

KAR Auction Services, Inc.
Q1 2014 Supplemental Financial Information
May 5, 2014

KAR Auction Services, Inc.
EBITDA and Adjusted EBITDA Measures

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EBITDA and Adjusted EBITDA as presented herein are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States (“GAAP”). They are not measurements of our financial performance under GAAP and should not be considered as substitutes for net income (loss) or any other performance measures derived in accordance with GAAP.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for the items of income and expense and expected incremental revenue and cost savings as described in our senior secured credit agreement covenant calculations. Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to investors about one of the principal measures of performance used by our creditors. In addition, management uses EBITDA and Adjusted EBITDA to evaluate our performance. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

The following tables reconcile EBITDA and Adjusted EBITDA to net income (loss) for the periods presented:

<i>(Dollars in millions), (Unaudited)</i>	Three Months Ended March 31, 2014				
	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	\$15.8	\$20.6	\$17.9	\$(33.6)	\$20.7
Add back:					
Income taxes	8.9	11.9	10.9	(21.9)	9.8
Interest expense, net of interest income	0.3	0.1	4.5	19.2	24.1
Depreciation and amortization	19.5	18.8	7.5	2.3	48.1
Intercompany interest	12.3	9.4	(5.3)	(16.4)	--
EBITDA	56.8	60.8	35.5	(50.4)	102.7
Adjustments per the Credit Agreement	9.9	3.5	(0.7)	31.7	44.4
Adjusted EBITDA	\$66.7	\$64.3	\$34.8	\$(18.7)	\$147.1

<i>(Dollars in millions), (Unaudited)</i>	Three Months Ended March 31, 2013				
	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	\$15.7	\$9.8	\$18.7	\$(15.1)	\$29.1
Add back:					
Income taxes	7.9	5.9	11.5	(8.3)	17.0
Interest expense, net of interest income	0.2	0.3	3.8	24.4	28.7
Depreciation and amortization	21.4	18.4	6.4	1.1	47.3
Intercompany interest	13.3	9.5	(4.6)	(18.2)	--
EBITDA	58.5	43.9	35.8	(16.1)	122.1
Adjustments per the Credit Agreement	5.7	--	(2.7)	0.3	3.3
Superstorm Sandy	--	10.8	--	--	10.8
Adjusted EBITDA	\$64.2	\$54.7	\$33.1	\$(15.8)	\$136.2

Certain of our loan covenant calculations utilize financial results for the most recent four consecutive fiscal quarters. The following table reconciles EBITDA and Adjusted EBITDA to net income for the periods presented:

<i>(Dollars in millions), (Unaudited)</i>	Three Months Ended				Twelve Months Ended
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	March 31, 2014
Net income (loss)	\$33.4	\$22.8	\$(17.6)	\$20.7	\$59.3
Add back:					
Income taxes	22.9	19.6	22.0	9.8	74.3
Interest expense, net of interest income	24.5	25.8	25.3	24.1	99.7
Depreciation and amortization	49.0	49.6	48.5	48.1	195.2
EBITDA	129.8	117.8	78.2	102.7	428.5
Other adjustments per the Credit Agreement	3.1	2.9	3.4	1.3	10.7
Non-cash charges	7.9	13.2	53.0	46.4	120.5
AFC interest expense	(3.3)	(3.3)	(3.4)	(3.3)	(13.3)
Superstorm Sandy	2.7	--	--	--	2.7
Adjusted EBITDA	\$140.2	\$130.6	\$131.2	\$147.1	\$549.1

Segment Results

ADESA Results

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2014	2013
ADESA revenue	\$298.1	\$283.6
Cost of services*	170.2	161.6
Gross profit*	127.9	122.0
Selling, general and administrative	69.9	61.5
Depreciation and amortization	19.5	21.4
Operating profit	\$38.5	\$39.1
EBITDA	\$56.8	\$58.5
Adjustments per the Credit Agreement	9.9	5.7
Adjusted EBITDA	\$66.7	\$64.2

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased \$14.5 million, or 5%, to \$298.1 million for the three months ended March 31, 2014, compared with \$283.6 million for the three months ended March 31, 2013. The increase in revenue was primarily a result of a 7% increase in the number of vehicles sold, partially offset by a 2% decrease in revenue per vehicle sold. In addition, High Tech Locksmiths provided \$8.2 million of revenue for the three months ended March 31, 2014 and fluctuations in the Canadian exchange rate resulted in a decrease in revenue of \$4.8 million for the three months ended March 31, 2014, compared with the three months ended March 31, 2013.

The increase in volume sold was primarily attributable to an increase in institutional volume, including vehicles sold on our online only platform, as well as a 4% increase in dealer consignment units sold for the three months ended March 31, 2014 compared with the three months ended March 31, 2013. Online sales volumes for ADESA represented approximately 37% of the total vehicles sold in the first quarter of 2014, compared with approximately 34% in the first quarter of 2013. "Online sales" includes the following: (i) selling vehicles directly from a dealership or other interim storage location (upstream selling); (ii) online solutions that offer vehicles for sale while in transit to auction locations (midstream selling); (iii) simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock[®]); and (iv) bulletin-board or real-time online auctions (DealerBlock[®]). Both the upstream and midstream selling represent online only sales, which represent over half of ADESA's online sales volume. ADESA sold approximately 128,000 and 93,000 vehicles through its online only offerings in the first quarter of 2014 and 2013, respectively. For the three months ended March 31, 2014, dealer consignment vehicles represented approximately 50% of used vehicles sold at ADESA physical auction locations, compared with approximately 48% for the three months ended March 31, 2013. Vehicles sold at physical auction locations increased 1% in the first quarter of 2014, compared with the first quarter of 2013. The used vehicle conversion percentage at physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions, increased to 63.6% for the three months ended March 31, 2014, compared with 60.5% for the three months ended March 31, 2013.

Total revenue per vehicle sold decreased 2% to approximately \$535 for the three months ended March 31, 2014, compared with approximately \$550 for the three months ended March 31, 2013. Physical auction revenue per vehicle sold increased \$22, or 3%, to \$663 for the three months ended March 31, 2014, compared with \$641 for the three months ended March 31, 2013. Physical auction

revenue per vehicle sold includes revenue from seller and buyer auction fees and ancillary and other related services, which includes non-auction services. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in ancillary and other related services revenue. Online only auction revenue per vehicle sold decreased \$8 to \$114 for the three months ended March 31, 2014, compared with \$122 for the three months ended March 31, 2013. The decrease in online only auction revenue per vehicle sold was attributable to an increased number of cars sold in closed private label sales. The revenue per vehicle sold in a closed private label sale is lower than the revenue per vehicle sold in an open online only auction.

Gross Profit

For the three months ended March 31, 2014, gross profit for ADESA increased \$5.9 million, or 5%, to \$127.9 million, compared with \$122.0 million for the three months ended March 31, 2013. Gross profit for ADESA was 42.9% of revenue for the three months ended March 31, 2014, compared with 43.0% of revenue for the three months ended March 31, 2013. The decrease in gross profit percentage for the three months ended March 31, 2014, compared with the three months ended March 31, 2013, was primarily the result of the 5% increase in cost of services. The increase in cost of services was primarily attributable to the inclusion of \$5.2 million in costs associated with High Tech Locksmiths, an increase in lower margin non-auction services, increased utilities and snow removal, partially offset by fluctuations in the Canadian exchange rate.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased \$8.4 million, or 14%, to \$69.9 million for the three months ended March 31, 2014, compared with \$61.5 million for the three months ended March 31, 2013, primarily due to increases in non-cash stock-based compensation expense of \$5.8 million, incentive-based compensation expense of \$3.0 million, bad debt expense of \$1.6 million and selling, general and administrative expenses associated with High Tech Locksmiths, partially offset by fluctuations in the Canadian exchange rate of \$1.1 million and decreases in marketing and other expenses.

IAA Results

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2014	2013
IAA revenue	\$225.0	\$221.6
Cost of services*	137.9	158.9
Gross profit*	87.1	62.7
Selling, general and administrative	26.2	18.8
Depreciation and amortization	18.8	18.4
Operating profit	\$42.1	\$25.5
EBITDA	\$60.8	\$43.9
Adjustments per the Credit Agreement	3.5	--
Superstorm Sandy	--	10.8
Adjusted EBITDA	\$64.3	\$54.7

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased \$3.4 million, or 2%, to \$225.0 million for the three months ended March 31, 2014, compared with \$221.6 million for the three months ended March 31, 2013. The increase

in revenue was a result of an increase in vehicles sold of approximately 3% for the three months ended March 31, 2014, partially offset by fluctuations in the Canadian exchange rate. Volumes and revenue for the first quarter of 2013 included the impact of Superstorm Sandy as discussed below. Excluding the impact of Superstorm Sandy, IAA's revenue and volumes increased 15% and 14%, respectively. IAA's total loss vehicle inventory has increased over 15% at March 31, 2014, as compared to March 31, 2013. Vehicles sold under purchase agreements were approximately 6% of total salvage vehicles sold for the three months ended March 31, 2014, compared with 7% for the three months ended March 31, 2013. Online sales volumes for IAA for the three months ended March 31, 2014 and 2013 represented over half of the total vehicles sold by IAA.

Gross Profit

For the three months ended March 31, 2014, gross profit at IAA increased to \$87.1 million, or 38.7% of revenue, compared with \$62.7 million, or 28.3% of revenue, for the three months ended March 31, 2013. The gross profit increase was primarily the result of a 13% decrease in cost of services relating to Superstorm Sandy as well as a 2% increase in revenue. The increase in gross profit as a percentage of revenue was mainly attributable to expenses associated with processing total loss vehicles related to Superstorm Sandy for the three months ended March 31, 2013. A decrease in the revenue and cost of vehicles sold under purchase agreements also contributed to the increase in gross profit as a percentage of revenue, as the entire selling price of the vehicle is recorded as revenue and cost of services.

In the first quarter of 2013, IAA sold over 40,000 Superstorm Sandy vehicles which resulted in revenue of approximately \$26.6 million and cost of services of approximately \$37.4 million. Overall, IAA incurred a pre-tax net loss of \$10.8 million related to the processing of Superstorm Sandy vehicles in the first quarter of 2013. Excluding the impact of revenues and expenses associated with Superstorm Sandy, the gross profit as a percentage of revenue for the three months ended March 31, 2013 would have been approximately 37.7%.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased \$7.4 million, or 39%, to \$26.2 million for the three months ended March 31, 2014, compared with \$18.8 million for the three months ended March 31, 2013. The increase in selling, general and administrative expenses was attributable to increases in stock-based compensation expense of \$3.4 million and incentive-based compensation expense of \$1.4 million, as well as increases in information technology costs, sales and marketing expenses.

AFC Results

	Three Months Ended March 31,	
	2014	2013
<i>(Dollars in millions except volumes and per loan amounts)</i>		
AFC revenue	\$60.7	\$52.4
Cost of services*	16.4	10.9
Gross profit*	44.3	41.5
Selling, general and administrative	8.8	5.7
Depreciation and amortization	7.5	6.4
Operating profit	\$28.0	\$29.4
EBITDA	\$35.5	\$35.8
Adjustments per the Credit Agreement	(0.7)	(2.7)
Adjusted EBITDA	\$34.8	\$33.1
Loan transactions	375,215	345,368
Revenue per loan transaction, excluding "Other service revenue"	\$147	\$152

* Exclusive of depreciation and amortization

Revenue

For the three months ended March 31, 2014, AFC revenue increased \$8.3 million, or 16%, to \$60.7 million, compared with \$52.4 million for the three months ended March 31, 2013. The increase in revenue was the result of a 9% increase in loan transactions and \$5.6 million of "Other service revenue" generated by PWI, for the three months ended March 31, 2014, compared with the same period in 2013, partially offset by a 3% decrease in revenue per loan transaction for the three months ended March 31, 2014. PWI, a service contract business, was acquired in June 2013. In addition, managed receivables increased to \$1,107.9 million at March 31, 2014 from \$1,003.5 million at March 31, 2013.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased \$5, or 3%, primarily as a result of an increase in the provision for credit losses and a decrease in floorplan and other fee income, as well as fluctuations in the Canadian exchange rate, partially offset by an increase in average loan values and average portfolio duration. Revenue per loan transaction excludes "Other service revenue."

Gross Profit

For the three months ended March 31, 2014, gross profit for the AFC segment increased \$2.8 million, or 7%, to \$44.3 million, or 73.0% of revenue, compared with \$41.5 million, or 79.2% of revenue, for the three months ended March 31, 2013, primarily as a result of a 16% increase in revenue, partially offset by a 50% increase in cost of services. The increase in cost of services was primarily the result of the inclusion of expenses associated with PWI, as well as an increase in compensation expense. Excluding the impact of PWI revenues and expenses, gross profit as a percentage of revenue for the three months ended March 31, 2014 would have been approximately 79.4%.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased \$3.1 million, or 54%, to \$8.8 million for the three months ended March 31, 2014, compared with \$5.7 million for the three months ended March 31, 2013. The increase was primarily attributable to increases in stock-based compensation of \$1.8 million and \$0.8 million in expenses associated with PWI, as well as increases in compensation and incentive-based compensation, partially offset by a decrease in professional fees.

LIQUIDITY AND CAPITAL RESOURCES

The company believes that the significant indicators of liquidity for its business are cash on hand, cash flow from operations, working capital and amounts available under its credit facility. The company's principal sources of liquidity consist of cash generated by operations and borrowings under its revolving credit facility.

<i>(Dollars in millions)</i>	March 31, 2014	December 31, 2013	March 31, 2013
Cash and cash equivalents	\$251.2	\$191.6	\$322.1
Restricted cash	14.9	18.8	8.2
Working capital	403.2	356.9	315.3
Amounts available under credit facility*	250.0	250.0	250.0
Cash flow from operations	92.3		90.8

*KAR Auction Services, Inc. has a \$250 million revolving line of credit as part of the company's Credit Agreement, which was undrawn as of March 31, 2014. There were related outstanding letters of credit totaling approximately \$26.4 million, \$26.3 million and \$23.6 million at March 31, 2014, December 31, 2013 and March 31, 2013, respectively, which reduce the amount available for borrowings under the credit facility.

For the three months ended March 31, 2014, the Company used cash of \$22.4 million to purchase property, plant, equipment and computer software.

Non-GAAP Financial Measures

The company provides historical and forward-looking non-GAAP measures called EBITDA, Adjusted EBITDA, free cash flow, adjusted net income and adjusted net income per share. Management believes that these measures provide investors additional meaningful methods to evaluate certain aspects of the company's results period over period and for the other reasons set forth previously.

Earnings guidance also does not contemplate future items such as business development activities, strategic developments (such as restructurings or dispositions of assets or investments), significant expenses related to litigation and changes in applicable laws and regulations (including significant accounting and tax matters). The timing and amounts of these items are highly variable, difficult to predict, and of a potential size that could have a substantial impact on the company's reported results for any given period. Prospective quantification of these items is generally not practicable. Forward-looking non-GAAP guidance excludes stock-based compensation under certain equity grants related to the 2007 merger, increased depreciation and amortization expense that resulted from the 2007 revaluation of the company's assets, as well as one-time charges, net of taxes.