KAR AUCTION SERVICES, INC.
Q1 2015 Earning Call Transcript

Moderator: Jonathan Peisner
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Operator: Please stand by. We are about to begin. Good day, and welcome to the KAR Auction Services 1st quarter 2015 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Jonathan Peisner, treasurer and vice president of investor relations. Please go ahead, sir.

Jonathan Peisner: Thanks, Jamie. Good morning and thank you for joining us today for the KAR Auction Services 1st quarter 2015 earnings conference call. Today we will discuss the financial performance of KAR Auction Services for the quarter ended March 31, 2015. After concluding our commentary, we will take questions from participants. Before Jim Hallett 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 involve risks and uncertainties that may affect KAR's business prospects and results of operations and such risks are fully detailed in our SCC filings. In providing forward looking statements, the company expressly exclaims any obligation to update these statements. Lastly, let me mention that throughout this conference call, we will be referencing both GAP and non-GAP financial measures. Reconciliations of the non-GAP financial measures to the applicable GAP financial measures can be found in the press release that we issued yesterday which is also available in the investor relations section of our website.

Now, I'd like to turn this call over to KAR Auction Services CEO, Jim Hallett

Jim Hallett: Great, thank you Jon and good morning, ladies and gentlemen, and welcome to our call. This morning I would like to provide you with a review of our 1st quarter performance and outlook of each of our business segments and then speak to capital allocation. Looking at our financial results for the 1st quarter, our consolidated revenue grew 8% and this was made up with ADESA growing at 10%, ASC growing 9% and IAA at 6%, resulting in an overall increase of adjusted EBITDA of +10%.

Before I speak to the business units, let me just speak to our guidance. We don't expect any change in our guidance. We continue to expect adjusted EBITDA of $630 to $660 million which should result in pre-cash flow of $325 to $350 million. Turning to the business units and starting with ADESA, ADESA saw an increase of 8% in its volume. The physical volume was up 7%.

The online only volume increased 10% and the revenue per vehicle at the physical auction was up $18 to $681 and the online only revenue was down $7 per unit to $107. This combination of revenue per unit resulted in an increase of $10 per unit sold, taking us to $546 per unit. The sequential decline that we see here in the revenue per unit was very much expected and is very consistent with the normal seasonal trends that we see from quarter to quarter.

In terms of looking forward for ADESA, the cyclical recoveries continue to play out as expected. We did see an increase in off-leads volumes late in the 1st quarter and that off-leads volumes have continued into the 2nd quarter and certainly there's been an increase of vehicles at our physical auctions. At ADESA, we are very focused on controlling our SG&A while volumes increase and I would expect that the adjusted EBITDA margin will increase in 2015 at ADESA.

Turning to insurance auto auctions, volumes were up 8%, revenue grew 6%, and adjusted EBITDA was up 7%. There was a reduction in revenue per unit at Insurance Auto Auctions and this was based on the strong supply of total lost vehicles, the lower scrap metal prices, and the stronger US dollars. We do expect this trend of lower auction proceeds to continue. With that, I will say that I was pleased with how Insurance Auto Auctions handled the increased volume while controlling their SG&A.

In terms of looking forward, we ended the quarter with 20% more inventory than a year ago. This gets us off to a good start in the 2nd quarter and with the low fuel prices, we expect to see an increase in miles driven which should result in more accidents which is certainly a positive for our volumes. I don't expect lower auction proceeds will materially impact our performance and our guidance does contemplate continued softness in auction proceeds at Insurance Auto Auctions.

Turning to AFC, AFC had an increase in revenue of 9%. Our floor plan lending revenue grew at about 8% and the remainder of the growth was due to preferred warranties. We continue to roll out preferred warranties to new markets in the US and I would expect our service contract revenue to contribute to additional revenue growth going forward.

Looking ahead for AFC, I think AFC will benefit from the trends that we are seeing at ADESA. Certainly the increase in physical auction volumes is good for the independent dealers and no question that lower auction prices will reduce average loan balances. However, with more high value vehicles coming from the off-lead segments, that may be an offset to loan values but I don't see any material changes in vehicle values expected and this will be good for our loan loss experience.

As we think about capital allocation, we continue putting our cash to work. You may have read that our board declared a 27 cent per share dividend. As well, we have announced that we acquired a well-established independent auction in the Pittsburg area. We feel that acquiring selective independent auctions allows us to expand our buyer base, introduce the car suite of digital services, as well as provide us with a good mix of commercial and dealer consignment sellers.

As well, we announced the plan to acquire data scans. We expect this deal to close in the second quarter. We will combine the data scan business with the auto VIN business and expect that this will increase our share of the end of lease inspection business. We would look at this acquisition as a strategic acquisition as we think about the number of off-leads volumes increasing in the foreseeable future.

Certainly, the data scan acquisition will enhance our current inspection technology and we would expect that we will be able to integrate this technology with all of our private label sites. We also announced a new Greenfield site in Chicago. This is something that I wanted to do since I came to ADESA. Chicago represents the third largest vehicle market in the United States and our auction there is going to be strategically located in the Northwest suburbs of Chicago, relatively close to the airport, and we expect that we will spend $30 to $35 million of capital over the next two years on the Chicago facility.

So, returning capital to our shareholders along with investing in strategic growth is a priority for KAR. In addition to our dividends and the acquisitions that we spoke about, we also have repurchased $10.7 million of car stock in the 1st quarter. So, in conclusion, I would say that I feel that we have had a good 1st quarter. I think it's a performance that we can build on throughout the balance of 2015.

The businesses are very well positioned in each of their segments and generally speaking, I think we are operating in a very positive environment with a little wind at our backs and with that, I'm going to turn it over to Eric for some additional commentary on our financial performance and then we'll come back for some Q&A. Eric?

Eric: Thank you Jim. I would like to add a little color on just a few topics this morning. Let me start by providing a few more details on our guidance. In addition to the adjusted EBITDA and free cash-flow guidance Jim reviewed, we are expecting net income per share of $1.40 to $1.55 and adjusted net income per share of $1.60 to $1.75, assuming an effective tax rate of approximately 38%.

As you saw in our announcement last night, there are no changes to our expectations for cash taxes or cash interest on corporate debt. Our guidance on capital expenditures remains at $115 million but this excludes any capital for the development of the Chicago Greenfield site. As Jim mentioned, the total cost for the ADESA Chicago location is expected to be $30 to $35 million over the next two years. Currently, the construction plans are being developed and the timing of the expenditures is not yet finalized. We will incur some of the cost in 2015 but have not included this in our guidance at this time.

As these construction plans are finalized, and all approvals received, I will update you on the timing for this capital project. We have excluded the capital required for the ADESA Chicago location from our capital expenditures, free cash flow and free cash flow per share guidance included in our earnings announcement last night. We also included a reconciliation of net income to operating adjusted net income in the KAR Auction Services incorporated Q1 2015 earnings supplemental financial information dated May 5, 2015, that is posted on our website.

I introduced this new financial measure in our last call and will now report this quarterly through the remainder of the year. Operating adjusted net income per share for the 1st quarter was 47 cents compared to 40 cents in 2014. This represents a 17.5% increase. Operating adjusted net income per share represents our cash earnings. We have excluded amortization of intangibles, primarily arising from acquisitions including the 2007 LVO transaction in both years.

We also excluded the loss on extinguishment of debt recorded in the 1st quarter of 2014. There is no adjustment for stock-based compensation expense in determining operating adjusted net income. We expect operating adjusted net income to become our primary financial measure of performance beginning in 2016.

Another item worth noting that impacts the comparability of our financial performance in 2015 is the treatment of stock-based compensation in computing adjusted net income and adjusted net income per share. We have consistently excluded stock-based compensation expense resulting from the 2007 merger in determining adjusted net income. This add-back was $9.2 million or six cents per share, both net of tax, in the 1st quarter of 2014. There was no add-back of stock-based compensation expense in the 1st quarter of 2015.

Stock-based compensation expense aggregated $1.6 million or one cent per share, again both net of tax in the 1st quarter of 2015. Also affecting the comparability of our financial statements for Q1 was the strengthening of the US dollar in the 1st quarter of 2015 as compared to the prior year. On a consolidated basis, the stronger US dollar negatively impacted net revenue by approximately $9 million, adjusted EBITDA by approximately $3 million, net income by approximately $1.3 million and earnings per share and adjusted earnings per share by one cent.

We are expecting the strong US dollar to negatively impact our foreign earnings, primarily in Canada, for the remainder of 2015. I believe our earnings release and earnings supplement released last night combined with Jim Hallett's remarks on our performance have covered our 1st quarter performance so let's turn it back to the operator, Jamie for your questions. Thank you.

Operator: Thank you. If you would like to ask a question over the phone, please signal by pressing star 1 on your telephone key pad. And please make sure your mute function is turned off so that your signal reaches our equipment. Once again, that's star 1 to ask a question. And we'll take our first question from Matthew Fassler with Goldman Sachs.

Matthew Fassler: Thanks a lot and good morning. So, we have almost an embarrassment of riches in the fiscal auction world, particularly from institutional where the volumes have surged and the institutional mix has moved in the right direction. I am interested in the dealer consignment business which on the unit basis looks like it essentially flattened out after a couple of years of pretty consistent growth, any sense as to what's happening in the dealer channel from a physical perspective and what the pipeline looks like for that era of the business?

Jim Hallett: Yes, Matt, this is Jim. First of all the net flow numbers our dealer consignment business grew at about 1% year over year. But, you're right in terms of a percentage it is down a little bit but this was very much expected. As you think about the influx of all these commercial vehicles coming to market, you know, and we tend to have a high percentage of commercial vehicles than we do the independent vehicles, we thought that this number would actually drop a little bit before it has and quite frankly I am pleased that it's remained as high as it is.

Matthew Fassler: And to the dealer, is the strength in the institutional business and in the dealer business mutually exclusive? In other words, you have this flow of off-lead vehicles, does that by definition preclude the dealers from having excess supply that they would want to ultimately sell through you or would you just typically see these not work at the same time in the cycle. How are you thinking about whether it's possible for both of those sides of the business to hit it at once?

Jim Hallett: I think it makes it more competitive for the dealer consignment business when the lanes are full of commercial vehicles. Commercial vehicles are usually very, very high percentage sellers. So, as these cars come to market, with the high percentage seller going up against the dealer, I think it just makes it a little bit more difficult from a competitive standpoint for the dealers to get their vehicles sold and overall as I said earlier, we did expect the dealer consignment business to drop somewhat.

Eric Loughmiller: Hey Matt, before you go on, I'd like to add look at the conversion rate. One of the things that we pay attention to is conversation rate year over year has declined. That may mean that the dealers have brought cars to the auction and they just aren't getting the pricing because of the commercial cars. Jim is talking about receiving the premium bids. So we are seeing conversation rate drop which may mean they brought the cars and they just weren't satisfied with the pricing as well.

Matthew Fassler: Understood. And then a very quick follow-up, at a high level, if you think about the revenue per unit that you're getting at the physical auction is still a very strong number, what's your thought process on the ability to continue to grow that number from here? I know you had some growth here in the 1st quarter, can that number continue to tick higher, even as some of the measures of used car values perhaps start to soften up a bit.

Jim Hallett: Matt I think it can continue to grow especially as you think about the influx of commercial vehicles that are coming into the market. These are the heavy users of the ancillary services.

And as we said earlier, we grew it in the first quarter. And as we get into the second quarter we think that number will continue to grow.

Matt Fassler: Great. Thank you so much guys.

Male: You're welcome Matt.

Operator: And we'll take our next question from Ryan Brinkman with JPMorgan.

Ryan Brinkman: Hi. Thanks for taking the call.

Jim Hallett: Hi Ryan.

Ryan Brinkman: In terms of the quarter - good morning, I'm curious how the quarter tracked relative to your own expectations and how you feel you're currently positioned with regard to achieving your full year guidance relative to how you were positioned at the time of the 4Q call a few months back when you first established that guidance.

Jim Hallett: Yes. Ryan I think the quarter very much played out as we expected. I think that, you know, double digit increase year-over-year was kind of what we were - kind of what we had in mind, kind of what we were thinking.

And I think as we look at first quarter and we look going forward things are playing out as we would expect.

Ryan Brinkman: Okay, thanks. And then relative to the $30-$35 million of CAPEX for the Chicago Greenfield, should we expect this to be entirely capitalized, almost entirely capitalized, partly expensed, how should we think that impacting EBITDA if at all?

Eric Loughmiller: It's - the number we're talking about, all of that is a capital project. It'll all be capital expenditures.

Ryan Brinkman: Great, that's what I thought. And then just the last question on IAA pricing down 2% year-over-year and 1Q but probably a bit more benign than investors were thinking with the decline in scrap metal prices, so you talked before about this, you know, bottom 20 of salvage vehicles that are bought for metal and middle 60 for parts, right, in the top 20 they're more like whole cars I guess.

Presumably the demand foreign pricing of the bottom 20 has softened a lot, I would just guess. But this is being cushioned somehow by demand foreign pricing of the other 80% of salvage cars.

Can you talk about how these factors balanced out in the first quarter and then how they're likely to balance out going forward and what that might mean for IAA pricing and margin?

Eric Loughmiller: Well, you know, again with lower scrap metal prices it's clear that even for the dismantlers that are parting out the car they're going to scrap a portion of the vehicle when they're done dismantling.

So I think it's having an impact. And foreign currency is the other. It's hard for us to separate because it's all bidding activity. But there's clearly really a reduction in average auction prices reflecting lower bids.

And I would tell you there's a great supply right now from the total loss vehicles. Demand is in good shape. But I think you're seeing really as coming off of a multiyear cycle of really strong performance of IAA. We are not in any way below what I would consider normal levels for total loss vehicles and what the prices are getting. They're just off of the relatively high levels we've had in the last several years.

Ryan Brinkman: I see. That's helpful. Okay, thanks so much.

Jim Hallett: You're welcome.

Operator: We'll take our next question from Bret Jordan with BB&T Capital Markets.

Jim Hallett: Morning Bret.

David Kelly: Good morning gentlemen. This is actually David Kelly on for Bret this morning. And I apologize, jumped onto the call a little late if my question has been answered already.

But just wondering if I could get some more color on the 20% inventory increase and IAA maybe some expectations on how that flows through auction over the next months or quarters or so, that'd be great.

Jim Hallett: Yes. I think that as you know we announced last year that we did have one major insurance company that was going through a change of process and it was slowing down getting their vehicles to market. That has continued a little bit into the first quarter.

But I would say that we see things on the relatively normal cycle now. And the average days to sell for a salvage vehicle is somewhere in that 75 day range. And I would think that that would be more of the trend.

I don't expect that we would see 20% increases quarter-over-quarter going forward, something less than that perhaps.

Eric Loughmiller: And David this is Eric. I would add to that. We were up 20% year-over-year at the end of the year. We're up 20% year-over-year at the end of the first quarter.

You ought to read into that that the cars that were entered into the auction that are being processed were equal to the cars we sold. That's a pretty good situation for us in terms of volume entered as we call it.

So that sets us up well. We do believe at some point that number will decline as we get past this high selling season and the volume then starts to decline as it typically does in the summer months. With nicer weather there are fewer accidents. So although with the miles driven going up that could offset that.

David Kelly: All right, great. Thank you.

Jim Hallett: You're welcome.

Operator: Our next question comes from Shreyas Patil with Credit Suisse.

Shreyas Patil: Oh hi. Thanks. So you had - it looks like online only volumes were up 10% and physical up 7%. So just wondering how we should think about the growth rates of online only versus physical through this year and then for the next few years.

Eric Loughmiller: Well let me start. The online only has had high growth rate because it was coming off of a bottom Shreyas.

And I think most of our investors realize it was going to level. It may still grow but at a much lower rate than when it was in the mid-20s and even 30% growth year-over-year as we were coming off of a bottom in 2012.

And the physical, it's really the cyclical recovery.

So I'm very proud of our performance in both segments relative to industry volumes. But I think again that - again our representation in the promotional market as Jim mentioned earlier is stronger than it is in the dealer consignment market relative to the industry.

So as these commercial cars come back which we know they're doing over the next three years, I expect us to perform very well in that marketplace and that will result in more cars at physical auction in our opinion.

Jim Hallett: Right. And I think in conclusion that I mean I think what I would've said is at some point in time with these commercial vehicles I do expect them to level off and more of those cars to make the way to physical with the additional selection.

Shreyas Patil: Okay. And I wanted to get a better understanding of your ancillary service business. You know you mentioned that it's sort of strong. I think it was strong in the quarter and should be a driver.

But I'm just trying to understand what are sort of the main contributors there in aggregate, I mean is most of that business transportation or is it conditioning, just trying to get a sense of what's in that basket.

Jim Hallett: Yes. At the outset I would just say keep in mind that we've told you in the past that usually the ancillary services have a lower margin than the auction services. However, you know, we didn't necessarily see that in the first quarter because it remained at 43% margin at ADESA as compared to previous year.

But with that you hit the number one is transportation. But then as you think about that you have reconditioning. You certainly have paint and body work. You have the mechanical work. You know we have the dent popping business. We have the key business. You know there's a number of additional services and they all have various margins which again contribute very nicely to the overall revenue.

Eric Loughmiller: And Shreyas one of the areas that we're consistently working on, we've talked in the past quarters this year, this quarter not quite as big of a growth but repossession services. We're also talking now about the Data Scan business, bringing in inspections prior to end of lease. That would all be for us an ancillary and related service.

And that, you know, we see opportunities to grow that through the investments we're making in the business.

Shreyas Patil: Okay, that's really helpful. And then just last one for me, Eric I noticed the cash flow from Ops was down a little bit versus 1Q '14. I was wondering. What were some of the factors there?

Eric Loughmiller: You're looking at the Cash Flow Statement, correct?

Shreyas Patil: Yes.

Eric Loughmiller: Yes. I mean we do have some timing issues relative to the end of the quarter related. It's predominantly trade receivables and that'll fix itself. It has to do with what day of the week the quarter ends in.

So that was the biggest change. As you can see it was a $25 million greater use of cash in the quarter at March 31 this year. And that really relates to on what day did the quarter-end relative to the auction activity. It's not deterioration. It's not an increase in what we measure as DSO. It really has to do with the timing of when the quarter ends at the end of the week.

Shreyas Patil: Okay, that makes sense. Thanks guys.

Jim Hallett: You're welcome.

Operator: We'll take our next question from Craig Kennison with Baird.

Craig Kennison: Good morning. Thanks for taking my question. Could you give us an update on trade rev and the rollout there?

Jim Hallett: Yes Craig. The rollout continues to do very well in Canada. And it's a little bit behind where we'd like to be in the U.S.

But I can tell you as we speak we have stepped up our resources and our focus. And we would expect things to improve here in the next quarter as we move forward.

Craig Kennison: And then regarding DataScan, can you give us a little more color on actually what that service is doing?

And then maybe more broadly, how many different types of services are there out there that you could consolidate just to make a better overall platform for your customers?

Jim Hallett: Well let me start with DataScan. And first of all, every off-lease car requires an inspection at the end of term. So at the end of term we do an inspection of the vehicle. We are able to take images of the vehicle, assess the damage and collect for damage on the vehicle before these vehicles then get posted to a private label web site.

So if you think about it, these companies, these commercial sellers are going to require this inspection on these lease cars. And we can either provide that inspection for them through our business or they could look to do it with a competitor. We feel that if we can provide that inspection and provide the images and then get it to the private label web sites which we have a leading industry position on, we feel it makes it a more seamless transaction for our customer and produces a better service for our customer.

So it's - when you think about it, we were doing inspections with AutoVIN, one of the major competitors in that business with DataScan. We've now combined both of these competitors. As a result we'll get more of these - we'll get more of this inspection business. We basically doubled down if you will, more of this business and provide a better customer service and again resulting in getting them onto our private label programs.

Eric Loughmiller: And Craig in terms of the number of businesses out there that are providing services that our customer base is interested, it's a large number. They tend to be very fragmented. I wouldn't describe it as we're looking to aggregate or roll up large groups of these things.

But we're looking for those that have built enough mass where it's efficient for us not to spend all our time on integration and actually reap the benefits when we do an acquisition like a DataScan that has substance, like a High Tech Locksmiths when we bought it that had a very substantial key cutting business serving a national market.

We are probably beyond the ability to roll up individual local businesses one at a time to add to our ancillary services.

Craig Kennison: Got it. Thank you.

Jim Hallett: You're welcome.

Operator: Our next question comes from John Healy with Northcoast Research.

Jim Hallett: Morning John.

John Healy: Morning. Jim I wanted to ask just a little bit more about the M&A side of things. You know the acquisition of the brick and mortar location in Pittsburgh is quite exciting. And was curious to know, with the - you know there are a good number of quality independents still out there. Is it likely we see a couple more of those deals before yearend and kind of what's the pipeline look like on the brick and mortar side of the business?

Jim Hallett: Yes. First of all I would say to you that the pipeline, that we feel there's a number of opportunities, a number of good opportunities. There are some very good independents out there.

And I've always kind of sized it that there's probably five to ten really good strong independents that we would be very interested in acquiring if the opportunity presented itself. We know that we can buy these auctions at attractive multiples.

And I can't promise you that we'll have a number of them done before the end of the year. But I can promise you that we're working on a number of them.

And at some point in time we would expect that we'll get some of these over the line.

John Healy: Got you, great. And then question on the Insurance Auto Auction business. Coming out of the LKQ call last week there was a lot of discussion about them not being as active at buying cars at salvage auctions this - in the recent quarter.

With them pulling back, you know, kind of what happens in the market? Do - you know big buyers pull back. Do the cars still sell and we see the falloff in prices or do you kind of have an inventory build by just not as many buyers active? I'm just kind of curious how it actually plays out on that side of the business.

Jim Hallett: Yes. So for the most part there's a buyer standing there at the end of the bidding line, right. So, you know, the car is normally going to get sold.

But with that said I think LKQ announced that they were seeing about a 4% reduction in sale price. I think that would be consistent with what we're seeing. So, you know, proceeds are down somewhere in that neighborhood of 3% or 4%.

But there's still as many active buyers and there's still somebody who's bidding that's going to buy the vehicle. And in some cases, you know, the conversion rate might be down a little bit where, you know, let's say you've seen sellers that perhaps in the past have been a 100% seller across the board.

Maybe they are holding back a few more cars based on what the bidding is, and based on what the dealers' inventory capacity is. They could be holding a car maybe till next week or the next sale, to see if they can't achieve a little bit more. So we've seen a little bit of a dip in conversion rates.

John Healy: Okay, great. Thank you.

Jim Hallett: You're welcome.

Operator: Our next question comes from Bob Labick with CJS Securities.

Bob Labick: Good morning.

Jim Hallett: Good morning, Bob.

Bob Labick: Hi.

Eric Loughmiller: Good morning, Bob.

Bob Labick: Wanted to shift back to online only. The ARPUs ticked up sequentially, I guess, last few quarters. I know it's not huge, but it's the most in the last, you know, 12 months now. And you've talked about, in the past, the desire to drive that going forward. Have you been able to implement plans yet? Or is this more of a mix? And what is the plan to get, you know, that ARPU to continue to keep increasing?

Jim Hallett: Well, you know, one of the things - and I'll let Eric speak to this as well, but one of the things that we're very focused on is we're very focused on being able to sell more of those vehicles in the online open environment.

So as those vehicles come out of the closed sale, and then they go to the open sale, we're trying to sell more of those cars right there before they go off to physical auction, because as you know, we get the first two opportunities to sell the car, closed and open, and then when it goes physical, then we get about 1 in 3 cars.

So as you think about it, we've been focused on providing our customers with good analytics, showing them perhaps if these cars were priced a little bit differently in the open sale, and priced more towards the market and more towards market prices, then we could get a higher conversion rate at the open. So that's going to focus. Eric, do you want to add to that?

Eric Loughmiller: Yes. I'll just speak to the specific ARPU, Bob. What we're seeing is a mix issue in terms of less grounding dealer purchases processed through our systems. It's not yet substantial increases in the open environment, but we're focused on that.

So what Jim said is our initiative, we do need more off-lease cars to get into the system for that to work, because the franchise dealers are going to buy all the inventory they need. And you need cars that they don't need on their lot, right, Jim?

Jim Hallett: Right.

Eric Loughmiller: But right now I would tell you the big driver in this quarter of the 107 being up - you know, we had two quarters in 2014 where we blow 100. That was driven by the grounding dealers making up a larger portion of the sales. And we've seen that dissipate down to where it's now a more traditional mix of closed versus open, without the grounding dealers.

Bob Labick: Great. Thank you very much.

Jim Hallett: You're welcome.

Operator: Our next question comes from Robert Higginbotham with Sun Trust.

Robert Higginbotham: Good morning everyone. Thanks for the questions.

Jim Hallett: Good morning.

Eric Loughmiller: Good morning.

Robert Higginbotham: So first question, to revisit the salvage revenue per unit trend, could you give us a sense of how that progressed through the quarter? It looks like scrap metal pricing was weakening substantially towards the end of the quarter. I'm just kind of wondering how you started and how you finished on that front.

Jim Hallett: I would say you've got it right. It did weaken as the quarter went on, so there was a downward slope there.

Robert Higginbotham: In the proceeds that you saw.

Eric Loughmiller: In the bidding, yes.

Jim Hallett: Yes.

Robert Higginbotham: Got it. Okay, that's helpful. And any color you can give us on what repo versus off-lease volume trends looked like in 1Q versus 4Q? Did they track pretty similar to last quarter? Did one outpace the other, as far as you can tell?

Eric Loughmiller: Robert, it's hard for us to measure. As I've mentioned to a lot of the analysts, we measure by the consignor, which means captive finance is a source of both off-lease and repo, and you don't always know which it is. And that category was quite strong on the growth for us in the first quarter.

I would tell you, though, based upon, again, what we look at in the field, I would tell you off-lease is outpacing repo still. But repo is growing, and there's a lot of positive trends in terms of the sub-prime lending and defaults and they'll ultimately get to the repo activity.

Jim Hallett: I would just add that there's no shortage of financing available, and as that financing is available and car sales are strong, both new and used, we would expect that the repo business will continue to grow.

Robert Higginbotham: Is it fair to think that there's an upward bias to that, more likely than a downward bias?

Jim Hallett: Yes, I believe that there is.

Robert Higginbotham: Okay. And the last question on the new Chicago Greenfield, what kind of volume should we expect out of that facility in year one, versus your current average? And what's the general maturity curve for a Greenfield unit like that?

Jim Hallett: Well, you know, I'm a pretty optimistic guy, but I would say first of all let's talk about - let's talk about greenfields in general. In general, we would tell you that starting a greenfield site usually takes 12 to 24 months to become cash flow positive. And our recent experience in Las Vegas, which was the last greenfield we'd done, was basically cash flow positive in a year.

I have some very high expectations for Chicago, being the size of the market that it is. And not only the size of the market, but being the location that we're in in that Chicago market. Matter of fact, that location, our major competitor is quite a significant difference in terms of miles to the south. So we think we've really got a prime location there.

So without spitting out any specific numbers, the third largest market. We're well-positioned there with a great location. We know there's a huge buyer network out of that market. I would expect that we would see very strong results in the first 12 months, comparatively speaking, to a greenfield.

Robert Higginbotham: Great, thank you.

Jim Hallett: You're welcome.

Operator: Our next question comes from Elizabeth Suzuki with Bank of America Merrill Lynch.

Jim Hallett: Good morning.

Elizabeth Suzuki: Good morning. Are there any regional trends that are emerging so far in 2015? We've heard a lot of concern from investors regarding anything exposed to oil states. Are you seeing any slowdown in volume in Texas or other oil-dependent markets?

Jim Hallett: Not that I'm aware of. I think for the most part, you know, our performance has been pretty consistent across all markets. I can't say I've spent a great deal of time studying it, but I'm not aware of any trend that would be materially different.

Elizabeth Suzuki: Great, thanks. And you mentioned that you thought foreign exchange would continue to be a headwind. What are your internal forecasts for how much the unfavorable Canadian foreign exchange would impact the rest of the year? And would most of that be felt in the second quarter, and fading off somewhat in the back half? Or what do you think the cadence could be of that impact?

Jim Hallett: Yes, no question it will. I think Erick spoke to it a little bit in his comments. But, Eric I defer to you to...

Eric Loughmiller: Yeah, I mean, Elizabeth, we were probably surprised by the strengthening of the dollar, or the weakness in the Canadian dollar in Q1. But we've anticipated it to stay at these levels for the rest of the year. To the extent that the US dollar would strengthen even further, it'd be a further negative.

And to the extent that the US dollar would weaken, for example, if interest rates were starting to increase, they expect that dollar could weaken. That would be a positive compared to what we're expecting for the rest of the year, because we're kind of holding it at this roughly 80-cent Canadian to the US dollar, as kind of our expectation for the remainder of the year.

Elizabeth Suzuki: Great, thank you.

Jim Hallett: You're welcome.

Operator: And again if you'd like to ask a question, that's Star 1 on your telephone keypad. We'll take our next question from Gary Prestipino with Barrington Research.

Jim Hallett: Hey, Gary.

Eric Loughmiller: Hey, Gary.

Gary Loughmiller: Hey, everyone, obviously most of the questions have been answered since I got on late. But, Jim, when you talk about you're seeing an uptick in these off-lease volumes, which you expected, do most of those start coming in at the beginning of the year? Throughout the year? At the end of the year? Can you give us some idea of the cadence of what usually happens in this case?

Jim Hallett: Yeah, Gary. I think we would say to you it’s pretty much spread throughout the course of the year. I mean, you know, depending on - I'm looking at a chart here. Depending on when these leases were written...

Eric Loughmiller: You know, let me - you know, Gary, we've got a chart of lease originations by month, and I would tell you in the first quarter they come in the second half of March, and they stay strong really into the early summer. You probably then have a little, I would say, break in the retail sales that gets to like August and then Labor Day and on its quite strong.

But when we look back to 2012, the leases that are coming now, it was part of the real recovery. It stayed pretty steady most of the year after February. So Jim's point is correct. But there's trends that could vary from year to year. But this year it's looking pretty good throughout the year, after you got past February.

Gary Prestipino: Okay, thank you on that. And then on the insurance auto side, was there any impact - I know the volumes were very strong. But as far as your sales, was there any impact from weather there? Especially in the Northeast?

Because I mean I looked at it. You said your inventory was up 15% at the end of Q4. You're up 20% now, but yet you only sold, you know, 8% increase in volume. So, you know, was there any additional impact on there beyond pricing that, you know, impacted sell-through?

Jim Hallett: You know, Gary, as we've said in the past, we don't - you know, we're always dealing with weather at some point in the year. If it's not winter weather, it's other hurricanes and tornados and storms that take place over the course of the year. And I've always said that I really think weather becomes a wash over 12 months, and I don't attribute anything to weather unless it's something significantly like what happened with super storm Sandy.

Gary Prestipino: Okay. All right, thank you.

Jim Hallett: You're welcome.

Operator: We'll take our next question from Bill Armstrong with CL King & Associates.

Jim Hallett: Hi, Bill.

Bill Armstrong: Good morning, Jim and Eric. So I want to get back on the foreign exchange impact on the salvage side. So, you know, we're hearing, and I think you addressed this a little bit earlier, you know, you've got some buyers who obviously are going to be exporting these vehicles to other countries, and the stronger dollar makes that a more difficult transaction economically.

How does that play out? Do you see them - are there fewer buyers? Are they the same number of buyers, but maybe bidding on fewer numbers of vehicles? Or are they just making lower bids? How do you see that playing out?

Eric Loughmiller: You know, generally you'll see - again, specifically maybe there are buyers that dropped out. But we see the same level of activity. The difference is they stop bidding at a certain point, because again the economics start to get upside down for them on the export. So, you know, I think it's just consistent with a modest low single-digit reduction in average auction proceeds at the auction. And that's kind of the impact.

And whether that be from scrap metal or foreign currency, both have that impact. There's a point at which they just can't make the economics work if they keep bidding higher; more so than they don't show up at the auction.

Bill Armstrong: That makes sense. And can you remind us what countries are the biggest export markets for salvage vehicles for you guys?

Jim Hallett: Yeah, our biggest buyers come from Mexico. And then beyond that, it's Africa and...

Eric Loughmiller: It's South America, right? So there's a couple South American - I'm not naming the countries because I don't have them memorized, but the Middle East can be in there, and Eastern Europe. And they vary. Mexico is by far the largest, compared to all the others in aggregate. So you really focus on Mexico, and then after that it's currently Africa, and South America has a couple of countries that are active.

Bill Armstrong: Would you say Mexico alone is more than half?

Eric Loughmiller: I don't have that in front of me, but yes, I would say it would be the magnitude approximately equal to the rest, if not greater. I just don't know if it's exactly half or a little bit more or a little bit less. It would be in that ballpark, in my view.

Bill Armstrong: Yeah, that's okay. I was just trying to get kind of a ballpark estimate there. Okay, that's all I have. Thanks.

Jim Hallett: Great, thank you.

Operator: And it appears there are no further questions at this time, so I'll turn the call back over to Jim Hallett for any additional or closing remarks.

Jim Hallett: Okay, well great. Thank you very much for being on. We truly appreciate your interest in our company. And again I would just say what I said with my closing remarks. I'm very pleased with the quarter. I think our businesses are very well-positioned.

It's a very positive environment, and I think we have an opportunity to really build on that first quarter and deliver the results that we've spoken to here for 2015. So with that, we continue to look forward to a good quarter to come, and look forward to talking to you next time around. Thank you.

Operator: Thank you for your participation. This does conclude today's call.

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