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<<Chris Pierce, Analyst, Needham & Company, LLC>>

Good afternoon, everybody. My name is Chris Pierce with the Needham research team. Thanks for joining us for an afternoon session at the 17th Annual Needham Tech & Media Conference. It's my pleasure to introduce and welcome Eric Loughmiller from KAR Auction Services. So Eric, thanks for joining us this afternoon. Hope you had some good meetings today so far.

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

Thank you, Chris for having us. It's been a good day of meeting with investors.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay. I thought we could start out with the macro kind of what's out of your control, but you guys are definitely closer to it than myself or investors in general. So I'd love to kind of get some thoughts there. One of the things I think I haven't done a good job over, I haven't recognized is the effect that slowing retail velocity can have on wholesale velocity.

So I would just be curious to get your sense on what do you think gets retail velocity moving. And I know that the generic answer is, hey, we need more new cars and used car prices will come down, but given we're already seeing what investors will call demand destruction in retail, how come prices are staying so sticky to the upside you think?

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

Well, that, that's a great question. I actually don't understand how there's things staying so high and I don't think they will. If there's any impact of the Fed increasing interest rates as it trickles through the economy, it makes cars less affordable. Therefore, having the highest used car values, probably in history combined with increasing interest rates will probably ultimately pressure the used car prices down.

And I think we've seen a little evidence of that, Chris with the declining gross profit per unit, the retailers experienced in Q1. And I think that pressure will continue. And the answer isn't, they're going to make less money. The answer is they're going to pay less to acquire the inventory that they sell to reestablish the gross profit per unit. And currently, we're just at an unusually high amounts. I also don't overreact to temporary bump site as I call it in the demand for used cars, it will fix itself.

People need transportation, a used car is a cost effective way to get transportation. And while you said, don't go to the standard answer. The lack of new cars is making it actually easier to sell used cars. And moving people down the value chain meaning they're buying lower value used

cars just to get in a car. So I see us having a really robust retail demand, I think supply has been tight and will continue to be tight for probably most of this year, but on the D-to-D side, we're seeing a lot of activity.

The one thing that high used car prices does is dealers don't want to hold inventory and have it decline in value while that inventory's on their lot. So they are more likely to wholesale a car that they don't think they can retail immediately and then acquire a car when they think they need it for a retail consumer who's interested. And that's where the digital marketplace is really play an outstanding role. It gives them closer to just in time inventory capability as you might know.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

When you talk to dealers, are they seeing or are you just kind of hinted at it, but are they concerned about lower demand or is there a certain contingent of dealers that think they've made peace with a lot less inventory in their lots moving less units to higher margins coming off record profits in 2021? Do they think that that's the new normal in the industry? Or is there a contingent of dealers sitting on inventory that they're quite nervous about where prices could go and what that could do to that inventory?

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

Chris, it's an interesting observation because we've got probably – nearly unprecedented, maybe 2009, 2010 and 2011 were as difficult, unprecedented lack of supply. We have record high valuations both retail and wholesale. So my answer is I think the dealers would love for it to continue. The OEMs are making more money. The dealers as a group are making, I – we probably have never had this much profitability in the auto ecosystem in history, probably haven't.

Yet, we're doing it in a period with constrained supply of vehicles. The good news is from my perspective, none of us in the industry ever learn from this. And as soon as we can, we'll go back to producing more vehicles, trying to push more volume through our stores, even if that means a little price competition. So I don't think it stays here, but I don't think they like living off of lower transactions.

And I think what's causing them concern is higher interest rates. It makes the cars less affordable, Chris. So I don't think it's a function of lower – the demand picture causing them to be more profit. I think they're worried. Their profits are going to beaten away by the cost of the car going up, while the value of the car goes down.

And so that's probably the biggest concern that I hear and talking to people in the industry is these interest rates are a little bit scary. It'll take time to adjust, but it will adjust. Values will drop on the wholesale front. Values will likely drop on the retail front. And we probably get back to a more normal gross profit per unit, which will be good for the industry.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay. Do you think there's a non-zero or I guess where would you put the odds of a somewhat of a violent correction in prices and kind of a – instead of just a small hiccup for the industry has inventories reset. Some larger players take that are having large – larger amounts of inventory and a lot having to take substantial losses from used car prices resetting violently in the short-term. Or do these things tend to all happen on a smoother continuum because every dealer is sort of going through the same process?

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

Yeah. I mean I think that the fact that, that it's actually fiscal policy that's causing interest rates to grow up means there will be some level of control over it, even if we don't like it or if they move – their aggressive move doesn't really move the needle too much, too quickly, 50 versus 75 bps, I don't think is a big issue.

So I think there's a remote possibility. There is not another 2008 incident where we had a confluence of factors, SAAR dropped to 10 million for the year, and then slowly recovered to 11.5 million to 12.5 million. I mean it really crept up. Our SAAR I mean, even with the lack the supply chain issues, we're still selling – going to probably sell this year near 14 million new cars, right.

So I think we're keeping the marketplace healthier. And I think all these things will occur in the market – in the macro market will be able to consume them without what you would call a significant disruption. But you will have fits and starts, I think without a doubt and we're prepared for that.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay, perfect. I think that's plenty of macro. Why don't we talk about the industry transformation and the transformational deal you guys made with Carvana. I guess why don't we start let's just kind of – why did you – I guess, why and what made you think the industry's right for digital transformation to accelerate.

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

I have 2.2 billion reasons why.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

It's the price that the value of the U.S. physical auction business was greater than it was being valued in our marketplace. And as you pointed out, we had committed to a digital transformation several years ago saying we felt this is and we were going to lead it. COVID accelerated the

transformation temporarily as we learned, because then a legacy businesses came back, fighting with by reinstituting physical auctions and arguing, it's a better proposition for the dealer who can kick the tires as they like to say, although there's no evidence that it increases the value of the vehicle and it does slow it down and creates some cost – friction cost to the transaction.

So when this opportunity came up, where another party Carvana identified a higher and better used car facilities than a wholesale auction, exclusively wholesale auction environment. It created an opportunity for us to accelerate a strategy that we'd identified three or four years earlier as important to us.

And I think we gained confidence, Chris, in executing that transaction because of COVID. I mean COVID was a terrible event for us. I mean for everybody, we shutdown our auctions. We had a lot of disruption. Followed by June of 2020 was the record performance of our auction business, all the way back to its origin and sense and ironically it – and it was done without a single physical auction being open. And so probably it emboldened us to say, we can actually lead this transformation.

We then blanked. I will tell you when our customer said, if you don't start running cars, we're going to move our business here, here, or there. I'm not sure. So we started running cars in 2021 and that was a conflict to our strategic direction. It was a conflict to what we felt was the right answer for us and for our customers.

And so – and then we're faced with this opportunity, a unique opportunity that probably comes around as you might guess once in a lifetime. I'm still pinching myself that we got it all done and funded last Monday. There were a lot of things that scared me about whether we would even with an Ironclad contract that we ever get to the finish line that we did.

And I think it's freedom for us to really pursue a transformation to a digital marketplace business that we think can serve the entire marketplace over time. And we think the marketplace is accepting of that as evidenced by that's how we did business for the better part of a year post COVID.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

When you say you had customers saying, turn the lights back on. I guess when I broadly think about brick and mortar auction, as I think franchise sellers selling independent dealers, is that pretty much how those are the players on both sides of the market and which side of the market was more – was agitating for you to turn the lanes back on or was it both?

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

It's ironically, it was probably, it was both, but it was driven by the sellers.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Really, okay.

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

And the seller and it was – and it wasn't who you think it is. It wasn't the franchise dealers are accustomed to buying on open lane when they're buying from the captive finance companies and we run that platform. They understand the digital marketplace and they are our target for BacklotCars and TradeRev. It's franchise dealer sailing, trade ends and excess inventory to independent used car dealers, okay.

So that marketplace was probably okay. Where we ran into resistance is lower end repos, a commercial consigner is coming and saying, these cars are lower value, but I get more value when we run the vehicles. And there's some evidence that says that that's an emotional response, not a data driven response. We also found that in it was actually particular markets more than it was who the seller was and who the buyer was.

But the target was the independent dealer buying lower end cars from franchise dealers or repo – finance companies that had repos, particularly lower value repos. And then once you start doing that, then you have the seller says, I want my cars to run. I think I'll get more, because my car's the prettiest car at the auction, even though it's worth $5,000. So you end up with these cars, but there was no evidence when the cars got above say $7,000 to $10,000 that the physical run did anything to the value.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay, yeah.

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

And in fact, there's evidence as the cars got well above $15,000 running the vehicle may have gotten less money than the digital marketplaces because you traded, running the vehicle for having access through a digital platform to a broader marketplace suppliers. So because the minute you run the vehicle, it becomes locally centric. You know what I mean?

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Even with Simulcast?

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

Even with Simulcast, I'm telling you. If you have buyers from all over, but the concentration is actually the local buyer in the lane and they have an advantage because of transportation cost.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Yeah.

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

And so – and people know that. And so again, it's not data driven, but we have more, more participation from a broader reach in Simulcast+ where there's nobody in the lane than we do with Simulcast.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

And it's the perception, well, that local guy doesn't have transportation. He'll bid more, even if he doesn't, right. You know auctions have as much emotion as they have factual data. You get people bidding, people over bid and/or you get people scared of bidding and they don't bid. So I think we all like it when it's online, because you can hide behind a name. You can actually not even put your name up. You can be a little more anonymous. And I think it created more activity on some vehicles, especially as they got above $10,000.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay. And last question on the deal and feel free to take this any way you want, but I guess how surprised are you when you hear Carvana talking about maintaining a certain level of EBITDA from these brick and mortar auction houses post the deal?

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

I'd be disappointed if they didn't see that opportunity. I mean we're at a low point in the performance of the U.S. physical auctions and they're still profitable positive EBITDA.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

And given the fact that I don't think they can progress to 3 million retail units sold immediately, why not take advantage of a footprint that generates cash for them and can help fund their operations, expand their reconditioning capabilities and not interfere with the auction, separately, we signed a commercial agreement with them. Chris.

The more transactions they do in wholesale, we benefit from that because we are going to be running for the next seven years. Contractually, we've committed to running all of their marketplace platforms including at the physical locations through Simulcast, Simulcast+, they'll have access to BacklotCars in the U.S. And so again not only am my rooting for them, I'm rooting for them to benefit me because I think that will be good for our business.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

So what they would get access to BacklotCars after it didn't clear on Backlot seller versus Backlot buyer, when would they get access to that?

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

They would have the ability to market to back. The BacklotCars buyers might be a cert of vehicle might make more sense to go to BacklotCars, especially when BacklotCars was built around a lower value car originally. So I'm going to tell you if you – if they have cars that are saying below $7,000, they might want to take it directly to BacklotCars, because that's probably the most dynamic marketplace. In some cases for that vehicle, it expands their reach out of the local market because a $7,000 car, there's nobody going into Simulcast looking for it, right.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

So the contractual you're speaking about is Carvana can run these wholesale brick and mortar if dealers will still bring them physical cars. But if Carvana wants to run an auction for a car that they bought from a consumer that they want to, they can't retail, they would use BacklotCars. So wholesale that car you're saying?

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

They could use Simulcast. They could use BacklotCars. They're actually interesting.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Well, they have their – they have Carvana access though, right? They have their own kind of…

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

And correct and they have that. And we are very interested over time and showing how we could service the Carvana access portfolio.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

We're experts at private label sites as you know with open lane.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Yeah.

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

We think we can enhance that offering and we're hoping to get the opportunity to demonstrate that to them. But the bottom line is they're incented to aggregate their wholesale transactions into a marketplace that gives them most liquidity.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Yeah.

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

Carvana access is its own liquidity right now, even though it's operated by one of our competitors, right.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Yeah.

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

But it is not part of the broader marketplace. So if you can take any marketplace and put it into a more liquid broader marketplace, it should result in more value to each vehicle.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay. That make sense. Okay. You talked about the strategy, you kind of had to put not necessarily hit pause, but maybe temporarily pumping of the brakes when your customers wanted you to turn the lanes back on, but the strategy you were pursuing, can you talk about why it was a buy versus build strategy and kind of you had the TradeRev acquisition and then that didn't check all the boxes, then move Backlot that didn't check all the boxes, then CARWAVE kind of like what did you learn as you went through each of these transactions and what is the – I don't know that you've fully spoken to, what does the future strategy look like around one brand or kind of one consistent message?

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

Well, let's start at the beginning, we acquired TradeRev and it was a great idea. And then when we brought TradeRev to the United States, we brought the Canadian product and the Canadian workflows to the United States. And we – it didn't work. It wasn't that the product isn't good, but we were trying to do things. And then first thing we had to do in response to competition is we had to hire inspectors in Canada to this day, it's a self-inspection app.

The dealer does the inspection. So there aren't a cost of inspections and the dealer is concerned about reputation. So they're doing a good inspection, not mailing it in trying to trick, because

again the Canadian market is smaller. There's less dealers. They all know each other. And it tends to be by MSA in each metropolitan market. You're dealing with that group of dealers.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

So could that model work in the United States, or you're saying that model didn't work all…

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

What happened in the United States is the dealer said, well, I'm not some…

<<Chris Pierce, Analyst, Needham & Company, LLC>>

I understand.

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

Somebody else will inspect my car. Why would I go? I'm not going to hire somebody to do it. We're saying well, because you'll do it faster. You're waiting 3, 5, 7 days for an inspector to come before you launch. You can launch that auction 30 minutes after you have the car on your line. You can launch an auction while the consumer is contemplating the retail transaction. You can do it right there, but you would have to inspect the car because our inspectors won't sit there.

So there were some issues with that. So as I look at it in 2019, we made an adjustment. We changed the focus. We combined the ADESA dealer to dealer with and we did a build it. We can build it together. And then we had an opportunity. And as you know COVID hit and all of a sudden we're seeing the pace of adoption of these digital marketplaces accelerate beyond anybody's comprehension.

You did not have time to build an expanded marketplace. We saw some real positives of a differentiated marketplace in BacklotCars, where TradeRev was trying to build something that looked like its competitors, timed auctions, this looked different. They had a better inspection process that we thought I – it – they had a better fee structure and they were burning less cash than TradeRev or its major competitors in the U.S. So we said, let's buy that.

We then had the opportunity brought to us, I'll just say that, where CARWAVE, which is the largest dealer to dealer wholesale business in California, largest not digital, the largest dealer to dealer, they were larger than ADESA and larger than Manheim's physical dealer to dealer business in the State of California.

That was merely a fact. We had a chance to buy significant market share in one of the most valuable automobile marketplaces in the world. And that's the State of California and very specifically Southern California. So again, I would tell you COVID was an accelerant into adoption, therefore, the time to build and really attack it. And it'll be left to be seen the capital we've deployed for that, including the losses on TradeRev before we combined. I think is comparable to other players in the market who are similar size in total.

We just did it maybe a little differently, but I'm – we're actually very happy with our decision. We were opportunistic. We see confirmation of the strategy going digital is the way to grow the TAM that we can – the portion of the TAM that we can serve through the formal transaction. And we've accelerated the process by adding CARWAVE. CARWAVE is now being integrated with BacklotCars. And probably within the third quarter, you will see one platform in the U.S., so then you get the platforms.

I mentioned, Canada was there – we mentioned on the earnings call, Peter mentioned the Canadian TradeRev business is earning over $100 of EBITDA per car sold all cars loaded in, not incremental total of the business. So the business we bought was as valuable as hell we valued it. We just lost a lot of money when we brought it to the U.S., we did not lose money in Canada. And in fact, the Canadian profitability is probably exceeding our expectations at this stage for the whole business in the U.S. And then we've also converted the BacklotCars, CARWAVE combination, we did the integration and at the beginning of March, we consolidated fee schedules and we increased we put a selfie in it Backlot. We added an arbitration fee that was on the CARWAVE platform now to all of them.

And so we've got them prepared where there's one economic structure to both platforms. And our next step is technologically to then combine them. And when we combine them, our strategy is to offer a multi platform. We will have different formats of auctions on one platform. The CARWAVE customer that likes a timed auction, 1:00 to 3:00 PM Pacific Time on Thursdays was a standard for them. We will offer that option. We will also offer a 24/7 bid-ask marketplace and we may even offer a launch timed auction, like TradeRev used to.

But we'll be doing it all on one platform, where the buyers and the sellers are aggregated into a single marketplace. See the format doesn't determine the marketplace. It's the portal in which you enter and transact creates the marketplace. If I'm then there looking for inventory, do I care if I'm bidding on a car that's in this format or that as long as I see the inventory and it's available for me to buy.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay. You talked a couple interesting things there. The build versus buy, it would've been impossible to build something that quickly – given how quickly things were turning with COVID and how quickly you kind of needed to have something in place. Should I lead into that? That the number one brick and mortar auction player there build strategy is behind what's out there now, because the digital guys share it very quickly. Like you mentioned, and it's going to be hard for them to launch that. Just like you guys found it hard to launch a product that you would build internally in that compressed timeframe, they might struggle the same way with their product.

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

Let me clarify, Chris. It's easy to build.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

But nobody buys it. So you said build versus buy. How do I get the market share when there's a product already out there that had over 100,000 cars sold in California per year. I mean, it's a real uphill battle. So relative to California, I think CARWAVE took share from ADESA and Manheim, right? I mean, that's how they built their business. However, let's not kid ourselves. CARWAVE started as dealer forum, which was a cooperative of local used retailers who met in a – they started 15, 20 years ago meeting in a hotel room, trading cars amongst themselves.

It wasn't like – it was a technology company that came into the wild idea. It actually started within the industry. So that was built up over 15 years. So my answer to you is, our competitor will do well. They have a very large marketplace that they already serve and they'll – and if they will retain their customer in part, by offering a digital solution for them, as you know, if a customer's considering changing, they're going to change potentially the Manheim Express. Same thing for us.

We were trying to get the marketplace, where if you want a digital solution, we have one for you. If you want physical we have one. Now we've sold the physical and we're going to commit to the digital, but we left a very strong connection to ADESA U.S. Because CARWAVE, I mean – I'm sorry, Carvana does not really want to run physical auctions. They want a digital business model. It makes more sense.

They know they'll run it physically for a while. They'll have the physical presence, but they would probably prefer to transition a majority of the effort on those locations to be retail reconditioning and retail distribution of vehicles, right? That would be their best use. So over time, we think we can help fill that gap, if you have cars that are currently running through a physical location and you're transitioning the physical location to more of a different purpose, we have an option where you don't have to tell your customer, don't do business here anymore.

The car can be there. We can sell it from that site on a BacklotCars. So we're excited about the opportunities. I think our competition on the physical side will do very well. I don't think they're fully committed yet to increase – trying to attack the increased TAM, the portion of the market that was informal that we are going after very aggressively, the dealer to dealer trade where they do it without. That's the part that probably is hard with that product.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

And does BacklotCars benefit you there? Because I guess if I'm thinking in my head, those tend to be lower price cars. Is that the wrong way to think about it? Or is that the right way to think about it in BacklotCars? Because it started at lower price cars, you'll have a leg up there.

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

Well, they started with lower price point, because it's a market that was in their view underserved and they got – they grew fast. This applies to any value vehicle. Why would you trade with your neighbor? I gave 30,000 in trade for a luxury car. And the neighbor says, I'll give you 32,000. Why wouldn't you put that on a marketplace and find out that it might be worth it today in particular it's probably worth 35 or 36.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Yeah. I mean, I agree. If he thinks – he's going to be 32 – he thinks he can sell it for 34, why can't I get that customer?

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

Retail, but I'm talking wholesale.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

I understand

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

A dealer down the street that would die to have that luxury car inventory. Because even if he makes a little less money because he overpaid for it, he's trying to use it to draw people onto his lot. There come look at that and then they'll buy something else. So when you look at the higher inventory, why wouldn't you do price discovery? You don't pay unless you sell the car and you don't sell the car unless you get full value or maybe even more than you thought.

So we think this has a place and some cars will not transact online. Some cars will just the wrong buyers. They won't be there. And you might use multiple formats. You might use multiple venues to find the right pricing. But the first thing you don't want to do is move the car and pay to move that car. You want to see what the value is with avoiding what I call the friction cost risk – the cost of moving it. And when you move it, the first thing they want to do is wash it. If you take it to a physical auction, they wash every car. The next thing they want to do is tell you what you could do to improve the value. I mean, why not find out what it's worth? And if it's more than you expect, don't touch the car.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay. Just – I have a question coming from the audience. This question is on my list as well. I know this – it might be hard to give a brief response to this, but it's kind of, I guess, walk through the four revenue line items that are left post the ADESA transaction, and you kind of touch on the margin profile of each of those businesses.

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

All right. So I prepared the schedule, because you gave me some notes to be prepared. So I'm ready. And you asked a little different element. So if you look at it, we have auction fees. Interestingly enough, our Canadian business will account for roughly half of the auction fees in Q1.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

The U.S. business will account for just over a third and international will be the rest, call it. Services though, 80% of our services are in the United States. In an auction fees, that will be your highest gross profit contributor, especially in a digital model. In Openlane, we're in the mid to upper 90s, in a normal environment, right now, we're probably in the mid-90s to maybe even the low-90s because of the lower revenue per vehicle for the grounding dealer sale.

On BacklotCars, you're looking at, at least a 50% gross profit and in TradeRev is actually a slightly better than that in the Canadian market, because I don't have that inspection cost on my P&L. So it's a little better than that. When I go to services 80% that's because that's where cars arrive our logistics network, RDN, it's a repossession network that is a service provider to match up repossession with finance companies, with repossession agents or service providers.

It's just technology, very high margin. But we also have par, which is a repossession agent, who's an intermediary for doing skip. So RDN par is a customer gets the files and does, and then they hire repo agents to get the car, where RDN does not hire any repo agents. It goes the primary it as car. And I think it is AIS out in the west coast of the three big providers. And then they distribute around.

We have AutoVIN in the services, what I'm describing to you tends to be higher labor content, lower margin businesses is my point. 80% is the U.S., 15% is Canada and there's 5% in our European business. Purchased vehicles, no margin in the U.S. and Canada. It's a flow through. However, it is a – but 70% of our purchased vehicles are in Europe, because it's actually part of the business model.

And there we're purchasing vehicles, because cars tend to be listed. Our primary buyer is in Eastern Europe, our – all of our sellers are in Western Europe. And we are arbitraging the bidding from Eastern Europe to the Western European marketplace, because we're only the ones bringing that. So we tend – the only reason we take ownership is because of all the back and transportation issues.

We own it while we're moving it to a buyer that we've already identified in the marketplace and we're extracting a margin there, but it's typically low single digit margin, but it's the full value of the car. So it's a margin contributor. And then finance revenue is very interesting. The finance is all AFC. It's 90% U.S., 10% Canadian and we're doing nothing in Europe right now in that

marketplace. So – and in that, it's very high margin business, as you know, from the performance of AFC.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

And can you talk about the modes you have around those business lines or which business lines have modes that would resonate most of investors?

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

Well, by the evidence of the number of competitors, I do think COVID in put more modes between the digital D to D, which is our BacklotCars and TradeRev than existed prior everybody was – everybody can build an app and they thought I can do this until all of a sudden the market got squeamish. Cars were sitting and you needed a lot of liquidity to transact to keep the cars moving. It forced a lot of the wannabes out of the business. They couldn't afford to stay in it. They didn't have the capital to support the transaction, when it became concentrated during COVID.

There's always a big mode around Openlane. We build private label sides. We are integrated into workflows of the franchise dealers and the OEMs and their captives. There's a big mode. Let me anecdotally tell you, if you want to enter the private label business of that, you probably have to have a $100 million of CapEx to commit and you're going to get $50 a transaction right now.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Is that separate – that's logistics to that's just kind of plugging into their software.

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

No, that's just the auction. No logistics, just to build – these auction platforms are complex. Now you could build one for less than that, but you probably couldn't create the marketplace for that. You create the marketplace by having all the buyers, even franchise dealers, knowing that's a dynamic market and you've eliminated credit risk and title risk between buyer and seller by being the trusted provider. Manheim can do it. It is difficult for startup enterprises to get into that business now. Because there's so much risk you have. I mean, we – if a franchise dealer doesn't pay, that's on us, not on the captive finance company. We take all…

<<Chris Pierce, Analyst, Needham & Company, LLC>>

What's the best outcome for Openlane. I know the grounding dealer, you make very few revenue dollars, but you get a high margin dealer network in that, you make very – a few more revenue dollars, but the margin is great or it could theoretically flow through to BacklotCars. You could have a buy in a selfie, like, what's the ideal outcome that are like going forward.

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

So the ideal outcome is that – what's buying out of their leases or buying out early and more cars get to the top of what we call the funnel, Chris – the funnel. Once they get to the funnel, then our best outcome is to have cars transact at every level, grounding dealer. Why? Because it's good for the franchise dealers and the OEM is supporting that platform, because it gives access to their franchise dealers to high value inventory for CPO.

So we want some of them to go to the grounding deal. Then we want some to go to other dealers of that brand in the private label sale. But the best outcome is 25% of the vehicles then come down and sell in the open platform before they move the car to physical auction. In our best outcome, right now, 90% of the cars are selling that make it, even though, it's a small number are transacting on our platform, only 10% go to physical auction. We – our best outcome would be the open sale occurs and a low percentage go to physical auction, because we've sold the U.S. physical auction business. We did more of that open layer between the private label and the physical auction, that's our best outcome.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

If I insert CarBravo above you sending it to BacklotCars or CARWAVE, whatever the digital product looks like, but below the dealer network in that area, do you think that meaningfully changes anything? What level of success do you see GM having or a – another OEM having with their used their Carvana as competitor?

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

So any OEM that has a program that's described like CarBravo, where they've described it publicly, this is a huge opportunity for us at Openlane. Because they plan to use their dealer network as part of the transaction, a little different than Ford Blue Advantage, when it was originally introduced and the Texas dealers got an injunction stopping it. Because their Ford was selling directly to the consumer around, this is a transaction that involves the dealer.

So it actually needs our technology, because they're going to give the dealer a chance to buy it, the grounding dealer and then the franchise dealer, if they're not buying it, they're saying, give me a chance because the value of a car is less than I wanted to get a little bit of the retail spread to make up that difference. And I'll share it with you – with the dealer. So we think it's exciting. And why? Once the car moves from that franchise dealer private label site to the open, who is – Chris, do you have any idea who the largest buyers are in the online open – off of the Openlane platform?

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Tell me, please.

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

CarMax and Carvana.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

That is where they're inserting CarBravo, correct?

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Yes.

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

And they're saying Mr. Dealer, I gave you every chance. I'm now going to try to offer to a consumer and share some of that with you, because if I don't, look, who's buying the part.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay.

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

So I think it's a dynamic product. I think it's a way for the OEMs to say, how do we serve the consumer through a digital retail marketplace and support it with our dealer network. I think it's exciting. We did sell away the opportunity to be part of CarBravo in reconditioning the vehicles and being responsible for delivery. We had a number of opportunities for revenue sources that we talked about last September at our Analyst Day that are now part of Carvana's ADESA, but it did not inhibit our ability to participate in things like a trade in marketplace. If a consumer says, I have a trade, we have a wholesale transaction where they from the consumer's driveway, we can handle that car and have OEM never touch it. Find a buyer, value it, transact title and everything, and have it deliver wherever it needs to go through our network of services. So I think it's exciting.

I hope it's successful as I think it could be. And again, I know there's a lot of concern about OEMs becoming retailers by their own dealer – franchise dealers. But if this works, I think it will allow more transactions onto our digital platforms.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Okay. Well, unfortunately, we have to leave it there. I literally have another page of questions. Maybe we can do this again sometime, because it's pretty interesting transition, interesting time in the industry and interesting pieces of the puzzle that you guys kind of link together. So I appreciate you coming to the conference. I appreciate the time and good luck with the transition.

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

Well, thanks, Chris. And we appreciate you hosting this today and we look forward to spending more time with you.

<<Chris Pierce, Analyst, Needham & Company, LLC>>

Great. Sounds good.

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

Thank you very much, everybody.