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<<Craig R. Kennison, Analyst, Robert W. Baird & Co.>>

Okay. Good afternoon, everyone. I think we'll get started. Welcome to the KAR Auction Services corporate presentation. I am Craig Kennison with Baird Research. KAR Auction Services is a leading provider of auction services for used and salvaged cars and offers floorplan credit to dealers as well. We are very pleased to have with us today the Chief Financial Officer and Executive Vice President Eric Loughmiller and soon the Vice President and Controller, Scott Anderson. Eric, I think we'll begin with just a couple of slides to frame the opportunity here and then we'll get into a fireside chat.

<<Eric Loughmiller, Chief Financial Officer and Executive Vice President>>

Thanks, Craig. Let me just start with a brief introduction. Scott, you can join us up here. We were running late; that's why Scott is not here yet. But I ran down from our last meeting. But our business – KAR Auction Services is made up of three primary businesses. We have a used car auction business that operates in 76 locations throughout the U.S., Canada, and Mexico. And as of last week, we've added an online offering in the UK called GRS.

The used car auction business, we are taking used vehicles, wholesaling them, typically on behalf of dealers, financial institutions, captive finance companies, original equipment manufacturers, and rental car companies, and selling them to retail operations, both franchise and independent used-car dealers. It is a B2B business. We operate in a duopoly. Our primary competitor is Manheim which is a subsidiary Cox Automotive, part of the Cox Media conglomerate. That's a private company.

We have with our recent acquisitions about 27% – we had 25% market share at the end of last year. We've acquired two independent auction businesses this year in the U.S. That puts our market share up probably 27% to 27.5% compared to Manheim's 40% to 45% market share. The second segment is insurance auto auctions. Insurance auto auctions is a salvage auction business. The primary vehicles we are selling there are total loss vehicles being processed by the insurance company.

So when you end up in an accident, if they declare your car a total loss, they are going to pay you out on your car and they are going to try to recover some of that claims cost by selling the damaged vehicle. And many of those cars end up being taken apart for parts because the sum of the parts is worth more than the whole of the vehicle. These parts are very valuable in the collision repair industry.

So insurance auto auctions another operates in over 170 locations in the U.S. and Canada and we have 14 locations in the UK in a business over there. We compete in all of those markets with Copart, a public company that has again very similar market share in North America as we have

about 40% market share for the U.S. and Canada for both of us. In the UK, they have a dominant market share position and we are a small player. We just acquired HBC over there last year. We are under 10% market share and they are above 60% market share in the UK.

And then our last leg of the stool is AFC. It's a floorplan financing business where we are providing floorplan or inventory financing for the independent used-car dealers in the U.S. and Canada. And this is a great business. About two-thirds of the revenue per transaction is generated from fees, with only one-third generated from interest rate spread. So very low loan losses. Very high ROE in that business for a finance company. We actually – while it's a finance company, we view it as an ancillary service and additional services that we are providing to the dealers.

Its primary customer base are the customers buying at used-car auctions. They do a little bit of salvage. They do some other things around motorcycles, power sports, RVs, a little bit of heavy equipment, not much. But most of it is used cars bought at auction. Again, a great business model when you put it together. Now when I talk about it, our average DSO in the ADESA business, and the IA business would be similar, is five to seven days. Because you can't take the vehicle until you pay for it if you are a buyer. And the floorplan is the way we give them extended terms.

So unlike many companies you talk to that might have a 45 to 50 day DSO in automotive, we are charging them a fee to extend terms beyond that five to seven days. If they haven't paid for the car in five to seven days, we've got another auction the next week. We are probably going to sell the car to somebody else. Because again, that's why the DSO.

And our balance sheet, it looks a little different because our receivables are grossed up for the gross auction price that we collect from the buyer. Not just in our revenue is just the fees we are charging. The payables, though, if you look at it also are grossed up for the amount we owe the consignor. So those two offset. So that's a brief introduction.

The last point before Craig wants to hammer me on this is why should investors really look at us right now? And one of the main reasons is we are in the midst of a cyclical recovery in our largest business segment. Used-car volumes are increasing in the wholesale marketplace. They are being driven by lease returns. We had a significant recession in especially new-car sales, which created a shortage of one- to five-year-old used cars for several years and that shortage is being offset now by significant lease returns.

In fact, as you see here, we expect the volumes to increase over the next few years. And we have great visibility in this because those are transactions that occurred three years ago, two years ago, and one year ago as new-car sales have been increasing and lease penetration rates have been increasing as well in the U.S. and Canada. We have an interesting business model. Not only does this give us some volume increase, but the mix of vehicles will be stronger for generating higher revenue growth for us than just the volume growth. And I'll let Craig dig into that topic, but that is a primary driver of performance.

All of our businesses are performing quite well right now. All of them are growing. But the real accelerated growth pattern and the improved incremental margins are coming out of the ADESA

unit and heavily influenced by this off-lease trend. So Craig? We've got – I did it with 20 minutes to go for Q&A so we can get to questions.

<<Craig R. Kennison, Analyst, Robert W. Baird & Co.>>

We do have plenty of time. It's a fireside chat format, so if you have a question, feel free to raise your hand and ask the question. You can also send me a question on this device and someone has already done that. And we have a zinger to start, Eric.

<<Eric Loughmiller, Chief Financial Officer and Executive Vice President>>

A zinger? I like that.

<<Craig R. Kennison, Analyst, Robert W. Baird & Co.>>

Yes. For years we've heard this story about how off-lease volume will benefit you with a three-year lag. What happens when SAAR rolls over? What happens to your business?

<<Eric Loughmiller, Chief Financial Officer and Executive Vice President>>

Again, the business historically, we are about 15 years operated with very – until 2009, it ended in 2009 and had very similar volumes. The industry was selling between 9 and 9.5. 9.7. One year hit 10, but that was an aberration. And off-lease volumes moved up and down. You know, I do believe at some point, SAAR will roll over. I'm not here to predict what number it will be. And we'll have sufficient volume of cars. The advantage is I can adjust my efforts around – so we have really had a perfect storm in the first quarter this year.

We saw our off-lease volumes increase. We saw a revenue per unit go up and we saw dealer consignment grow 10%. That is unexpected. We do think over time dealer consignment volumes, cars that dealers have taken in trade or have been trying to retail that they are not successful retailing, moving it through the marketplace to maybe an independent dealer or an alternative retailer, those volumes I think will offset it. At a point where new-car sales were to decline from current levels if that were the case, I think that's what they mean by roll over, we would probably see other segments. What happens with new-car sales?

You might see more interest in the rental car aspect. We are not dependent on any one segment. We tend to have stable volumes. In a period from 2009 through 2012, we saw 500,000 fewer transactions at ADESA. Yet, KAR Auction Services was able to improve its EBITDA every year during that downturn. That's a 25% decline in volumes at ADESA. What happens is, though, we get a lot of leverage in our business that we can then deploy capital differently. We can seek alternative growth. We think – and it mainly because when these things happen – I'm not a retailer. I'm not going to be faced with well, today I'm selling fewer cars. I'm going to be faced with what am I going to do in three years when the reduced volume hits my used-car marketplace and I have time to prepare. So Craig, we think we can react to it. We think it's a reality that someday may hit, but we think we are well positioned.

The other thing, since I like turning these questions into all my themes for you, we just announced a transaction in the UK. We keep talking about the UK market. We also have very significant market share in Canada. Those are two markets where the recoveries are in a different time frame than the U.S.

There, new-car sales are just recovering back to historical levels. So our business is not solely dependent upon the U.S. SAAR. So I feel I have enough levers. I can perform, and if it affects my business to the negative, I think I can respond by proper capital allocation, generating increased earnings per share and increased performance, however – whatever my alternatives are at that time.

<<Craig R. Kennison, Analyst, Robert W. Baird & Co.>>

Eric, could you explain your off-lease business, describe the funnel, and what's happening at the top of the funnel as more and more cars come off-lease?

<<Eric Loughmiller, Chief Financial Officer and Executive Vice President>>

Those that may be new, this is the infamous now funnel. So when a car comes off – when a car is leased, the average lease term today is about three years. 36 months. It's actually looking like it might be declining to about 35 months, I hear, because they are putting some – they are trying to spread out the timing when they write these new leases. There's probably some 32 month leases, some 24s. Maybe some 42s, 39s. That's how they do it. But right now, the average is about 36 months. At about three to four weeks before your lease terminates, you are going to get a call and someone is going to come out and do an inspection of the vehicle.

By the way, we own AutoVIN and last year in June acquired DataScan. KAR Auction Services, through its ADESA subsidiary, is the largest end-of-lease inspection company in the United States and Canada, which means in the world because these are the only two countries where they really do it that way. We go out and do an end-of-lease inspection where there is a full inspection of the vehicle. It is not a cursory review this is in good shape. It's every door ding, every scratch is identified on a description of the car. They are taking 20 to 30 pictures of the car and submitting – they are starting the vehicle, checking the mechanical capabilities of the vehicle, looking at tire wear, windshield chips. It's a very detailed inspection.

In doing that, they are determining, number one, whether you the consumer or the captive finance companies have any issues to deal with, excessive wear and tear. And they are going to withhold your security deposit if you had too much damage to the vehicle. Or they are going to tell you hey, you're going to get your entire security deposit back when you turn that car into your local dealer. That inspection report is the start of the process for the funnel. With those pictures and that inspection, the captive finance company when you return it to the dealer has the opportunity to remarket that car without doing any work on it.

So what will happen is you turn the car and release that, that dealer's going to say do you wish to buy this car at contract residual? Automotive News at the beginning of 2016 wrote that the average lease termination this year has a residual value at 52% to 54% of MSRP three years ago. That's just a financial measure that they use and that's reported by the various lease reporting companies.

And they project that wholesale values of those same cars this year could decline to as much as 48% to 50% of MSRP.

So obviously that means there is declining used-car prices from what there were three years ago, Craig. So now, the wholesale value arguably is less than residual, and this will vary car by car. Those are averages across the whole spectrum of vehicles. And that's Automotive News, not Eric Loughmiller quoting his own research. Well, what that means is the consumer is not likely to buy the car because it's not worth the value that they have to pay to get the car. They would be better off to turn it in, probably get a new car in a lease transaction.

The dealer then has the option to buy that car at that same contract value. Well, the dealer knows wholesale value and they are passing on more of those cars. And now it goes into our private label sites. And the private label sites we operate for a substantial number, a very large majority, probably 90% of the brand names of OEMs. We operate the private label sites and offer those cars for two to three days at the top of the funnel in a private label offering to their franchise dealers. Only franchise dealers of that brand can buy the car for two to three days.

If they bid enough, they are going to get the car. If they don't bid enough, after that two to three days, they are going to expand that offering to all registered dealers on adesa.com. Even though it's their private label site, it will get offered to my entire buyer base of adesa.com. And that's taking 35,000 independent used-car dealers and 17,000 franchise dealers and all will have access to the car. In the private label, depending on the brand, you are probably only offering that to 2,500 to 4,000 franchise dealers, whatever your brand is, maybe less on some of the brands. So now I've expanded the liquidity in the marketplace and we get the bids. If I sell it in private label site, my average per unit is about $100. If I sell it to a non-franchise dealer through the open sale, my average revenue is about $300. Let's say they haven't bid enough; it goes down the funnel and 100% of the cars being offered on the online site that don't sell will end up at a physical auction.

Now, why wouldn't it sell? The bids weren't high enough. Maybe because of the condition of the vehicle. When it goes to physical auction, we offer significant services around it: transportation, mechanical work. We have large body shops. We detail every car before it's sold, and every off-lease car gets detailed before it's sold at a physical auction. So there we have an opportunity. And there, my revenue per unit is $737 in Q1. So that's – some of it is lower margin than the online sale, but obviously a great opportunity to create more EBITDA dollars per car.

So that's the funnel, the process. This is why it's fueling an accelerated rate of growth on top-line revenue, an improved dollar generation of EBITDA. And because, again, the off-lease car is the biggest user of ancillary services, we are getting some leverage out of the scale of the use of our facilities, which is driving higher incremental margins and driving improved EBITDA margin performance, both at ADESA and the consolidated entity KAR. So that's kind of the story of the funnel.

<<Craig R. Kennison, Analyst, Robert W. Baird & Co.>>

Thank you. Could you talk about briefly your incremental margin in that particular business?

<<Eric Loughmiller, Chief Financial Officer and Executive Vice President>>

At ADESA, we've done some acquisitions. So I do some schedules with my earnings release to show you before – or with and without the acquisitions. But we think that the ideal incremental margin there is in the mid-30%s. There's some seasonality to our business. Height. The fourth quarter is typically a little lower and first and second quarter are typically strongest. So excluding acquisitions, in the first quarter, our incremental margins were 42% in the ADESA business against an average margin that's more like 25%, 26%, depending on where it ends up this year.

So that's the strong performance of this mix and that was on a first quarter that had 17% volume growth and 17% –22% revenue growth, but 17% on a same-store basis. And the volume growth was 17%, 16% on a same-store basis. So the incremental margins that we target would be kind of mid-30%s. We did a little better than that in the first quarter and that shows you when these volumes come, that's the scale. That's what we've been talking about: when these leased cars come back, it really is valuable to the performance of our business.

<<Craig R. Kennison, Analyst, Robert W. Baird & Co.>>

Thank you. We have a question from the audience.

Q&A

<Q>: [Question Inaudible]

<A – Eric Loughmiller>: So for those in the back, he's asking about the pricing trends in the salvage business and he referenced the Manheim index. Looks like it's coming down, although I will argue modestly right now. Probably less than I would've expected. What is that doing to salvage vehicles? I would tell you, used-car prices will impact a small segment of the salvage market. It's really being driven – pricing and salvage is dropping because of scrap values and the strong U.S. dollar. So scrap value – a lot of the cars are dismantled. Some are just scrapped. But a lot of those that aren't scrapped are dismantled and a few are rebuilt. A car that's going to be rebuilt would be impacted by used-car values. That's probably less than 10% of the salvaged vehicles sold.

The rest of them, they are going to look at the value of the parts and then whatever is left of the car will get scrapped. So to the extent that crushed car bodies have declined, we opened 2014 with crushed car bodies selling for about $300 per ton and got as low in 2015 is $74 per ton. It's now back – I think last month it closed above $140. It's starting to rebound, so that – but I will tell you. Once it got below $140, minimum bids were minimum bids. It probably when it got to $74 wasn't much different in our bidding as we saw at $125. And so therefore as it's climbed back up, while people have been asking have you seen the recovery because of scrap? Not much, but we are starting to see relief. And I think above $140 we're going to start to see a little bit of recovery in some of the bids.

But what's hurt us is not only do we have that dismantle where we're bidding less, but I have historically – or for the past probably five years, about 30% of the vehicles bought at salvage

auction end up leaving the country. Again, many of them to be rebuilt or to be used for parts and other countries. Mexico is the biggest importer. But beyond that, you have West Africa, South Africa, Eastern Europe, Middle East, some places you might not expect, where they are taking the cars, they are repairing them, and maybe redistributing to other parts of the world or maybe using them locally.

They have had less U.S. dollars when they convert their local currency. So that, while the scrap is down, I also have my alternative buyer might be the foreign buyer who is bidding less because their local currency is worth less U.S. dollars. So that has put pressure on proceeds and that, again, that business we use national pricing, fixed tiered, tight bands. As prices drop, you will see our average revenue per unit decline a little bit. It's been a very competitive marketplace. There are opportunities, but in the salvage business, the fees are a significant percentage. Right now they are probably around 20% of average transaction value, the buy and sell fee combined. That compares to my used car auction business, where my auction fees are less than 5% of transaction value.

If I go to heavy equipment, where there is a company that may even be here over the next couple – in the city the next couple of days, heavy equipment you are probably looking 12% to 15%. Or you're probably looking over 20% livestock. You are probably looking in that same 15% range. So the used car is a low percent. Salvage is kind of a high percent, so there's not as much flexibility to offset the reduced prices with fee increases.

<Q>: [Question Inaudible]

<A – Eric Loughmiller>: What we would tell you is LKQ is our largest buyer and there's no buyer that buys as much as 4% of our volume or the volume in the industry. It's still very fragmented. I will say LKQ is the largest buyer in the industry and nobody is over that number. So that's as much disclosure as we give publicly. But it gives you a framework for how fragmented that buyer base is. That doesn't mean LKQ isn't buying from people that have bought at auction either. They may be ultimately with more of those cars, but buying directly at auction, that's the numbers.

<Q – Craig R. Kennison>: While we are on the topic of salvage, could you talk about collision avoidance technology and the impact on your business in the long term?

<A – Eric Loughmiller>: Yes. Again, in the long term – well, I won't go to the long term because the near term is very positive. All of these electronics in collision avoidance are resulting in more cars being totaled with less physical damage because – and the parts are so valuable, they are totaling the vehicles. In fact, in the most recent year, 17% of auto insurance claims resulted in a total loss. Two years ago, that was 14%, 10 years ago, that was about 8%. So you can see the impact in the near term is positive. That's why we've had such strong volume growth, so anyway, so collision avoidance. In the long term, could it result – we have 283 million cars on the road in the U.S. and Canada.

We sell, call it, 18 million, 19 million new car sales a year between those two markets. How long will it take to transition enough of the carpark to where they truly can impact fewer accidents? And also collision avoidance is to save the occupants of the vehicle, not the vehicle. So the damage, again, with all those electronics, the damage is deflected, but there is still physical damage and

those parts are very valuable. So we view it in the long to medium term as positive short term, perhaps neutral to positive medium term. And then long term, if it could reduce accident rates and reduce severity, could be a headwind. But based upon a $283 million carpark and the fact that I'm 57 years old, I've decided I'm not going to worry about it because it's beyond my life expectancy.

To turn enough, I think you'd have to turn over a significant portion of the carpark before they are in use. Autonomous cars fits into that, Craig, for me as well. Autonomous cars work until a pickup truck that's 12 years old decides to run a stop sign. That autonomous car cannot get out of the way. It doesn't have enough – it can tell you, yes, a pedestrian is likely to enter the street. If you read about the Google car, it's millions and millions of points of information that it's predicting. It doesn't matter. If the car, the pickup truck that doesn't have the technology doesn't know that car is there and it goes into the intersection appropriately and it is evaluating, does it back up into traffic? So autonomous cars are unique, but I think those are longer term. Those could truly, if we gotten autonomous driving. I think ridesharing – Craig.

Nobody keeps asking me. I keep going to it. I think ridesharing is a more prevalent trend in the short term, but there, it looks like ridesharing may contribute to more miles driven. It just changes the ownership. And to date, that's been positive because they turn the cars over quicker than individual consumers. They don't want to be driving Uber and Lyft and all those brands cars that have over 100,000 miles. And they put the miles on quicker. And that creates a used-car transaction, and also, it's a commercial insurance arrangement, where they're – listen, how many of you are going to get into a wrecked Uber? Not – I mean, they are going to have to have that car moved. They are going to get a replacement. It's actually good for all of our businesses. So ridesharing is positive.

So we are seeing the technology trends that are affecting the carpark to be fairly positive in the short term. Probably could become a headwind in the long term, but we think it's a number of years away before that really becomes a headwind. And by then, I think a lot of things will change and we will hopefully have responded to them. But it's an interesting point. Those electronics – these – we are no longer buying automobiles. We are buying 2- ton computers with wheels. And those are very valuable in the aftermarket for the parts. Look at all the sensors in the U.S. You have to put sensors on every tire. Go try it – go talk to your dealer and ask how much it costs to replace one sensor.

Now do it four times, and I mean, those are very valuable because they replace them one at a time and it is far more expensive. They say today, Craig, that if you were to build a car with the parts used in collision repair, it would cost you three to five times the retail price of the vehicle to build it. That's why they have to get the parts off of the car that got wrecked. The parts are becoming very expensive because you can only get them from the OEM supplier.

We got one minute to go. Any last questions? Craig

<Q – Craig R. Kennison>: In the last bit of time we have, could you quickly summarize your capital allocation philosophy?

<A – Eric Loughmiller>: Yes, we generate a lot of free cash flow and we need to allocate that. Our priority today is strategic growth. We think we are in a part of the market where strategic growth outperform all our other alternatives. We do start by paying a dividend. We allocate 45% to 50% to return to shareholders because it's consistent and we feel we can do that without inhibiting strategic growth. We then turn and say when are there growth opportunities? And if you look back to 2015 in August, we saw that hey, while we've got a strong pipeline of acquisitions, they are going to take a little longer. We are generating a lot of cash. We did a $200 million share buyback that was authorized in August, was completed by the first week of January.

So we believe all the options are available to us. At this point, the priority is strategic growth. But if we see those transactions aren't going to close, we aren't going to build up piles of cash. We are going to use it in the proper way. We do like an increasing dividend with a yield that's a premium to the average for S&P 500 paying stocks. So I'm not committing to any increases. But we have had a history of that. So we are watching that and, you know, we hope that incents investors to invest in our Company because we've got growth, capital to deploy, return to shareholders as priorities.

<<Craig R. Kennison, Analyst, Robert W. Baird & Co.>>

Wonderful. Thank you very much.

<<Eric Loughmiller, Chief Financial Officer and Executive Vice President>>

Thank you.