher cost of repair, which is what you've been referring to.

I was wondering if you could take it all the way to it's conclusion, 20 years from now, if we're all running around in autonomous or driverless cars or whatnot, if there's a significant decline in accident frequency, is the resulting increase in accident severity with all of our LIDARs and everything like that, do you think that's going to be sufficient to net to higher or flat industry volumes, or...?

[crosstalk]

Eric: Ryan, you gave me some assumptions I strongly disagree with, but I'll go with it anyway.

[crosstalk]

Eric: You said 20 years. It's more than 20 years before there were enough autonomous cars. Think about it. I just told you the number -- 283 vehicles on the road. We're selling, call it, 20 million vehicles a year. How many of those cars today have all of this technology in them? They have some.

We are looking to turn over the car park. It's going to probably, I estimate, 25 to 30 years before we could have a meaningful contribution from enough cars interacting together so that we can reduce it.

But I'm going to go with his assumption of the cars. Here's the good news. I'll be out of this business long before that happens, and in the meantime, the short-term impact is higher repair

costs, higher use of the salvage auctions, and I will tell you, it's likely to be a short-term positive for the salvage industry.

At some point, I do agree, we are focused. Now, I'm going to flip this, because I'm a CFO of a company that's in this business, so give me a break. What is the purpose of all this technology for safety? Is it to save the car?

Ryan: To save lives.

Eric: It's to save lives, and therefore, to save lives, you must allow the cars to impact and slow down. If you really study, and we have insurance executives annually. I've seen the movies. I'm not an expert. I'm not even a car guy, believe it or not. I believe in the color of money, and green cars don't sell, they tell me.

What I will tell you though is accident avoidance is about fatal accident avoidance, because if I stop the car, and I saw this in a European video, at above 35 miles per hour, they say that if you suddenly stop the car, without deploying the airbags, you've actually killed all the occupants anyway, because of blunt force trauma -- the likelihood above 35 miles an hour.

So, the key is to slow the car down, reduce the impact. Because if they avoid the accident completely, something has to stop at an unnatural pace.

I'm not saying this is absolutely true. I'm not a scientist, but I saw the videos where they were going through. It is actually extremely effective below 35 miles per hour. The concept how is when I'm going at 60 miles an hour on an expressway and I have a choice, "Does my car hit the car in front of me, the car to my right, the car to my left, or the car behind me?" What technology is going to make that moral judgment?

I'm saying you can't put that kind of intelligence in the vehicle, "Which life is more valuable around me if I'm going to hit it at 60 miles an hour?" What it does, it tries to deflect impact and move the cars around. It's going to get in an accident.

It might even force you into a side-swipe accident to slow the car down. The head-on and the t-bone are the most dangerous accidents.

Ryan, you study all this, don't you? You have IHS speaking tonight.

My point to you is we're a long way before there are no accidents, notwithstanding the Texas pickup truck that he's driving with whatever he's got in the backend, and he doesn't really care about that little -- "If that car didn't have a driver, watch this." I saw this when they had those little bumper car places at the amusement park.

It's going to take a lot to transition, in my opinion, the entire car park, to where I would see it. Twenty years isn't unreasonable, but it's a lot of years before I think it's a meaningful enough part of the car park, where you can actually see it contribute, other than in small pockets. I think there will be areas where you'll see it work, where there's a high density of those vehicles, but how do you replace 283 million?

Ryan: That's a great answer. There are also vehicles at your auction that have not been involved in collisions -- flood, hail.

Eric: My favorite is recovered stolen theft. It's a completely perfect car, but it's required by law, if it's been missing for so long, to be declared a salvage or a total-loss vehicle. We get to sell those at salvage auctions, and they especially like luxury cars and high-end cars. Apparently, they're easier to steal. I don't know why.

We end up with those, and those are very high-value cars, and we sell those at salvage auctions, as well. Maybe the autonomous cars will get stolen, and I'll get to sell them anyway.

Ryan: There you go. Are there any questions in the audience?

Audience Member: When you were talking about rental cars, you were talking about used car prices coming down. But we see the Manheim data over the last few months, which has actually been quite strong. From your perspective, what are you seeing from that? With all the off-lease vehicles coming in and not seeming to impact the used car values, what do you make of all of it?

Eric: Ryan, I don't know how the Manheim Index is calculated. Used car prices are coming down, and I know the Manheim Index was just published at 127. I know the index seems to indicate something else.

As I looked at it, I went to our economist, Tom Kontos. He publishes "Kontos Kommentary" and he's talking about it. I heard that Ford announced, in their earnings release last week, some information about how they view residual values.

There is nobody out there who is telling me that used car prices are increasing right now. I do believe what we're capturing is a richer mix of vehicles. There are more late-model cars entering the wholesale transaction market place. That might be distorting the numbers. Again, I'm not going to speak to his calculation, but I talked to Tom Kontos and he agreed with me.

Yes, what's holding up average auction prices is the mix of vehicles. On a like-for-like car, prices, due to the increased supply, are likely declining, or due to a decreased demand. If you think about it, if I have an eight-year-old car that I'm going to sell, is that the car that they're going to the dealer to get? No, they're trying to get the five-year-old car, the four-year-old, so we're getting a richer mix, Ryan.

I think that's distorting the number. We believe there will be a three to five percent decline in average wholesale used car auction values during 2016. If this trend of supply continues, that decline is likely to continue on a like-for-like basis. Like-for-like means three-year-old used car with 40,000 miles, in excellent condition, not a Ford Taurus. It's really trying to get to the age of the vehicle and the value proposition.

Go ahead.

Eric: We see declining prices right now. Again, you have to look at the details. I would say the NADA has an index they're publishing that is showing the declines, and I believe their source of data is all-auction net data, as opposed to an individual auction.

I know the ADESA average auction price is going up, but it's because we have more three-year-old off-lease cars and more young repossessions, not because a five-year-old used car is costing more this year than it did a year ago.

Ryan: Great. Unfortunately, that's all the time we have for it, but thanks so much.

Eric: Thank you.

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