

FINAL TRANSCRIPT

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KAR - Q4 2010 KAR Auction Services, Inc. Earnings Conference Call

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PRESENTATION

Operator

Please stand by. Good day, ladies and gentlemen, and welcome to the KAR Auction Services, Incorporated fourth quarter and year-end 2010 earnings conference call. Today's call is being recorded. Today's hosts will be Jim Hallett, Chief Executive Officer of KAR Auction Services, Incorporated; Eric Loughmiller, Executive Vice President and Chief Financial Officer of KAR Auction Services, Incorporated; and Jonathan Peisner, Vice President and Treasurer of KAR Auction Services, Incorporated.

I would now like to turn the call over to Mr. Peisner. Please go ahead, sir.

Jonathan Peisner - KAR Auction Services, Inc. - VP, Treasurer

Thanks, Nancy, and thank you this morning for joining us today on the KAR Auction Services fourth-quarter earnings conference call. Today we will discuss the financial performance of KAR Auction Services for the period ended December 31, 2010. After concluding our commentary we will take questions from participants. We will make every effort to accommodate all of the questions within the hour we have scheduled today.

Before Jim kicks off our discussion, I would like to remind you that this conference call contains forward-looking statements within the meaning of the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements are subject to certain risks, trends and uncertainties that could cause actual results to

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differ materially from those projected, expressed or implied by such forward-looking statements, and such risks are fully detailed in our SEC filings.

I would now like to turn this call over to KAR Auction Services' Chief Executive Officer, Jim Hallett. Jim?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Great. Thank you, Jon, and good morning, ladies and gentlemen, and welcome. I appreciate your time and interest in KAR. I'm very pleased to report that KAR had a good performance for the fourth quarter as well as for the full calendar year 2010. Although ADESA and Insurance Auto Auctions both had lower volumes, KAR was successful in increasing its revenues by 5% and adjusted EBITDA increased by 12% on a year-over-year basis.

The fourth quarter was much of what we've seen throughout much of the year. It continued to be very tight supply on the whole car side of the business and high-use car values. Although this is not an ideal situation for our whole car business at ADESA, it does bode very well for our businesses at Insurance Auto Auctions and at AFC.

Just a couple quick points on our 2010 performance of the business units. Insurance Auto Auctions I did mention a slight decline in volumes. However, I would say very successful double-digit revenue growth, as well. Adjusted EBITDA was 30% of revenue.

AFC had a phenomenal year. They grew their volumes 17% while the -- as we mentioned the whole car market was declining. I think that was a very strong performance. And although at ADESA we've talked much about the headwinds of volume, I'm very pleased with how management has managed the whole car business. I think management did a great job of controlling costs which resulted in an EBITDA margin of 25%.

So while many look at our businesses individually, I believe that the real value in KAR is the complementary nature of these businesses as we combine them, and certainly that's the message that we've been trying to preach here for the last year or so.

As we take a look at 2010, I kind of look at it as our report card on management, and the things that we set out in terms of our initiatives and how we did, I'd just like to reflect upon those for a moment.

We said we'd grow our revenue per vehicle and we did. We said that we would do selective acquisitions and we did. In fact, we spent almost \$50 million in the fourth quarter, and I believe this continued to strengthen both of our brands at ADESA and at Insurance Auto Auctions.

We said we'd continue to repay debt and we did. We paid down \$150 million in the fourth quarter and almost \$400 million in 2010 in total.

We said that we would grow our dealer consignment business and we did. We were up 14% in the fourth quarter on a same-store basis and we were up 7% on a year-over-year basis same store.

We said we would continue to leverage our technology and grow our internet volumes and we did. ADESA sold over 22% of its vehicles on the internet and IA is selling approximately 50% of their vehicles on the internet.

We said that we would bring Synergetics back to Insurance Auto Auctions and we did. We have now implemented Synergetics at all of our largest locations at Insurance Auto Auctions and that plan continues to go very well.

We said that we would develop an international presence and we did. As most of you know, this is a longer-term initiative and I certainly have nothing significant to report at this point in time except I would say that we have established very good



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relationships around the world. The ADESA brand is very well recognized and well respected, and I believe that we're well positioned should an international opportunity be identified.

And finally we said that we would have very disciplined growth at AFC and we did. AFC grew its adjusted EBITDA from \$49 million to almost \$80 million in 2010 while the portfolio remained 99% current.

So I would say as I reflect on 2010, I would say I'm very proud of the management team. I think at the end of the day we get judged on doing what we say we're going to do, and I think the management team did a great job. So with that said, that's 2010, and as they say that's like last year's snow, so let's move on to 2011 and what are the things we're going to focus on in 2011.

We're going to continue to focus on growing our dealer consignment business. I believe that this is the most significant opportunity that we have in front of us. We're going to continue to enhance our technology and grow our internet sales and the offerings that we provide to our customers. Certainly this is the direction that the world is moving.

At Insurance Auto Auctions we're going to focus on growing our non-insurance auction volumes. There is no question that our primary focus at Insurance Auto Auctions will always be our insurance customers, but we are going to look at expanding our vehicle remarketing division, or as we refer to it as the VRD. It seems everything in our business has an acronym.

Then we're going to focus on our charity and our other non-insurance vehicles in terms of growing those volumes. We will continue to repay debt and we will continue to take a look at selective acquisitions. So I think with those things, if we are able to accomplish those things in 2011, I think it really positions us well for the future.

In terms of outlook and guidance going forward, the whole car industry is expected to report somewhere in the neighborhood -- we feel it will be somewhere in the neighborhood of 8.4 million to 8.5 million vehicles. Again very tight supply and strong pricing will remain, and although these market conditions will be very challenging for ADESA, they will be of benefit to Insurance Auto Auctions and to AFC.

Most of the economists are telling us that the 2011 SAR will come in somewhere in the neighborhood of 12.5 million to 13 million units, and we're seeing increased lease penetration with most of the major manufacturers. And again these two trends are very positive for the future of all of our business units.

We expect 2011 adjusted EBITDA to be about \$500 million. While this reflects a 5% growth in adjusted EBITDA over 2010, it does translate into adjusted EPS growth somewhere in the order of 15% to 20%.

So just before I turn it over to Eric, I would like to publicly thank John Nordin, our former Chief Information Officer who has left the Company for personal reasons. John was responsible for building a very strong IT organization at both Insurance Auto Auctions and here at KAR, and John was involved with helping structure a transition plan, and I can assure you that the business units will not be impacted with John's departure.

So with that I'm going to turn it over to Eric for his comments and then we'll come back to you for Q&A. Eric?

Eric Loughmiller - KAR Auction Services, Inc. - EVP, CFO

Thank you, Jim. As you probably noticed, we have changed the format of our earnings release. A summary of our key observations on our financial performance is now included in our financial supplement available at www.karauctionservices.com in the investor relations section of our website.

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I do not plan to repeat the information included in the financial supplement but would like to highlight a few key performance metrics. We are pleased with our consolidated revenue performance in the fourth quarter of 2010 and for the full year. Given the headwinds faced in the ADESA business unit, achieving 6% revenue growth for the quarter and 5% growth for the year is quite an accomplishment.

Our 2010 gross profit also improved to 44.8% on a consolidated basis compared to 42.3% in 2009. This was a key factor improving our adjusted EBITDA to \$475.2 million in 2010 and increased our adjusted EBITDA margin to 26.2% of revenue in 2010 from 24.6% in 2009.

Now let me speak to each of our business units. ADESA grew revenues 2% in the fourth quarter of 2010 but saw revenues for the year decline slightly. During the fourth quarter we experienced an increase in revenue per vehicle. I can cite two factors contributing to the increase in revenue per vehicle. First our increase in dealer consignment vehicles sold contributed to improved auction revenue per unit, and second the increased ancillary services revenue in the fourth quarter provided an additional lift.

We have seen increases in the number of factory vehicles in the second half of the year, and most notably in the fourth quarter. These cars tend to be heavy users of ancillary services, and this was the case in the fourth quarter. Our revenue per vehicle sold for 2010 increased to over \$570 from approximately \$540 in 2009.

ADESA volumes for 2010 declined 7% compared to 2009. We believe this decline in volume is consistent with the declines in the industry. We are expecting total vehicles sold in the industry of approximately 8.4 million to 8.5 million units for 2010.

ADESA's gross profit in the fourth quarter of 39.3% was down from 41% the prior year. This decline reflects the shift in revenue mix with more lower-margin ancillary services revenue, and also the impact of weather in certain parts of the US and Canada in December which had an impact of increasing some labor costs during the month.

Gross profit for the full year of 43.2% was in line with the prior year. Conversion rates remain strong in 2010 at 65% compared to 67% in 2009. Although down slightly, this remains a very strong performance given the growth in our dealer consignment volumes which convert at a much lower rate than the institutional vehicles.

Insurance Auto Auctions enjoyed another successful quarter with 8% growth in revenue for the fourth quarter. We experienced an 11% increase in revenue per vehicle as a direct result of the improved proceeds realized by our consignors. Offsetting increased revenue per vehicle was a 2% decline in vehicles sold for the quarter as compared to the prior year. For the full year IAA had 10% growth in revenue as revenue per vehicle improved 12% and volumes declined 2% as compared to 2009.

IAA's gross profit for Q4 of 40.7% was markedly better than 37.7% last year. We have been able to maintain our costs during this period with high proceeds and realized the higher gross profit. IAA's gross profit for the full year 2010 of 40.7% was also a nice increase from 36.3% in 2009.

AFC has also generated higher revenue in Q4 and for the full year 2010. We have seen a 17% increase in loan transaction units as well as significant improvement in revenue per loan transaction. AFC saw revenue per loan transaction increase 25% in 2010 as compared to 2009. We have also seen the AFC portfolio grow from \$613 million at December 31, 2009 to \$772 million at December 31, 2010. Even with this growth, as Jim mentioned, the portfolio remains nearly 99% current.

KAR Auction Services generated \$467.6 million in cash from operating activities in 2010. If I exclude the impact of recording the securitization obligations and related receivables on the balance sheet in 2010, the cash provided by operating activities was \$318.7 million. We utilized \$103.3 million to repay Term Loan B and \$317.4 million to repay \$293.9 million in principal amount of senior subordinated notes. At December 31, 2010, we had no borrowings on our revolving credit agreement.

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Our capital expenditures in 2010 aggregated \$78.9 million. At this time our available cash and cash generated from operations are sufficient to meet the liquidity needs of KAR Auction Services for the foreseeable future. At December 31, 2010, our net leverage ratio was 3.7 times adjusted EBITDA. This compares to 4.6 times last year. Our available cash at December 31, 2010 was \$106.7 million.

As Jim mentioned in his remarks, we expect KAR Auction Services to generate about \$500 million in adjusted EBITDA for 2011. We expect this to result in GAAP earnings per share of \$0.75 to \$0.80. We have included approximately \$25 million in non-cash stock compensation expense in determining our 2011 GAAP EPS.

Our effective tax rate in 2011 is expected to be 30% reflecting recognition of the impact of certain tax deductions in 2011 which will not impact future periods. Our cash taxes in 2011 should be consistent with our income taxes for accounting purposes.

As we compare KAR Auction Services to other publicly traded companies, we feel an adjusted earnings per share is a more appropriate comparison. We are adjusting 2011 earnings per share for excess depreciation and amortization resulting from a step-up in asset values for the 2007 LBO transaction and non-cash stock compensation expense. We expect adjusted earnings per share of \$1.20 to \$1.25 in 2011.

Capital expenditures for 2011 are expected to be about \$80 million, so I think that gives you enough flavor for how we look forward. Jim, I'll turn it back to you.

Jim Hallett - KAR Auction Services, Inc. - CEO

Okay, great. Thank you, Eric. And with that I'll ask the operator to come back on and we'll go to Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. The question and answer session will be conducted electronically. (Operator Instructions) Matt Fassler, Goldman Sachs.

Ryan Brinkman - Goldman Sachs - Analyst

This is Ryan Brinkman and Matt Fassler at Goldman Sachs. Are there any updates given the stronger guidance as to when you might hit your three times net adjusted EBITDA target? And could you speak as well to the latest thoughts you may have regarding capital allocation when you do reach that point?

Eric Loughmiller - KAR Auction Services, Inc. - EVP, CFO

Well, let me start, Ryan, by letting you know that our goal is still to hit about three times or less by the end of the year. So again we'll see how the cash flows come in and where we get, but we made good progress this year and we're confident that it will remain a strong cash flow generating business and we'll still work very hard on behalf of our investors to hit that goal of three times by the end of the year. And now, Jim -- capital allocation I think after that I'll let Jim speak to the fact that we'll just be looking at opportunities, right?



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Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yeah, I think that we'll look at the opportunities as they surface and if they certainly get within our sights and within where we feel the opportunity is realistic, then we'll assess each one as we go.

Ryan Brinkman. And then can you talk a little bit about Premier Auction Group and how that might have affected your results in December and the quarter. I know it was acquired in November, and how much of the revenue gain at ADESA is attributable to that as opposed to the underlying business and what effect is that having on your margins?

Jonathan Peisner - *KAR Auction Services, Inc. - VP, Treasurer*

I'll let Eric expand on it a little bit, but to the point that you made, Ryan, is we did acquire it and close the deal late in the year, and it certainly had very minimal effect on our performance in 2010. And, Eric, you want to expand a little bit on that?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Yes. And, Ryan, the Premier Auction Group again as we mentioned before is a small acquisition and its contribution was very insignificant. And, in fact, on an EBITDA basis was substantially less than \$0.5 million, and its impact on the topline was negligible and its impact on the car counts was negligible. It just -- again it wasn't a significant amount of activity considering the seasonality of the fourth quarter, and particularly because we bought it just before Thanksgiving and you have those holiday seasons with lighter activity anyway.

Operator

Chris Ceraso, Credit Suisse.

Chris Ceraso - *Credit Suisse - Analyst*

There were a couple items here. Can you just recap for me, I'm sorry, you gave us some guidance on what you think total auction industry units would be. I think, Jim, you said 8.4 million to 8.6 million. That's the 2011 number, right?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

No. We're expecting -- that was the 2010 number. The NAAA has not come out with their final results. We expect those results to come out sometime here in the next week or so at the end of the month, and we're expecting that the 2010 number will be in the order of 8.4 million to 8.5 million.

Chris Ceraso - *Credit Suisse - Analyst*

What are you thinking for 2011?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I think it's going to be much of the same. I think it's going to be similar to what we've seen in 2010.

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Chris Ceraso - *Credit Suisse - Analyst*

So relatively flat. Within that then can you give us a feel for how you expect the institutional volume to trend versus the dealer volume?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Well, in our case I can speak to what we expect at ADESA is obviously we have focused on dealer consignment. I mentioned the numbers that we grew in 2010. We expect that dealer consignment will continue to grow and to become a larger portion of our business. I think when we reported that our dealer consignment number is somewhere in the low to mid 30s as an overall percentage of business and we would expect to grow that number over the course of 2011. But in terms of speaking to specific industry volumes and customers, we don't get to that level of detail.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

And, Chris, when you read the NAAA information put out by their economist, I mean he's basically written all year that you can expect some of the institutional volumes to decline, but that they're seeing increased dealer consignment activity as there is more availability for the dealers to go to market and sell their cars, especially at these high values that we have right now.

Chris Ceraso - *Credit Suisse - Analyst*

And you feel comfortable that at ADESA that that will be a pretty even trade that you'll be able to make up for the drop in institutional volume with an increase in dealer volume?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Chris, we don't give guidance on volumes, and I think it would be irresponsible of me to really comment on a mix before it happens. But we're confident going into next year that we'll perform within the guidance we gave you.

Chris Ceraso - *Credit Suisse - Analyst*

But this is the year, right? 2011 is when we should feel the brunt of the hit from the decline in off-lease vehicles, right?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yeah. I think it carries over 2011 and will carry somewhat in 2012, but I think that we've been anticipating this.

Chris Ceraso - *Credit Suisse - Analyst*

Question about -- another on institutional but coming from rental companies. We heard some of the big rental companies talking about shifting the vast majority of their remarketing away from the auction channel. Can you talk about your expectations in that channel?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes. I would say to you that -- and I've said in past calls that the rental companies continue to look for alternative channels. Specifically I think that we're all aware that Hertz has been more aggressive in this area with some stated goals of wanting to

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reduce their reliance on auctions and to go to alternate channels. And certainly they are doing that, but I would say from our standpoint, from the ADESA standpoint I would say that our relationships are very good with the other rental companies and our rental business continues to grow and our rental business will grow in 2011 as a percentage of our business. So although the rental companies will look for alternate channels, the one thing for sure is the auction channel does give you immediate liquidity, and sometimes as you know time is worth money.

Chris Ceraso - *Credit Suisse - Analyst*

Just a couple other real quick ones. You mentioned the tight market in vehicles that's hurting the margin at ADESA. Is that going to continue to compress -- we've seen some steady decline there -- or do you find a floor level and stabilize at some point?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Well, I'm not sure the tight volumes have hurt the margins. I think where there's more --

Chris Ceraso - *Credit Suisse - Analyst*

Well, it's the pricing.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Yeah. Well, it actually hurts the volumes. We've seen pretty strong revenue per unit all year, and we've been able to increase that so what hurt us in the fourth quarter was really weather related in December. I mean, we got shut down in the Northeast and that brought the margins down a little bit. And also the higher ancillary services that I highlighted. The fact that the factory cars, I mean as the factories start to increase that SAR number, we'll get more cars and they tend to do a lot of work on the cars to make sure they're kind of new car condition so that's been a positive. Again, a little negative on margin percent but it did help the revenue a little bit. So, Chris, that's how I saw that. The tighter supply though does help the values which we hope will be what drives these dealers to bring cars back to the auction and fill whatever hole there is with the institutional volumes this year.

Chris Ceraso - *Credit Suisse - Analyst*

And then just lastly did you say that taxes would go -- would bounce sort of back to normal in '12 and '13 after a lower 30% rate in '11?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yes, Chris. What I'm saying is these are some unique items. They call them discrete items in tax parlance. But I would expect to get back there, but I've been saying that for a couple of years. We always seem to have these things come up either through transactions or whatever, but at this point, yes, I'm projecting we would get back around that 38% level in '12.

Operator

Manav Patnaik, Barclays Capital.

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Manav Patnaik - *Barclays Capital - Analyst*

Just the first question around pricing, first on ADESA. Given that the 11% year-over-year increase in pricing this quarter was because of the -- you mentioned the dealer -- the growth in the dealer businesses or the growth in the ancillary usage. Can you give us some color around what to expect going forward or on a year-over-year basis for 2011 in terms of how that revenue for vehicles sold should trend?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Manav, we don't give guidance on the revenue line because the mix -- there are so many factors that impact it. But I will tell you, and we mentioned this earlier this year, that we were fairly aggressive on buyer fees late in '09 and in the first half of '10. And given the market right now, I'm not sure that we would have the same pace of any increases on the auction fee side. But with that said it's hard to predict because we really respond to market conditions. I do believe thought that we're starting to see the trend on the ancillary services. We've seen that pick up in the last half of the year, and if that continues that's just selling more services. It's not raising prices, and selling more services will give us a lift on the revenue there.

Manav Patnaik - *Barclays Capital - Analyst*

And then to the extent you can comment just on the (inaudible) side, it seems like the revenue per vehicle number has sort of been flat over the last three quarters at that \$488 level. I mean, is that something we should continue to expect? What sort of factors there do you see that changes that number going forward?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

I'm a little confused by your calculation of your number because we were up double digits on revenue and volume was down. That would lead me to believe that revenue per vehicle was up year over year every quarter this year so --

Manav Patnaik - *Barclays Capital - Analyst*

I'm talking about sequentially, just the actual number from like 2Q, 3Q and 4Q all were around the same. But either way just around the pricing front do you expect those double-digit increases going forward or what factors could temper that goal?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Well, what I will tell you, we've not had a price increase this year at Insurance Auto Auctions, and our marketplace knows that, and it's because of the high average selling prices that we've experienced at auction and the cost to procure these vehicles, adding additional fees on it. Given the fact that our fee schedule moves up as these prices have moved up, we've been able to increase the revenue. So I'm not again going to predict what we're going to do to pricing next year, but at the same time I would tell you that there is no fee increases already implemented that would give us a year over lift so we would still be dependent upon the purchase price at the auction.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Yeah. And I would just add to that, Eric, that as volumes remain tight, one of the biggest drivers of salvage proceeds is the price of used cars. So I would say that we would expect that with these high values that proceeds on the salvage side will continue to increase.

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Manav Patnaik - *Barclays Capital - Analyst*

And just one final housekeeping question. Eric, you mentioned the \$500 million adjusted EBITDA guidance, and that was \$25 million of stock comp expense. How much is the step-up D&A and then there is another component for the other nonrecurring non-cash charges?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Manav, that number I'd have to calculate. It's about \$70 million in stepped-up D&A, but that's not the precise number so I haven't given that number specifically but we can back in -- I mean, I think we can all back into it when I gave you one. There's only two adjustments that are made to adjusted EPS so we can figure that out. It's about \$70 million and I've given that number before per year through 2012 and both are on a pre-tax basis.

Manav Patnaik - *Barclays Capital - Analyst*

Any other charges other than that that gets backed out like the non-cash nonrecurring stuff?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Again, in the EPS, no, we do not back anything out other than those two items, and in 2010 we did back out the loss on early extinguishment of debt which the actual -- which was incurred.

Operator

Tony Cristello, BB&T Capital Markets.

Tony Cristello - *BB&T Capital Markets - Analyst*

First question is I know there's a lot of concern about the whole car side from a supply standpoint as we go into the second half of this year and next year. But what I wanted to focus on perhaps is the traction we're seeing on the dealer consignment business. And then in addition to that what other opportunities do you see to help drive incremental business? Are there win availability? Is there -- are there things that you can do to pick up new business whether it's cap to finance or some of the other participating sellers to your auctions?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Let me talk about dealer consignment. First off, we have been very pleased with the results. The program is now fully deployed to the field. As I told you, it was kind of get deployed a third, a third, a third over the course of the last year or so and it is now fully deployed. And what we continue to focus on is we continue to identify the best practices and implement training programs based on those best practices. We have 70 auctions, whole car auctions. Why is one doing better and why is one region or one market doing better? What can one area or one auction teach another auction? So we're identifying those. We have turned over some of the original personnel that we hired just trying to make sure that we have the right fit in place and that these people are being able to increase the dealer business at their respective auctions.

I think we're looking at ways that we can further communicate with dealers. This whole social media opportunity is now I would say we're engaged in taking a look at social media and how we can further communicate with dealers in that area. Obviously the technology offerings, what we can do from a technology standpoint not only with our Live Block but also with our Dealer Block which is our static site. And then we're continuing to focus on how we incent these people. I think the pay compensation,



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the incentives that we pay really drives their behavior and really results in us getting more of these cars at auction. So with that we think that that number of dealers cars just in terms of pure numbers will grow, and we think that on a percentage basis it will continue to grow as well.

In terms of other ways, it's about trying to gain more market share. Some of the marketing promotions that we have in place for both our commercial sellers and for our dealer sellers as well as for buyers, we put programs in place and we continue to chase business one car at a time really. And at the end of the day we think with all the efforts that we're making on dealer consignment and the focus that we continue to put on the commercial cars that we can increase our overall numbers.

Tony Cristello - *BB&T Capital Markets - Analyst*

That's helpful. And when we look then let's say what you're doing on the dealer side of the business, and I know you had initiatives on the salvage side of the business to help drive some incremental non-insurance business. Are the two related? I mean, are you able to go to these dealer lots? You're getting more dealer consignments but also pitching at the same time your ability to move some of these older cars or late -- or vehicles through perhaps a different channel, and are you having some success with that?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

You said it very well. In fact, that's exactly what we're doing. These dealer consignment sales people that are out calling on dealers are not just there calling on the whole car behalf. They're calling on behalf of KAR which is Insurance Auto Auctions as well. And as you described there is many cars -- as we say there is many cars in the back row that have been sitting around that are very low-end cars. Sometimes they're push, pull or drag cars that need to get off dealers' lots and our people are now incentive to push those cars towards Insurance Auto Auctions, and that's really the VRD program that I mentioned earlier in my comments. So to your point, that's exactly what we're doing.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

And one more thing, Tony. We've mentioned in the call that we -- Jim had mentioned that we spent almost \$50 million on acquisitions and our 10K will be filed tonight -- we expect tonight or tomorrow, whenever everything is finalized. You will see in there that we have also acquired a couple of charity processors that are mentioned in the 10K, and that's another focus we have to getting the non-insurance vehicles. And these organizations are actually out there representing charities to get the donations and then they are processed through auctions.

Tony Cristello - *BB&T Capital Markets - Analyst*

Maybe just one quick follow-up. If I look at sort of where the volume would be relative to the pricing, the pricing is very favorable right now. Have you fully anniversaried any of the impacts of what would have been Allstate and/or Cash for Clunkers? And now as we go forward will the industry on a total loss basis still running flat to down or are you just -- yours are a little bit more magnified because of some of the things you had to anniversary year over year?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I would say the Cash for Clunkers, I mean that's really ancient history for us. But in terms of -- I'm sorry, where was I?

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Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Allstate was the other one.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

In terms of Allstate, sorry. In terms of Allstate, certainly it was a loss of volume, but it didn't have nearly the impact overall that some may have thought or some may have suggested. I think that -- and as you know we have wins and losses. We don't identify them or talk about specific customers in terms of wins and losses, but we have had a number of wins that has offset some of that volume. And I would say that it hasn't had a real material affect on our business at Insurance Auto Auctions.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Yeah, Tony. And let me add they aggressively move the vehicles, especially in the second half of the year, so our -- the numbers were down but we will still be anniversarizing over those numbers, especially in the first half of next year before they had moved that volume.

Tony Cristello - *BB&T Capital Markets - Analyst*

Okay. Very helpful. Thank you.

Operator

Rick Nelson, Stephens Investment Company.

Rick Nelson - *Stephens Investment Company - Analyst*

I'd like to ask you about same-store volumes in the ADESA segment in the fourth quarter. I think you mentioned dealer consignment was up 14%. If you could give us an idea of the total that would be helpful and maybe what you think the industry did in the fourth quarter.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Just a second, Rick. I'm looking for my statistics because we do have that available. For the year we were down slightly on volume. I mean, it was a negligible amount to be honest. It was rounding. And for the fourth quarter our volumes were off pretty consistent with what we've had all year in that -- I believe it was in that 7% range but let me confirm that here in a minute.

Rick Nelson - *Stephens Investment Company - Analyst*

So that decline is appearing obviously in the institutional segment.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Yes, they are.

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Rick Nelson - *Stephens Investment Company - Analyst*

Can you talk about the early going of the first quarter? I know we've had some extreme weather in a lot of your regions, and what sort of impact you think that might have.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Could you repeat that, Rick?

Rick Nelson - *Stephens Investment Company - Analyst*

The extreme weather in the first quarter, any commentary there?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I would say there's no question that we did have extreme weather, and it certainly does impact our sale rate and our conversion rate and certainly our labor in terms of managing through the snow. And I think really what happens is that business gets delayed, but I think for the most part it gets captured in the quarter. If we're not doing business, there is not much business going at the retail dealers either so they're not selling cars. So I think the transactions at retailers get delayed and then the transactions at auctions get delayed, but for the most part I think it all kind of clears itself through the end of the first quarter.

Rick Nelson - *Stephens Investment Company - Analyst*

And the conversion rate disclosed was 65% down from 66.9%. Can you give us an idea of what's happening in terms of dealer consignment conversion as well as the institutional business?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

The actual dealer consignment business doesn't convert nearly at the levels that the commercial business does, but we're seeing dealer consignment actually at historic highs. We're converting somewhere in the order of 50%. And then on the institutional it continues I guess overall depending on the segment it converts obviously at a much higher rate than what the dealer business does. So when you factor in that we sold more dealer cars and we're down -- I think Eric mentioned that we're down 2 points year over year from 67 to 65, that would be driven a little bit by the increase in dealer consignment vehicles.

Rick Nelson - *Stephens Investment Company - Analyst*

Then finally if I could ask you about your SG&A which is a little difficult for us to analyze given the adjustments. Can we assume that all of the adjustments ex the loss on the extinguishments of debt, that all of those are in SG&A?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Substantially all. There is a little bit of severance that would hit direct costs, and that was one of the adjustments. But you're probably wondering why SG&A went up from --

Rick Nelson - *Stephens Investment Company - Analyst*

Absolutely.

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Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

There's really four factors. Non-cash compensation which is one of the adjustments was a contributor, but there are two that weren't. Specifically we were up a little bit in travel and a little bit in marketing. And as I look at it, the primary factor of those was really the rollout of the dealer consignment initiative at ADESA. We had other things, as well, but those were two items.

In the marketing front again dealer consignment being the big driver. There was also a little bit more spend in some of the non-insurance areas at IA where they committed some dollars this year that hadn't been committed a year ago. And then the last one that we did incur, and it's recorded as in our SG&A, a loss on the sale of a piece of property just south of Indianapolis, and again that's a nonrecurring loss that we had closed the auction and we were able to sell the property and there was a loss given the depressed real estate values.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Maybe I just have a follow-up comment on the weather, as well. The fact that although I say there's a delayed reaction on the whole car business, obviously it's been very positive for Insurance Auto Auctions. Even though we don't necessarily sell those cars in the quarter that we receive them, it does build inventory further out so it's kind of one man's loss is another man's gain.

Operator

Gary Prestopino, Barrington Research.

Gary Prestopino - *Barrington Research - Analyst*

Just a couple of questions. AFC's portfolio ended about \$772 million, right?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Right.

Gary Prestopino - *Barrington Research - Analyst*

What capacity do you have right now with that, Eric, to grow it?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

Again, given our strong cash flow generation, we have the capacity to grow it. At year-end we were at the capacity of the securitization of \$450 million, but it was not a limiting factor for us because that's also a peak point. In the first quarter that portfolio historically, and this year is no exception, will experience more payoffs than new originations. So that number comes down through the first quarter and then starts to build again later in the year. So we're satisfied with the capacity right now, and we also have capacity in Canada and we were not at the full barring limit of the securitization in Canada.

Gary Prestopino - *Barrington Research - Analyst*

So I mean I guess just a simple answer to that would be are you saying that you grow into the extent of your free cash flow? I mean, you're talking about you're at capacity on the securitization, right?

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Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

We were at 12/31. We are below that capacity actually today because again there is a lot of -- Gary, there is a lot of people that buy their inventory where they believe December is a lower month in pricing. Right, Jim?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Right.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

And they buy their inventory and they hold it and then pay off as they sell the vehicles retail through what they call the tax refund season. But we feel comfortable where we're at now, and we feel comfortable that if we needed to increase that capacity with our current lender group that we'd have the ability to do so based upon the outstanding performance of the portfolio. But we saw no need to go ask for a temporary increase or to negotiate a new deal at this point.

Gary Prestopino - *Barrington Research - Analyst*

Then in terms of the percentage of dealer cars year over year, can you give that to us in terms of what percentage were dealer cars at the end of 2010 versus 2009?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

The percentage of total business?

Gary Prestopino - *Barrington Research - Analyst*

Right, yeah, on the wholesale side.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Do we break that out, Eric?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

We've given it again directionally, Jim. We were able to increase it from the high 20s to well over 30% and we're nearing the mid 30s now in terms of mix.

Gary Prestopino - *Barrington Research - Analyst*

So mid 30s from high 20s?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

From the high 20s, yeah. We're a little below the mid 30s but we're approaching it.

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Gary Prestopino - *Barrington Research - Analyst*

Then in terms of the interest expense, the payoff of the \$150 million that you did, that occurred right at the end of Q4 so that's not really reflected in the interest expense numbers for Q4?

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

We paid \$75 million on Term Loan B in November and the remainder was paid middle of December on the senior sub notes.

Gary Prestopino - *Barrington Research - Analyst*

So you had one month. Okay. Thank you.

Operator

Craig Kennison, Robert W. Baird.

Craig Kennison - *Robert W. Baird & Company - Analyst*

I like the format of the call, but many of my questions have been addressed already. Maybe you could talk about the online channel which we all know is taking share broadly. What are you doing in that channel and how is that benefiting your Company?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

We continue to sell more vehicles. I think I reported that we sold 22% in 2010 and that was up from just under 20% in 2009, so we increased it a couple points. And I think overall we just continue to enhance the system to provide the dealers with a better experience with some of the enhancements that we're able to provide them with. And we continue to invest in this area. We expect that the online will continue to grow. We don't have any expectations of what that number will be or where it will settle out, but certainly the trend has been growing.

Craig Kennison - *Robert W. Baird & Company - Analyst*

And then relative to the market share and your trends in the whole car business, some of the data can be misleading because of your mix of dealer versus non-institutional volume. But what do you think your trends are in terms of market share, especially in that dealer category?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

Well, the first thing I'd like to say is that I think that some of the data that we're looking at, there's some ambiguity surrounding the data in terms of what's being published. There is -- NAAA reported last year the number was 8.9 million, and in fact now we think the number was probably closer to 9.1 million because there were a couple hundred thousand electronic sales that were not reported. In fact, I think our competitor has a similar number out there that they're reporting that the number was at 9.1 million as well.

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The other thing is the data that we're looking at right now really doesn't come out until the end of February, and maybe into March, so we don't have a clear understanding and a clear apples-to-apples comparison on the data so that's something that we need to kind of get comfortable with. But in terms of -- what was the second part of your question? I'm sorry.

Craig Kennison - *Robert W. Baird & Company - Analyst*

Do you believe you're taking share in the dealer category?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I don't know because I don't know what our competitor numbers are, but I would feel very comfortable in saying that we're certainly holding our own. And think that holding our own and growing our side, I don't know how our competitors are doing.

Craig Kennison - *Robert W. Baird & Company - Analyst*

And then lastly interested in your thoughts on the repo market. Obviously it's a declining market as the economy improves, but it would seem to be a category where you would have some natural advantages given the real estate you control around the country. Any thoughts on that market and your opportunity to take share there?

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I think there -- I mean, I think that we are positioned with the number of locations that we have, not just the ADESA locations but then we have another 160 IA locations where a car can be dropped off or a car can be held until it clears. With our relationship with one of our entities, PAR, our remarketing company, they have very strong relationships with I believe it's in excess of 400 repo agents. So again with all of the relationships and with the number of sites that we have across the entire car family, I think it does put us in a better position to capture some of these repos.

Eric Loughmiller - *KAR Auction Services, Inc. - EVP, CFO*

And, Craig, another thing is with repos again there is an issue of how many repos occur in the United States and Canada, but they tend to use the physical auctions because they need evidence that they got market value, and that's difficult to due in an online sale if there aren't sufficient evidence of bidders. So they tend to use the physical auction versus even our internet platform.

Operator

Ladies and gentlemen, that is all the time we have for questions. I'll turn the conference back over to our speakers for any closing remarks.

Jim Hallett - *KAR Auction Services, Inc. - CEO*

I would just say thank you. Again, very pleased with 2010 in spite of some of the headwinds and issues that we faced. Again I think it was a great year and we look forward to 2011 and being able to act on the initiatives that we've laid out, and I'm sure we'll keep you informed as we go along. So with that I do appreciate your time and I say thank you and we'll sign off.

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Operator

That concludes today's presentation. Thank you for your participation.

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