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KAR - Q4 2012 KAR AUCTION SERVICES INC Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the KAR Auction Services, Inc. Q4 2012 quarter earnings conference call. Today's call is being recorded. Today's hosts will be Jim Hallett, Chief Executive Officer of KAR Auction Services, Inc.; Eric Loughmiller, Executive Vice President and Chief Financial Officer of KAR Auction Services, Inc.; and Jonathan Peisner, Vice President and Treasurer of KAR Auction Services, Inc. I would like to now turn the conference to Mr. Peisner. Please to ahead, sir.

Jonathan Peisner - *KAR Auction Services Inc - VP & Treasurer*

Thanks Augusta. Good morning, and thank you for joining us today for the KAR Auction Services fourth-quarter earnings conference call. Today we will discuss the financial performance of KAR Auction Services for the quarter and year ended December 31, 2012. After concluding our commentary, we will take questions from participants.

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 Litigations Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties that may affect KAR's business, prospects, and results of operations, and such risks are fully detailed in our SEC filings. In providing forward-looking statements, the Company expressly disclaims any obligation to update these statements. Lastly, let me mention that throughout this conference call, we will be referencing both GAAP and non-GAAP financial measures. Reconciliations of the non-GAAP financial measures to the applicable GAAP financial measures can be found in the press release that was issued yesterday, which is also available in the Investor Relations section of our website. Now, I'd like to turn the this call over to KAR Auction Services CEO, Jim Hallett. Jim?

Jim Hallett - *KAR Auction Services Inc - CEO*

Great, thank you, John, and good morning ladies and gentlemen and welcome to our call. My comments will be a little extended this morning as we do this call Number one, it's our year-end call, and there's been a couple of significant events that have taken place in the quarter that I believe that I should provide you with more color on. So, turning to the summary of our financial statements or results, we finished 2012 with revenue of almost $2 billion on the sale of approximately 3.3 million vehicles. This represented a 4% growth over the prior year. Our adjusted EBITDA came in at just over $500 million, and that give us an EBITDA margin of 25.5%, and this was the low end of our guidance range, which I'll talk more about here in just a few moments.

Couple key items that impacted the 2012 results for ADESA, and ultimately for KAR. Number one is we did have an unforeseen weather event take place in the very last week of the year. We had a winter storm that started out in Texas and worked its way all the way through New England during the last week. And typically during the last week of the year, we put in a conservative budget, but even our conservative budget was missed as dealers just weren't able to get to auctions, weren't able to get cars to auctions, or get cars sold. So, that did bring our volumes in lower than we expected for that last week. And then we also had the double-whammy effect of the additional expense of having to remove the snow, and this reduced ADESA's EBITDA, and overall, I believe this took us to the bottom of the range. So, as we look at the whole car volumes at ADESA, they remain low in the fourth quarter.

We're expecting that the NAAA results will be out within the next couple weeks, and we expect that those volumes will be reported at approximately 7.9 million vehicles sold in 2012 for the industry. This will include the 260,000 vehicles sold from our OPENLANE platform. ADESA's volumes overall are up 8%. This includes OPENLANE. If we just look at our physical auctions, our physical auctions were down 4%. So, we believe that the whole car volumes have absolutely hit the bottom in 2012, and I'll come back and talk a little bit more about what we see going forward in the future.

But, with that, let me now turn to Superstorm Sandy and provide you with some color. There's been much read and much documented on Superstorm Sandy, but from our viewpoint, let me tell you that Superstorm Sandy was the most catastrophic event in the history of Insurance Auto Auctions. I say it was the perfect storm in the worst of ways. We were dealing with the most dense, heavily populated area of the country; the most difficult infrastructure in most parts of the country when you think about the bridges, and the parkways, and the roadways and the access to move vehicles; and then we're dealing with some of the most expensive real estate in the country, and we had to acquire an additional 400 acres to store, and manage, and sell these vehicles from. Many of you may have seen the pictures that made their way around the world of two runways that we had at the Calverton Airport in Long Island, New York, where we had 20,000 flooded vehicles parked.

And then we were dealing with the regulators. It wasn't easy dealing with the regulators, as they made it very difficult for outside transporters to come in to the state of New York and to haul vehicles. In many cases, we would expect a hauler to haul six to seven vehicles a day, and we were lucky if we could two vehicles hauled a day. But, all in all, we put a team of hundreds of people together throughout the entire car organization, and this was not just people from Insurance Auto Auctions, but there were people from ADESA, people from AFC, people from all parts of our organization that were working to help out and serve our customers throughout this entire process. Obviously, we have a lot of additional costs in terms of travel and lodging for the people that were we were able to fly in to handle this storm.

We had towers from all over the country. We recruited towers through our CarsArrive Network, towers from as far away as southern states of Florida, Alabama, Mississippi, Louisiana, and Texas. We had to purchase an additional 40 loaders just to manage moving these vehicles around at the various sites. At one point, we had 14 sites making up this 400 additional acres. And then, we had to import technology, not only to check in the vehicles and process the vehicles, but then to be able to sell the vehicles over the Internet from these remote sites.

So, at the end of the day, our commitment was to the speed at which we could serve our customers. And, I do expect that the way that we handled Superstorm Sandy will pay great dividends as we go forward. In fact, I can tell you, it's already paid dividends, and I'll speak more to that in a few moments. But, this was the first catastrophic event that Insurance Auto Auctions has ever lost money on. And, as we reported, we had a pretax loss of $9.1 million in the fourth quarter of 2012. We sold approximately 10,000 of these vehicles in the fourth quarter. In 2013, we expect that there will be an additional loss of approximately $10 million, and that most of these vehicle will all be sold as we get to the midpoint of the year.

So, that's kind of the color and the story on Superstorm Sandy, and now I'd like to turn to our outlook for 2013. We're expecting to see growth in the whole car auction volumes. We expect the growth to be in the order of 5%. This will track to 8.4 million vehicles in 2013 for the industry. We would expect that that number will get closer to 9 million vehicles by 2015, and we expect that we can even do beyond 9 million vehicles as we move past 2015. There's no question that more commercial vehicles will come into the mix, but one thing that I would point out is, I would expect that we will hold our position with dealer consignment.

I'm really proud of the work that this organization has done in terms of developing dealer consignment over the last three or four years to fill the void of the commercial cars, and I expect that that business will be able to stick as we go forward. The off-lease vehicles have hit bottom in 2012. We know that those vehicles will begin to grow in 2013, and continue to grow into the foreseeable future, and I've reported on previous conference calls that there are some that believe that leasing will represent 50% of all new car sales by 2017. Another important segment for us is repossessed vehicles, and I believe they hit bottom in 2012, as well. Retail activity is very strong.

The North American car can -- North American SAAR, excuse me, continues to grow. Used car sales and used cars prices continue to be very strong. In fact, there's been a number of articles out. In one in the Wall Street Journal that you may have read this morning, just speaking to the strength of used car prices and the retail sales activity that has been going on. The credit markets are back to normal, and with all of these things in place, it lines up for more repossessions to come our way. So, that's a good thing for our industry.

So, as we think about this mix shift that's going to take place of going from more -- or going to more commercial vehicles coming into the marketplace, this is also going to prove very well for the use of our ancillary services. When you think about who are the heavy users of these reconditioning and mechanical services, it's the off-lease cars, the rental cars, the repossession cars, and we expect that we will provide more of those ancillary services. We'll be able to grow our revenue per vehicle sold with the use of the services, and this will improve our margins. As well, it will allow us to benefit from the scale of our operations.

And then I want to speak a little bit about the integration of OPENLANE and ADESA. This integration has gone extremely well. We had a very detailed integration plan, and the team has executed on all their timelines. And now we are operating all of our US auctions on one combined platform. ADESA.com is the only site. We have one single site now that dealers can enter and purchase vehicles on. And, as you know, OPENLANE dominates the private label sites.

We provide private label sites for an excess of 90% of all the manufacturers in North America. And, as I'd like to say, that means we get the car first. We get the car at the very top of the funnel. We get the opportunity to sell that car first in a closed sale. Then, if it doesn't sell in a closed sale online, then we get to sell that car in an open sale online. And if it doesn't tell in the open sale online, then we get to sell that car at a physical auction. So, it's really channel optimization, and with us getting the car first with 90% of these manufacturers, it really gives us the opportunity to control the sale of these cars as it works its way through the funnel. So, with that, we're feeling good about the whole car business, and we're feeling good about the volumes that are about to come our way.

As I turn to AFC, AFC just continues to be a very solid performer. And I believe that the growth in whole car volumes at auctions will continue to serve AFC very well. Credit remains very strong. The low cost of funds is very much in our favor. And AFC continues to look to expand into other markets. We've talked to you in the past about the opportunity to finance motorcycles, RVs, heavy duty equipment, and power sports. We did get into some of that business in 2012, and I would expect that we'll further penetrate that business in 2013. So, all in all, I would say that AFC is in a very strong, competitive position and has the opportunity to grow as we go forward in 2013 and beyond.

And then, turning to Insurance Auto Auctions. Obviously, 2012 was somewhat of a break in the strong growth record for our salvage business. But, I would expect that Insurance Auto Auctions will grow again in 2013. We're seeing stable proceeds. We expect growth in net revenue, and we expect growth in our insurance volumes. As well, we have our VRD, which is our Vehicle Remarketing Department, that's the selling of low-end whole cars. Continues to grow for Insurance Auto Auctions, as well as our charity segment continues to grow. And we'll continue to purchase vehicles at Insurance Auto Auctions, although I would say that our purchased vehicles will pretty much remain flat with what we've seen in 2012.

So what have we seen so far this year? Obviously, off-lease volumes will continue to improve. And, I would like to call your attention to the fact that the off-lease volumes really started to improve in the second quarter three years ago, so there won't be a consistent improvement in off-lease vehicles. I believe you'll see those volumes start to ramp up in the second quarter, and the bulk of those vehicle will come in the second half of 2013. Again, AFC, we expect that portfolio will grow, and the credit stats will remain strong, and Insurance Auto Auctions is going to continue to operate very much as we're expecting.

One of the things that I'd like to call your attention to is, the last time that we spoke, I had mentioned that we were involved in an RFP process with one of two major RFP that were outstanding with major insurance companies. And now we've got the results of that second RFP. And in both cases, we entered these RFPs with a majority of the market share. And when the RFPs were finally settled, we actually increased our market share with both of these providers.

In fact, we have reached multi-year agreements in a couple things I had mentioned. The key reasons cited for us winning this additional business was the strength of our returns. And it was also mentioned that the way that we handled the whole Superstorm Sandy event was very much recognized, and was appreciated in the way that we handled that whole debacle that took place up in the New York and New Jersey regions. And the reason that I want to mention this, because I've said in the past I don't normally talk about wins and losses, and I don't plan on talking about them each time we get on a call. But, over the last year, 1.5 years, there's been a number of you all that have asked, is there a trend to go to national, exclusive contracts?

And I would say this is your answer. We don't believe there's a trend to do that. In fact, we believe that the trend for these national insurance companies to use multiple vendors. And it's witnessed with the awarding of this business. So, we're feeling very, very good about this business, and feeling very good about winning these RFPs, and winning this additional business as we go forward.

As I turn to our guidance for 2013, we expect adjusted EBITDA to be $535 million to $540 million. This excludes the $10 million loss from Sandy. Our Board has announced that our first-quarter dividends will be paid, $0.19 per share, to the shareholders of record on March 25, and the actual dividend will be paid on the 4th of April. And again, I would draw attention to our free cash flow and our priorities. We will continue to focus on repaying debt. Our goal is to be at three times or less in 2013. We'll pay our dividends, and then we'll continue to evaluate other strategic opportunities for continued growth within our businesses.

So with that, I'd like to now turn it over to Eric for additional commentary on our financial performance, and then I'll come back and we'll do some Q&A. So, I thank you. And, Eric?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Thank you, Jim. First, let me highlight our free cash flow generation for 2012. As Jim mentioned, KAR generated $500.2 million of adjusted EBITDA. We utilized $95.8 million to pay cash interest on our corporate debt, $102 million for capital expenditures, and $65.3 million for cash taxes. The net result is free cash flow of $237.1 million. From this free cash flow, we utilized $26 million to pay dividends to shareholders, and $85.9 million to repay debt during 2012.

We also had an atypical use of cash for working capital at December 31, 2012. This is primarily driven by two factors. First, we had significant cost associated with the towing of Sandy vehicles. In addition, we saw strong growth in our AFC loan portfolio. As I had mentioned before, we fund about $0.23 on the dollar of this growth using Company cash.

I would like to point out that our capital expenditures were greater than what we had expected. Approximately $7 million of our capital expenditures relate directly to capital deployed in November and December in order to handle the Superstorm Sandy vehicles. The good news is, a substantial amount of the items deployed in New York and New Jersey will be relocated to other sites once we are done processing the Sandy cars. This will include over 40 loaders purchased, and the technology equipment put in place at our temporary locations. The increased capital expenditures were partially offset by reduced cash taxes. Many of the costs incurred as a result of Sandy created tax deductions that reduced our cash taxes in the United States.

Now, let me speak to our overall operating performance. KAR, through its operating businesses, sold over 3.3 million vehicles in 2012, a 6% increase over 2011. Approximately 57% of the vehicles sold were whole cars, with the remainder being salvage vehicles. Consolidated revenue of $1.963 billion was 4% greater than the prior year. Consolidated gross profit was approximately 45% of revenue, and remained relatively consistent with the prior year.

Our selling, general, and administrative expenses increased by $30 million in 2012. This increase represents an additional $24 million of OPENLANE SG&A, and an increase in stock-based compensation of approximately $6 million. Our effective tax rate for 2012 was 39%, a little bit lower than what we had anticipated for the year. An important item to note as you analyze our financial results, is that IAA incurred a pretax loss of $9.1 million relating to the Sandy cars. In accordance with the definitions in our credit agreement, the one-time temporary costs incurred as a result of Sandy have been added back in computing adjusted EBITDA. The $9.1 million loss reflects the short-term, non-recurring expenses incurred in Q4, partially offset by the gross profit realized upon the sale of the Sandy vehicles.

We have not allocated any costs related to our normal operations to the Sandy loss. As you can see in our press release and financial supplement issued last night, we are separately disclosing the net Sandy loss. We have provided the financial supplement, which gives you performance information for each of our business segments and summary information on our overall performance. We expect to file our 10-K, which will give a more detailed analysis of our performance tomorrow.

I would now like to provide some more information on our guidance. Jim has already outlined our expectations for the cyclical recovery of ADESA, so I'm not going any further on that. IAA, as he mentioned, is well positioned in the salvage auction industry entering 2013. We have seen a lot more winter weather activity in late 2012 and early 2013 than one year prior. You may have noticed snow coming from Tucson, Arizona through the Great Plains yesterday. This is a more normal winter than what we experienced a year ago. This has led to the stable flow of vehicles into the salvage auctions that we have expected and will expect.

AFC is also expecting to continue increasing the number of loan transactions. We expect to achieve this growth by increasing the number of active dealers, achieving greater utilization of available lines of credit with our existing dealers, and expanding our floor plan lending in other areas that Jim already mentioned. We are in the process of expanding the amounts available in our securitization facility, and extending the term beyond its current maturity of June 30, 2014. The process is moving along well, and we expect to complete the amendment process in the next couple of months.

Now, let me expand on our guidance for 2013. Jim has already mentioned our expectations of adjusted EBITDA of $535 million to $540 million. We also expect cash interest expense of approximately $94 million, capital expenditures of approximately $95 million, and cash taxes of approximately $85 million. This will result in free cash flow of $261 million to $266 million. We expect to allocate $104 million of our free cash flow to dividends, based on our current quarterly dividend rate of $0.19 per share. Future quarterly dividends are subject to the approval of the Board of Directors.

We expect earnings per share to be $0.82 to $0.87 per share. This assumes an effective tax rate of 41% for 2013. I will also add, there are no add-backs or adjustments to our GAAP earnings per share. We also provide our guidance on adjusted earnings per share of $1.13 to $1.18. Our adjustments to GAAP earnings per share on a pretax basis are the 2013 net loss from Sandy of approximately $10 million, stepped-up depreciation and amortization from our 2007 LBO transaction of approximately $46 million, and non-cash stock-based compensation that we estimate at approximately $10 million.

Now, one other item that I would like to briefly discuss as a result of a number of inquiries from our investors, is the possibility of KAR utilizing the internal REIT structure. This is a tax structure. We have done a preliminary analysis of this structure, and have identified a number of items that impact our ability to pursue this tax-efficient structure. First and foremost, we utilize leases for a majority of our property. While this does not preclude a company from utilizing the REIT structure, it does make it more difficult to meet the test that requires 75% of gross assets to be qualified real estate assets.

In addition, our businesses are diverse, and include a number of areas that are not qualified real estate activities. And finally our strong presence in Canada creates a substantial amount of our taxable income outside the United States, where this structure does not provide that same tax benefit. A substantial amount of taxes we expect to pay in 2013 relate to Canada, or various US state income taxes. The complexity of the car businesses and diversity of its offerings would likely result in significant costs and efforts to pursue this structure. We'll continue to monitor activity around the REIT structure as more information becomes available. That's enough comments, and so now we'll turn it back to Augusta for the Q&A. Thank you, everyone.

QUESTIONS AND ANSWERS

Operator

Thank you, sir.

(Operator Instructions)

Matthew Fassler, Goldman Sachs.

Matthew Fassler - *Goldman Sachs - Analyst*

Two questions. The first, Eric, you essentially alluded to a moment ago when you discussed the weather environment, and it relates to the salvage business. So, I guess this year you saw some pressure on adjusted EBITDA, even when you back out Sandy for that business, to your point and Jim's point earlier. It had been on a pretty good growth trajectory prior to this. Do you think that the improvement is likely to be manifested in better volumes? Did the -- what do you think happens to operating leverage in the -- given the kind of weather backdrop that you see now, which presumably will be the backdrop that impacts 2013?

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes, Matt. This is Jim. I would say to you that, obviously, with the volume situation, we expect that volumes will increase. Not only will they increase based on some of the climate conditions that Eric spoke to, and that we're experiencing with a more normal-type winter taking place, and more normal-type weather. But also, from the gains that we've made with our recent customers on an organic basis, it will, in terms of increasing our market share, that, that business will continue to grow and offset.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And Matt, I'd like to clarify a point. The weather impact was really at ADESA. The -- at IAA, I would not attribute much of the performance in 2012 to that last week of the year, and, in fact --

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Matthew Fassler - *Goldman Sachs - Analyst*

Sure.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

In fact the bigger impact was, they were dedicating so much resource to processing these Sandy cars, that there were collision cars, or non-Sandy cars, were probably slowed down by the insurance companies in processing at a slower pace. But, that's all good news, because that's just timing, right?

Matthew Fassler - *Goldman Sachs - Analyst*

But, alluding to the broader winter weather issue, and we've seen it for lots of after-market players, as well. The lack of a winter in 2012 meant there weren't as many accidents, breakdowns, etcetera, presumably a flow though to salvage volume over the course of the year. That was really the essence of the question. And I guess, the reference - I want to make sure I'm interpreting this right. The reference to the snow that we've seen is a good thing for the flow of goods into that business.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

That's right, and we've already seen it in assignments.

Matthew Fassler - *Goldman Sachs - Analyst*

Got it. Second question, just to make sure I understand the compensation of the salvage P&L. So, I guess, adjusted EBITDA as back in the impact of the -- of Sandy, adjusted net income includes that. As we think about the revenue number, you said that the adjusted EBITDA, or rather the loss associated with Sandy, is offset by the gross profit dollars associated with Sandy-related sales. So, as we think about adjusted EBITDA margin, do we need to make any adjustment to revenue to try to get a good look at the real underlying business, because presumably the revenue number is a bit inflated by some of those Sandy numbers? How do we get the cleanest look at profitability is my real question?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Okay, Matt. But, I want to clar-- you said something I want to be clear on. Adjusted earnings per share is adjusted for the impact of Sandy.

Matthew Fassler - *Goldman Sachs - Analyst*

Okay.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

GAAP earnings per share is not.

Matthew Fassler - *Goldman Sachs - Analyst*

Okay. (multiple speakers) So all the adjusted numbers exclude the Sandy impact?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Correct.

Matthew Fassler - *Goldman Sachs - Analyst*

Understood.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And, and you are correct. The impact, we've talked about, historically, the average revenue per vehicle in salvage is in the $400s, okay?

Matthew Fassler - *Goldman Sachs - Analyst*

Yes.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

The Sandy cars tend to be flood cars, and they sell a little bit higher, generate a little more revenue, so I'll let you extrapolate your math on about 10,000 cars in the fourth quarter was the revenue impact. And the costs associated were significantly higher in cost of goods sold, or cost of services, than they normally would be, so the margin there was very, very small. What we will tell you is, if you were to exclude the impact of the Sandy cars in all parts of our balance sheet, we continued to have an op-- a gross profit that was above 40%. Consistent with how we've been performing.

Matthew Fassler - *Goldman Sachs - Analyst*

Understood. Thanks for the clarification.

Operator

Chris Ceraso, Credit Suisse.

Chris Ceraso - *Credit Suisse - Analyst*

Just a couple of things. First, on Sandy, is there any anticipation that there's a favorable tale here that we might see, vehicles that didn't get processed that maybe at some point throughout 2013, you'll be able to process at more reasonable cost levels? Or is this it, it's over? The vehicles are done as of whatever, Q1, Q2, with the high cost, and you're excluding all of that, and the only positive by-product is that you won some more business?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Well, we clearly have a positive by-product of winning more business. And what I was just mentioning in the previous question, the positive by-product of this is there were -- actually, they slowed down, the insurance companies slowed down title processing to the extent that they were really focusing all their attention on Sandy initially. And that probably pushed some cars out into the pipeline, Chris. Cars that would have been processed, perhaps, in November and December, probably led in to the early part of the year. And that's a phenomena that was actually more than just the Northeast, because a lot these companies were dedicating resources nationwide to get these things processed. In fact, we established three centers outside of the New York/New Jersey area just to handle Sandy titles, so we could accelerate the process for our customers. So, I do think there's a little bit of a positive move into the year, and we'll just have to wait and see. I'm probably more excited about the, no offense to anybody that's been stuck in the snow, and [Nemo] and all that, by the winter weather and what that has done to the ongoing volumes of the salvage industry.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. And then, second question. So, Jim mentioned, what we've all been watching is the number of off-lease units should hit a turning point in 2013. That's good for ADESA. Historically, when things start to go better for ADESA, typically your margins at IAA and AFC tend to be a little bit lower. So, is that pattern expected to persist? Are we going to see a better year for ADESA in '13 versus '12, but maybe a weaker year in terms of profit margins at the other two businesses?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

You know, Chris, that's interesting, and that was kind of the structure of the business. But what's happened, is with the acceptance of after-market recycled parts in the collision repair industry, there's much stronger support today than there was five years ago that seems to be holding up the salvage values, despite, perhaps, softening in used car values. And so, at what we're seeing right now, and you look at some of, like an LKQ or companies like that, they're not anticipating that the cost to acquire their inventory will decline because of the strong demand in the collision repair business. So, at this point, we are not seeing, perhaps, the waiting shift going from a stronger ADESA leading to a -- call it somewhat weaker performance at IAA. We actually think we're in a market that is well positioned for both to do very well, despite both experiencing increasing supply.

Chris Ceraso - *Credit Suisse - Analyst*

And what about AFC, Eric?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Well, AFC, we love it because, as you guys know, when you can make money with money, it's a pretty attractive business. Their average loan value might drop a little bit, but this strong market has really made the credit statistics. Cost of funds are fantastic. I can't think of being in a better position than AFC is in today, with their 104 loan origination offices out there touching the customer. We have AutoVIN doing lots of lot checks. So, we're not -- the cars are there, and that's -- you lose money when the car disappears. So, I feel very good about AFC. We'll continue at strong performance. And they're gaining -- they seem to be gaining share, despite the fairly weak auction business. So, I really looking forward to when the supply returns, and there is more cars to floor plan.

Chris Ceraso - *Credit Suisse - Analyst*

So maybe some pressure because of softer used car values, but the other inputs to that model seem to be all in favor?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

They seem to be all be in favor. And again, that pressure on used car values will actually probably mitigate any credit risk because the values are staying fairly consistent. We do not see declining used car values. We see very modest change, if anything. They're talking about 1%, 2% declines. That doesn't impact us. I mean, that's not the level at which we see major changes in any of our businesses.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. And then just lastly, one housekeeping item. Can you bridge for us the adjusted EBITDA to the adjusted EPS, in particular? What is your assumption for book interest expense? I know you gave the cash number. Any kind of other income or expense, and the share count?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Again, the share count, other than the treasury method, probably has a little -- a very modest increase. In terms of cash interest, you can look in our financial statements. There's $10 million to $15 million of non-cash interest amortization of debt issuance cost, etcetera, and that number is fairly consistent over the term of the debt. So I don't expect a significant change there. And what was the third? There was a third one, Chris. Did I miss one?

Chris Ceraso - *Credit Suisse - Analyst*

Well, there's a other line, other income or expense, anything notable there?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

On the adjusted EBITDA, again, our credit agreement pick up things such as severance, integration costs; however, those are not adjusted in the earnings per share at all. Only the items I mentioned were adjusted in our guidance on earnings per share, the three things.

Chris Ceraso - *Credit Suisse - Analyst*

Right. And with the dollar-- (multiple speakers)

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

The [step with D&A] was $46 million pre-tax. $10 million in stock-based comp, and that's just a budget assumption in our expectations. We aren't in the stock prediction business, but we put a number in there, and that's the number that was in our results. And that's added back in both. And then you have the hurricane, or the Super storm Sandy impact pre-tax of $10 million.

Chris Ceraso - *Credit Suisse - Analyst*

Right. Okay. That's great. Thank you very much.

Operator

Gary Prestopino, Barrington Research.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

A couple of questions here. Eric, on AFC, could you tell us, or if you haven't already, what the ending portfolio was? And the amount that's current?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Well, I can tell you it's over 99% current. And, just a second. Gary I have to, oops -- I have to pull something out to tell you that. I didn't actually have that right in front of me. It will be in the K.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay. If you don't have it, that's fine. I'm just --

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

But I can get to it very quickly. (multiple speakers)

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

What I'm really looking at is how much more capacity do you have right now? And then you said you were going increase -- try to increase the capacity. So, I'm trying get an idea of how much bigger it could get, or what capacity do you have there to grow it?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

We were -- the portfolio, it's in the press release as the finance receivables net of allowances. So, the total portfolio was right at $1 billion dollars, just slightly above $1 billion dollars on a gross basis.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Right.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And we had, in terms of obligations, financed $713 million outstanding on the securitization's that currently have a capacity of $750 million, with just over another year, and we're very comfortable that we -- that's sufficient. There is a seasonality to the AFC business. It hits its peak around the end of the year, or this year, a little bit into January. And by February, you're starting to see the inventories on the dealers' lots as they sell into the tax season decline. Comes down, and then it begins growing again, typically, late summer, early fall as they start building inventory for that season. So, Gary, we're very comfortable with what we have now, but as we look beyond June of 2014, obviously, we think the ability to grow the AFC portfolio continues, and we want to expand the capacity in a reasonable number that could take care of us for the next two to three years.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay. But you can't make that public - what you want to -- what you going to expand it to?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Well, I'd rather maintain my position with the banks that we're dealing with, that other than to tell you we're dealing with it. So, no, I'm not ready to give you a number yet, but we will shortly, when we have a deal.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay. That's fine. And then, Jim, you mentioned on channel maximization with OPENLANE, you get a first shot at a closed auction virtual, than an open virtual, and then a physical, right?

Jim Hallett - *KAR Auction Services Inc - CEO*

Right.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

But, you actually control the car on the closed auction, but do you actually control it on the open virtual auction, as well, and then control it, as well, going into the physical? Or is that something you really have to negotiate with the OEM, or work with the OEM if it doesn't sell in a closed auction?

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes. Good question, Gary. We control it on the -- obviously, on the closed. We control it on the open, and then the seller has the decision on where it goes physically. We would hope that, because we're getting the them at the top of the funnel and controlling them through those first two stages, we would hope that the -- when they go to physical, that ADESA could be the first choice there, but that's not always the case.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Can you share with us, maybe, what percentage of the cars are actually sold under the closed and open virtual that you offer?

Jim Hallett - *KAR Auction Services Inc - CEO*

We've reported that all of our online sales is in the order of 32% overall.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay.

Jim Hallett - *KAR Auction Services Inc - CEO*

That includes open and closed, and it includes our live block sales, as well.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And all segments. Not just commercial.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Not just --

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

From that inference, we could get an idea of just what the amount that you control can be sold, and then what the amount is that the sellers would actually have an option on.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And let's be -- (multiple speakers).And Gary, let me clarify. Of that 32%, about half is live block, which is sold from physical auction, and about half is online only. And we've talked about that before.

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Those are rough numbers, so it's really the half that's online only. So, I've get your number down in the mid-teens.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay. Great. And then lastly, can you share what percentage of vehicles Insurance Auto is now doing that are non-insurance?

Jim Hallett - *KAR Auction Services Inc - CEO*

We're pretty much running into that 80%-20% range.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Yes. We're a little over 80% insurance. And obviously, with the Sandy cars it will probably cause that percent to be a little higher, because those are all insurance cars.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

And you said in your -- in some of your comments that the revenue, or the prices on these cars were better than normal salvage because they are flood. So, the whole issue with what happened with Sandy was not really that the cars were not selling at decent prices, it was all expenses?

Jim Hallett - *KAR Auction Services Inc - CEO*

That's right, Gary. And, in many cases, when you think about that New York/New Jersey area, we're dealing with some very high-end vehicles here. And the prices for these flood cars has been above what we would normally see for salvage vehicles.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay. Thank you.

Operator

Bob Labick, CJS Securities.

Bob Labick - *CJS Securities, Inc. - Analyst*

I want to clarify a few things. Eric, an earlier comment, you mentioned that IAA margins ex-Sandy were north of 40%. Is that for the full year or for the quarter, because I was calculating closer to 36% for the quarter for ex-Sandy?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

It would have been for the full year. And when you get the queue, you'll see -- I would tell you, your margin for the fourth quarter is a little low if you took Sandy out. It was a little better than that.

Bob Labick - *CJS Securities, Inc. - Analyst*

Okay. Great. And once we get more details, I'll dig into it there. And then, also, obviously, you guys mentioned, and we certainly know, or many of us living in New York, that it's expensive here. But, I was wondering if you could give an order of magnitude, in terms of the cost differential from this storm versus previous cats where you guys have said you've never lost money before. And, in terms of the storage, towing, labor, where did the -- losing $20 million on this must have come to a surprise to you initially. I guess that's the question, was it a surprise to you? And can you just -- without quantifying the numbers, but by order of magnitude, what were the biggest costs versus your expectations?

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes. They -- there's no question that the storm was so isolated, and so heavily concentrated in that New York/New Jersey area, as --.The biggest cost, no question, was what we provided in terms of towing, and also in terms of securing land. Those are -- and then the team of people that we had to assemble to handle the cat itself made up the bulk of the cost.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And, Bob, I'd like that -- you said surprise. It was something we didn't expect, but I would not use the term surprise. As we are incurring these costs, we know it. Yes, it was unexpected, but not a surprise. Because that was the market, and we were in that market. And Jim mentioned it in his remarks, our customers are demanding, and we were responding with speed and commitment to getting those cars into our locations and then getting them processed. The best comparison is Katrina, as an example. And it was in a different part of the US. And you know what? At Katrina, we didn't make a lot of money. But, we processed a large number of cars for a small amount of profit, and this was a loss. I mean, that kind of quantify -- a $20 million loss? You go into these things, and that's not what you expect.

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes. Let me give you just a couple stats as you compare Sandy and Katrina. Katrina, we had to secure 110 acres of land; Sandy, over 400. Katrina, we had to bring in 50 additional towers. In Sandy we had to bring in 600 additional towers. In terms of assignments that we were handling, we were handling ten times as many assignments in the course of the first three weeks than we were in Katrina, so everything was just on steroids. It was just a lot more coming at us, a lot faster, and people expecting us to react in a much more expedited manner.

Bob Labick - *CJS Securities, Inc. - Analyst*

Okay. That's helpful color. Thank you on that. And then, sticking with IAA, could you just comment on the purchase car mix in the quarter versus a year ago? You commented that you expect it to remain flat at current levels for 2013, but, could you tell us what it was in the quarter?

Jim Hallett - *KAR Auction Services Inc - CEO*

You know, Bob, I don't have that right here handy. It was actually less than it was in previous quarters, and not surprisingly, because of the activity we were dealing with in the Northeast. And, and we'll have in our K, the amount for the year. But, I believe, again, I could look it up, but I could follow-up with you. But, it was a little bit less than previous quarters, and it was above 5%, as I recall.

Bob Labick - *CJS Securities, Inc. - Analyst*

Okay. Great. Thanks very much.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

You're welcome.

Operator

John Lovallo, Bank of America Merrill Lynch.

John Lovallo - *BofA Merrill Lynch - Analyst*

First question would be, just getting back on the Sandy versus Katrina comparison, how would you characterize the quality of the vehicles? I know you said that there's more higher-end vehicles that came through. But in terms of just the reusable parts, would -- is it fair to say that the cars in Sandy probably had more reusable parts because the flood waters receded more quickly?

Jim Hallett - *KAR Auction Services Inc - CEO*

There's no question, to your first point. The Sandy cars were a higher dollar car. When you think of higher dollar cars in that region, you think of the luxury cars, and you can figure those brands, the Mercedes, Audis, the Lexus', and Porsches, and things of that nature. And, we're also dealing with saltwater here. And saltwater causes tremendous long-term damage to these vehicles. So, I don't think I'm in a position to comment on reusable parts, other than the fact that when you're dealing with saltwater, you're dealing with vehicles that are going to have long-term damage.

John Lovallo - *BofA Merrill Lynch - Analyst*

Okay. That's very helpful. And if I could maybe just ask one kind of high-level question on the REIT conversation that you were talking about. Just very broadly speaking, when I think of your business, I think of the value that you add would be in creating a market, allowing more eyeballs to see each vehicle, assuring title transfer to the buyer, assuring payment to the seller. Those are the main things that I think about. But do you, would you -- how would you characterize the value associated with storing a vehicle? I mean, is there any way to think about that?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

You know what -- if you look at the way that we engage with our customers, we charge a sell fee. And the sell fee is, we've talked about this a long time, much smaller than the buy fee, and the buyer is clearly not going to pay us for how long that car sat there. And the sell fees, I mean, if there was a portion of our fee attributable to the storage of the vehicles, I would think it would be a subset, because, John, of all the things you mentioned. Look at all that we're doing for that sell fee, and only a small portion might be attributable to the time we store the vehicle.

John Lovallo - *BofA Merrill Lynch - Analyst*

That's very helpful, I appreciate it guys.

Jim Hallett - *KAR Auction Services Inc - CEO*

Thank you.

Operator

Bret Jordan, BB&T Capital Markets.

Bret Jordan - *BB&T Capital Markets - Analyst*

Just a couple questions (multiple speakers) and one, you had said that maybe some higher-than-expected CapEx late in the year related to Sandy. Could you give us some more color on how much incremental CapEx you experienced from Sandy? And you also felt that maybe some of those assets could be reallocated in 2013? What was the spending driven by, and as you reallocate those assets, do we have lower utilization because you had to build up for the surge in Sandy?

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Yes. It was $7 million of the $102 million was specifically for Sandy. And a substantial amount of it will be reallocated, not 100%. There was some that probably related to work we're doing on the temporary site where it may not be cost effective to move things. But the majority will be re-al -- not reallocated, will be utilized, redeployed as part of our plan. And, so that's a piece of it at the $102 million. And then, there was another piece that I didn't actually put much color on. We were a little above where we started the year, because we really went after the OPENLANE integration that Jim talked about. And we did spend a little bit more, by plan, to accelerate the pace at which we could get to a single site. And so those are the -- really the two things that contributed to us being $102 million versus where we began the year, expecting around $90 million.

Bret Jordan - *BB&T Capital Markets - Analyst*

Okay. Great. And then one last question, I guess on the whole car side of the business. And the dealers are focusing on -- pretty intensely on increasing their used ratio of cars sold. Are you seeing headwind's to whole car access as they are trying to keep some of these off-lease vehicles, or what typically would have been wholesaled out on their lots to resell as used?

Jim Hallett - *KAR Auction Services Inc - CEO*

I would say, Brett, we're seeing the opposite of that. What you've got, is you've got more supply, more vehicles coming into the market. And where in 2012, dealers were squeezing every vehicle they could, trying to hang on to these vehicles. Now, with the additional supply coming, we'll see more of those trade-ins making their way to the physical auctions.

Bret Jordan - *BB&T Capital Markets - Analyst*

Okay. Great. Thanks.

Jim Hallett - *KAR Auction Services Inc - CEO*

You're welcome.

Operator

We'll go next to John Lawrence of Stevens.

John Lawrence - *Stephens Inc. - Analyst*

Just a couple of questions regarding the wins on the insurance side. Could you broaden that a little bit and give us the profile of those customers? I guess the point is, as they continue to use alternative parts as part of their mix, and that continues to grow, give us a little history there with these two guys and would that be the case in point?

Jim Hallett - *KAR Auction Services Inc - CEO*

We would clarify it as saying that they were major insurance companies, and probably in the top ten in the nation. And, to your point, they would be users of alternative parts.

John Lawrence - *Stephens Inc. - Analyst*

And you would sense that, that's increasing over time, just like the industry has?

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes. There's been, I think Eric mentioned earlier in his conversation in his comments, is the use of alternative parts is now more -- much more widespread accepted throughout the industry, and we expect that, that will only increase.

John Lawrence - *Stephens Inc. - Analyst*

Right. And secondly, can you give any kind of a sense of -- if you look at the buckets of mix between foreign name plates sold versus domestic, any sense of what kind of pricing you get differential between those two buckets?

Jim Hallett - *KAR Auction Services Inc - CEO*

Are you talking salvage or whole car?

John Lawrence - *Stephens Inc. - Analyst*

Either one. Both.

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes. Really, we don't look at that, and we don't break that out. I mean, you can have a high dollar domestic car, and you can have a low dollar domestic car. It's all based on the car and the inventory that we receive. And it's all based on the selling price of the vehicle.

John Lawrence - *Stephens Inc. - Analyst*

Yes. I just didn't know if you -- when you put it all together, was there any major differences?

Jim Hallett - *KAR Auction Services Inc - CEO*

I think, no. I would say that we don't look at it -- we don't split it like that when we put it all together. We just look at the overall averages.

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Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Yes. And the industry looks luxury, not source. I mean, there's no difference between a domestic luxury car and a foreign luxury car. It's the luxury car that gets the premium, John.

John Lawrence - *Stephens Inc. - Analyst*

Got it.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And I would say, generally speaking, you might have some people that favor one brand over another in a local market, but it's not widespread.

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes, with that said, though, I would -- the point that I would add is we do have some specific sales in the country that we call high-end sales, or luxury brand sales. These are specialized sales, and they occur at specific sites. And because they are all premium cars, we do achieve premium pricing on those cars. But again, it's not a huge part of our business.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And Jim, wouldn't you say --

John Lawrence - *Stephens Inc. - Analyst*

(multiple speakers) And the terms would be lowered.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

There are more foreign luxury cars than domestic luxury car brands right now, right?

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

So John, there are more foreign luxury brands.

John Lawrence - *Stephens Inc. - Analyst*

Got it. Thanks a lot. Appreciate it.

Jim Hallett - *KAR Auction Services Inc - CEO*

You're welcome, John.

Operator

Bill Armstrong, CL King & Associates.

Bill Armstrong - *CL King & Associates - Analyst*

On the Sandy vehicles, to what extent can you pass on the towing and storage costs to your sellers?

Jim Hallett - *KAR Auction Services Inc - CEO*

Well, Bill, as we've said, we don't speak specifically to individual contracts, but, we've never lost money on a catastrophic event. And, in fact, we made money on all of these events. And we're expected to handle these events in the normal course of business within our contracts.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And there are provisions for catastrophic vehicles to generate some opportunities for revenue. But, you can tell from our results, it's not sufficient to cover the cost we incurred.

Bill Armstrong - *CL King & Associates - Analyst*

Normally, and not getting into any specifics, but just as a general rule, though, you're always going to have towing costs, no matter -- whether it's catastrophic or not, and at least some of those are passed onto -- in your fees, right?

Jim Hallett - *KAR Auction Services Inc - CEO*

Again, generally our fee structure encompasses the recovery of our tow costs.

Bill Armstrong - *CL King & Associates - Analyst*

Got it.

Jim Hallett - *KAR Auction Services Inc - CEO*

They're not passed on, on a cost-plus basis, generally.

Bill Armstrong - *CL King & Associates - Analyst*

Okay.

Jim Hallett - *KAR Auction Services Inc - CEO*

And Bill, let me [take the] chance to highlight this. Even in the other catastrophes where said we did not lose money, they did not generate the same profitability, though, as our normal collision salvage vehicles.

Bill Armstrong - *CL King & Associates - Analyst*

Right.

Jim Hallett - *KAR Auction Services Inc - CEO*

They didn't lose money.

Bill Armstrong - *CL King & Associates - Analyst*

Yes. Now I seem to recall that the Sandy -- sorry, the Katrina cars, and this was alluded to earlier, had a lot of saltwater damage, and they ended up being very low value. Sandy, they weren't sitting in water that much. But still, wouldn't that have really done -- killed a lot of value for mechanical or moving parts, and maybe wouldn't have affected the sheet metal. But I would thought that still those cars would have had, maybe less-than-average value?

Jim Hallett - *KAR Auction Services Inc - CEO*

Well, less-than-average value, I would say. Just the nature of the vehicles and the type of vehicles, there was just many more high dollar cars, which are going to result in high dollar prices. They're still going to have this extended damage, but you're just dealing with a higher dollar car.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

But Jim, you went to the airport and saw the two runways. It looked like a new car lot, didn't it?

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And those cars aren't selling for anywhere near their value as a normal car.

Jim Hallett - *KAR Auction Services Inc - CEO*

Right.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

As a whole car.

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes, they're probably still selling for the same percentage of their original actual cash value.

Bill Armstrong - *CL King & Associates - Analyst*

Got it. Okay. And then, just one last question on -- shifting to ADESA, you're looking for repos to start to increase again this year. Is that being driven by, and this is, in volume -- is that being driven by lower credit quality, and just the expectation of more new car sales and a higher rate of default?

Jim Hallett - *KAR Auction Services Inc - CEO*

I think it's -- (multiple speakers)

Bill Armstrong - *CL King & Associates - Analyst*

Or are there other things?

Jim Hallett - *KAR Auction Services Inc - CEO*

It's a couple things. Number one is the new car business is back. The used car business is strong, and credit is back. People are extending consumer credit, and it's just a fact of the numbers. The more credit you extend, the more repos you're going to receive. And it's just that business is back to what we would consider normal levels.

Bill Armstrong - *CL King & Associates - Analyst*

And --.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And part of that would be making loans to lower FICO or Beacon scores, right?

Bill Armstrong - *CL King & Associates - Analyst*

Right.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

I mean, that's how you sell more cars.

Bill Armstrong - *CL King & Associates - Analyst*

Right. Got it. And then, just in terms of getting some perspective on that. If we're looking at, it was about 8.4 million units that may get sold this year, what -- about what percentage of that would be repos? Roughly?

Jim Hallett - *KAR Auction Services Inc - CEO*

We reported that number last year.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

In the -- within the industry, it's likely in the mid-teens somewhere as a relative number. At the peak, we know the industry reported the peak was 1.8%, and the bottom is 1.2%. So it's somewhere between those two, right, Jim?

Jim Hallett - *KAR Auction Services Inc - CEO*

Yes.

Bill Armstrong - *CL King & Associates - Analyst*

Got it. Okay. Thanks very much.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Well actually, the peak may have hit 1.9%, but it's in that magnitude for the industry.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. Right. Okay. Thank you.

Jim Hallett - *KAR Auction Services Inc - CEO*

You're welcome.

Operator

And we are at the top of the hour. Or do we have time for another question?

Jim Hallett - *KAR Auction Services Inc - CEO*

We can take one more question, I think.

Operator

Okay, great. Colin Daddino, Gabelli & Company.

Colin Daddino - *Gabelli & Company - Analyst*

Hey, thanks for extending it for one more question.

Jim Hallett - *KAR Auction Services Inc - CEO*

Just for you, Colin.

Colin Daddino - *Gabelli & Company - Analyst*

I appreciate it. I guess my first would be, maybe another way to ask John and Bill's question about the Sandy vehicles. Do you have a sense for who's buying them? Is it the LKQs, or are people just storing them for scrap, or buying them to rebuild them?

Jim Hallett - *KAR Auction Services Inc - CEO*

I would say probably the best answer is all of the above. You've got your re-builders, your recyclers, obviously, you've got your foreign buyers. I mean, it's just the consistent distribution to all of these different constituents that buy salvage vehicles. I don't think there's any one group that is more focused on these vehicles than another.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

And, and let me add one more comment. By buying through the salvage auctions, it's a heavily regulated process. The titles are marked. We feel the salvage industry protects the public. Reported numbers of Sandy cars are more than double what the salvage industry will process. I would focus more on those that aren't running through our auctions and where they're going than -- ours are professional registered dealers who have licensing requirements, and they know what they can and cannot do with those vehicles.

Colin Daddino - *Gabelli & Company - Analyst*

Right. Okay. And then, was there -- is there any impact from -- at ADESA from Sandy for dealer inventories that were destroyed? I mean, is that even meaningful? And then, would those vehicle then come and show up in the salvage, in IAA?

Jim Hallett - *KAR Auction Services Inc - CEO*

If I understand the question, just let me make sure I understand. Are you asking, would some of the Sandy vehicles show up at ADESA?

Colin Daddino - *Gabelli & Company - Analyst*

Vice versa. So, did you maybe lose ADESA volume from dealers that had some cars they were thinking about wholesaling? And then, they got destroyed, in the quarter and then would they show up in salvage?

Jim Hallett - *KAR Auction Services Inc - CEO*

It would be a very insignificant number. So, the truthful answer is, that I don't have a number or a number that I can point to. But, when you think about the lost sales, Sandy represented somewhere in the neighborhood of 200,000 vehicles. And so, in the overall scheme of things, we're dealing with a pretty small number.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Yes, it was like 250,000. And the other thing that I would -- Colin, that I would mention, even at our site, we did not have any damage to any vehicles that were on our sites, because we knew it was coming. You made sure they were in high ground. I would suspect that the reason the number is small is because of the warning that this was coming, and that their life blood is their inventory. I'm guessing most of the dealers moved the cars.

Colin Daddino - *Gabelli & Company - Analyst*

Okay. And then, last question. You don't have to answer, I guess. After the secondary and the dividend implementation, have you talked to the remaining private equity owners and have a sense for what they're thinking of doing with their remaining holdings?

Jim Hallett - *KAR Auction Services Inc - CEO*

You know, Colin, I would say that what I'm focused on is I'm focused on running the business. And I'll let the private equity guys figure out what their thoughts are going forward.

Colin Daddino - *Gabelli & Company - Analyst*

Okay. Sounds great. Thank you very much for taking the question.

Jim Hallett - *KAR Auction Services Inc - CEO*

Okay. Great. Thank you, Colin.

Eric Loughmiller - *KAR Auction Services Inc - EVP & CFO*

Thanks, everybody. Operator I think that's all the time we have today.

Operator

Great. Thank you, sir. That does conclude today's conference. Thank you all for your participation.
