



## KAR Auction Services, Inc. Reports 2016 Financial Results and the Fourth Quarter Repurchase of 1.9 Million Shares

CARMEL, Ind., Feb. 21, 2017 (GLOBE NEWSWIRE) -- KAR Auction Services, Inc. (NYSE:KAR), today reported its fourth quarter financial results for the period ended December 31, 2016. For the fourth quarter of 2016, the company reported revenue of \$813.7 million as compared with revenue of \$695.7 million for the fourth quarter of 2015, an increase of 17%. Net income for the fourth quarter of 2016 decreased 6% to \$45.5 million, or \$0.33 per diluted share, as compared with net income of \$48.3 million, or \$0.35 per diluted share, in the fourth quarter of 2015. Adjusted EBITDA for the quarter ended December 31, 2016 increased 14% to \$176.5 million, as compared with Adjusted EBITDA of \$154.5 million for the quarter ended December 31, 2015. Operating adjusted net income per diluted share was \$0.45 for the quarter ended December 31, 2016 and 2015.

For the year ended December 31, 2016, the company reported revenue of \$3,150.1 million as compared with revenue of \$2,690.6 million for the year ended December 31, 2015, an increase of 17%. Net income for the year ended December 31, 2016 increased 4% to \$222.4 million, or \$1.60 per diluted share, as compared with net income of \$214.6 million, or \$1.51 per diluted share, for the year ended December 31, 2015. Adjusted EBITDA for the year ended December 31, 2016 increased 15% to \$747.9 million, as compared with Adjusted EBITDA of \$649.8 million for the year ended December 31, 2015. Operating adjusted net income per diluted share increased 8% to \$2.06 for the year ended December 31, 2016, as compared with operating adjusted net income per diluted share of \$1.90 for the year ended December 31, 2015.

“Our fourth quarter and year-end 2016 results reflect the stability of our diversified and complementary business model and our ability to effectively respond to market and operational variation,” said KAR Chairman and CEO Jim Hallett. “We remain focused on consistent execution of our core businesses, enhancing our technology and data analytic capabilities, and exploring international and other opportunities for continued expansion.”

### **Share Repurchases**

The company repurchased approximately 1.9 million shares of common stock in the open market for \$80.4 million in the fourth quarter of 2016.

### **Dividend Announcement**

The company announced a cash dividend today of \$0.32 per share on the company's common stock. The dividend is payable on April 4, 2017, to stockholders of record as of the close of business on March 22, 2017.

### **2017 Outlook**

<i>(in millions, except per share amounts)</i>	<b>Annual Guidance</b>
Adjusted EBITDA	\$825 - \$850
Capital expenditures	\$145
Cash taxes	\$165
Cash interest on corporate debt	\$120
Free cash flow	\$395 - \$420
Effective tax rate	37%
Net income per share	\$1.70 - \$1.80
Operating adjusted net income per share	\$2.15 - \$2.25
Weighted average diluted shares	139

Earnings guidance does not contemplate future items such as business development activities, strategic developments (such as restructurings or dispositions of assets or investments), significant expenses related to litigation and changes in applicable laws and regulations (including significant accounting and tax matters). The timing and amounts of these items are highly variable, difficult to predict, and of a potential size that could have a substantial impact on the company's reported results for any given period. Prospective quantification of these items is generally not practicable. Forward-looking non-GAAP guidance excludes amortization expense associated with acquired intangible assets, as well as one-time charges, net of taxes. See reconciliations of the company's guidance on pages 7 and 8.

### **Earnings Conference Call Information**

KAR Auction Services, Inc. will be hosting an earnings conference call and webcast on Wednesday, February 22, 2017 at 11:00 a.m. EST (10:00 a.m. CST). The call will be hosted by KAR Auction Services, Inc.'s Chief Executive Officer and Chairman of the Board, Jim Hallett, and Executive Vice President and Chief Financial Officer, Eric Loughmiller. The conference call may be accessed by calling 1-877-879-6203 and entering conference ID # 5410979 while the live web cast will be available at the investor relations section of [www.karauctionservices.com](http://www.karauctionservices.com). Supplemental financial information for KAR Auction Services' fourth quarter and full year 2016 results is available at the investor relations section of [www.karauctionservices.com](http://www.karauctionservices.com) under the quarterly results page.

A replay of the call will be available for two weeks via telephone starting approximately 30 minutes after the completion of the call. The replay may be accessed by calling 1-888-203-1112 and entering passcode 5410979. The archive of the web cast will also be available following the call and will be available at the investor relations section of [www.karauctionservices.com](http://www.karauctionservices.com) for a limited time.

### **About KAR Auction Services**

KAR Auction Services (NYSE:KAR) provides sellers and buyers across the global wholesale used vehicle industry with innovative, technology-driven remarketing solutions. KAR's unique end-to-end platform supports whole car, salvage, financing, logistics and other ancillary and related services, including the sale of more than 4.4 million units valued at over \$40 billion through our auctions. Our integrated physical, online and mobile marketplaces reduce risk, improve transparency and streamline transactions for customers in 110 countries. Headquartered in Carmel, Ind., KAR has approximately 17,400 employees across the United States, Canada, Mexico and the United Kingdom. [www.karauctionservices.com](http://www.karauctionservices.com)

### **Forward Looking Statements**

Certain statements contained in this release include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made that are not historical facts may be forward-looking statements. Words such as "should," "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions identify forward-looking statements. Such statements are not

guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include those matters disclosed in the Company's Securities and Exchange Commission filings. The Company does not undertake any obligation to update any forward-looking statements.

## KAR Auction Services, Inc.

### Condensed Consolidated Statements of Income

(In millions, except per share data) (Unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
Operating revenues				
ADESA Auction Services	\$ 442.3	\$ 365.9	\$ 1,765.3	\$ 1,427.8
IAA Salvage Services	302.6	261.6	1,098.0	994.4
AFC	68.8	68.2	286.8	268.4
Total operating revenues	<u>813.7</u>	<u>695.7</u>	<u>3,150.1</u>	<u>2,690.6</u>
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	488.3	414.3	1,827.4	1,548.5
Selling, general and administrative	148.8	128.5	583.1	502.0
Depreciation and amortization	64.7	56.0	240.6	212.8
Total operating expenses	<u>701.8</u>	<u>598.8</u>	<u>2,651.1</u>	<u>2,263.3</u>
Operating profit	111.9	96.9	499.0	427.3
Interest expense	38.0	24.2	138.8	91.4
Other expense (income), net	0.3	(2.5)	(0.5)	(4.6)
Loss on extinguishment of debt	1.4	—	5.4	—
Income before income taxes	72.2	75.2	355.3	340.5
Income taxes	26.7	26.9	132.9	125.9
Net income	<u>\$ 45.5</u>	<u>\$ 48.3</u>	<u>\$ 222.4</u>	<u>\$ 214.6</u>
Net income per share				
Basic	<u>\$ 0.33</u>	<u>\$ 0.35</u>	<u>\$ 1.62</u>	<u>\$ 1.53</u>
Diluted	<u>\$ 0.33</u>	<u>\$ 0.35</u>	<u>\$ 1.60</u>	<u>\$ 1.51</u>
Dividends declared per common share	<u>\$ 0.32</u>	<u>\$ 0.27</u>	<u>\$ 1.19</u>	<u>\$ 1.08</u>

## KAR Auction Services, Inc.

### Condensed Consolidated Balance Sheets

(In millions) (Unaudited)

	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 201.8	\$ 155.0
Restricted cash	17.9	16.2
Trade receivables, net of allowances	682.9	511.9
Finance receivables, net of allowances	1,780.2	1,632.0
Other current assets	158.4	131.0
Total current assets	<u>2,841.2</u>	<u>2,446.1</u>

Goodwill	2,057.0	1,795.9
Customer relationships, net of accumulated amortization	461.0	417.7
Intangible and other assets	355.9	344.9
Property and equipment, net of accumulated depreciation	842.5	766.9
Total assets	<u>\$ 6,557.6</u>	<u>\$ 5,771.5</u>
Current liabilities, excluding obligations collateralized by finance receivables and current maturities of debt	\$ 949.5	\$ 871.0
Obligations collateralized by finance receivables	1,280.3	1,189.0
Current maturities of debt	105.2	153.9
Total current liabilities	<u>2,335.0</u>	<u>2,213.9</u>
Long-term debt	2,365.1	1,711.2
Other non-current liabilities	460.2	460.3
Stockholders' equity	1,397.3	1,386.1
Total liabilities and stockholders' equity	<u>\$ 6,557.6</u>	<u>\$ 5,771.5</u>

## KAR Auction Services, Inc.

### Condensed Consolidated Statements of Cash Flows

(In millions) (Unaudited)

	Year Ended	
	December 31,	
	2016	2015
<b>Operating activities</b>		
Net income	\$ 222.4	\$ 214.6
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	240.6	212.8
Provision for credit losses	40.5	18.8
Deferred income taxes	(4.2)	5.0
Amortization of debt issuance costs	8.8	7.2
Stock-based compensation	18.1	11.7
Excess tax benefit from stock-based compensation	(17.2)	(7.1)
Loss on disposal of fixed assets	0.1	0.9
Loss on extinguishment of debt	5.4	—
Other non-cash, net	9.5	2.0
<b>Changes in operating assets and liabilities, net of acquisitions:</b>		
Trade receivables and other assets	(194.7)	(127.0)
Accounts payable and accrued expenses	31.5	136.1
<b>Net cash provided by operating activities</b>	<u>360.8</u>	<u>475.0</u>
<b>Investing activities</b>		
Net increase in finance receivables held for investment	(176.4)	(295.9)
Acquisition of businesses, net of cash acquired	(432.1)	(118.1)
Purchases of property, equipment and computer software	(155.1)	(134.7)
Proceeds from the sale of property and equipment	—	0.3
(Increase) decrease in restricted cash	(1.7)	0.8
<b>Net cash used by investing activities</b>	<u>(765.3)</u>	<u>(547.6)</u>
<b>Financing activities</b>		
Net increase in book overdrafts	17.7	10.7
Net (decrease) increase in borrowings from lines of credit	(59.5)	140.0
Net increase in obligations collateralized by finance receivables	96.8	349.8
Proceeds from long-term debt	1,336.5	—
Payments for debt issuance costs/amendments	(32.8)	(10.9)
Payments on long-term debt	(662.6)	(21.5)
Payments on capital leases	(25.6)	(20.5)
Payments of contingent consideration and deferred acquisition costs	(3.6)	(1.2)
Initial net investment for interest rate caps	—	(2.2)
Issuance of common stock under stock plans	6.6	22.7

Excess tax benefit from stock-based compensation	17.2	7.1
Repurchase and retirement of common stock	(80.4)	(227.6)
Dividends paid to stockholders	(157.1)	(151.9)
<b>Net cash provided by financing activities</b>	<b>453.2</b>	<b>94.5</b>
Effect of exchange rate changes on cash	(1.9)	(19.8)
<b>Net increase in cash and cash equivalents</b>	<b>46.8</b>	<b>2.1</b>
Cash and cash equivalents at beginning of period	155.0	152.9
Cash and cash equivalents at end of period	<b>\$ 201.8</b>	<b>\$ 155.0</b>
Cash paid for interest	<b>\$ 124.5</b>	<b>\$ 79.7</b>
Cash paid for taxes, net of refunds	<b>\$ 121.6</b>	<b>\$ 129.9</b>

## **KAR Auction Services, Inc.**

### **Reconciliation of Non-GAAP Financial Measures**

EBITDA, Adjusted EBITDA, free cash flow, operating adjusted net income and operating adjusted net income per share as presented herein are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States ("GAAP"). They are not measurements of our financial performance under GAAP and should not be considered as substitutes for net income (loss) or any other performance measures derived in accordance with GAAP. Management believes that these measures provide investors additional meaningful methods to evaluate certain aspects of the company's results period over period and for the other reasons set forth below.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for the items of income and expense and expected incremental revenue and cost savings as described in our senior secured credit agreement covenant calculations. Free cash flow is defined as Adjusted EBITDA less cash interest expense on corporate debt (Credit Facility), capital expenditures and cash taxes related to the calendar year. Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to investors about one of the principal measures of performance used by our creditors. In addition, management uses EBITDA, Adjusted EBITDA and free cash flow to evaluate our performance.

Depreciation expense for property and equipment and amortization expense of capitalized internally developed software costs relate to ongoing capital expenditures; however, amortization expense associated with acquired intangible assets, such as customer relationships, software, tradenames and noncompete agreements are not representative of ongoing capital expenditures, but have a continuing effect on our reported results. Non-GAAP financial measures of operating adjusted net income and operating adjusted net income per share, in the opinion of the company, provide comparability of the company's performance to other companies that may not have incurred these types of non-cash expenses or that report a similar measure. In addition, operating adjusted net income and operating adjusted net income per share may include adjustments for certain other charges.

EBITDA, Adjusted EBITDA, free cash flow, operating adjusted net income and operating adjusted net income per share have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

The following table reconciles EBITDA and Adjusted EBITDA to net income for the periods presented:

<i>(in millions), (unaudited)</i>	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
<b>Net income</b>	\$ 45.5	\$ 48.3	\$ 222.4	\$ 214.6
Add back:				
Income taxes	26.7	26.9	132.9	125.9
Interest expense, net of interest income	37.9	23.8	138.4	90.8
Depreciation and amortization	64.7	56.0	240.6	212.8
<b>EBITDA</b>	<b>174.8</b>	155.0	<b>734.3</b>	644.1
Non-cash stock-based compensation	4.0	2.9	19.1	12.7
Loss on extinguishment of debt	1.4	—	5.4	—
Acquisition related costs	1.4	1.0	8.6	4.8
Securitization interest	(7.7)	(5.5)	(28.0)	(18.7)
Minority interest	1.1	(0.9)	3.8	(0.6)
(Gain)/Loss on asset sales	0.3	0.3	2.4	3.5
Other	1.2	1.7	2.3	4.0
Total addbacks	1.7	(0.5)	13.6	5.7
<b>Adjusted EBITDA</b>	<b>\$ 176.5</b>	\$ 154.5	<b>\$ 747.9</b>	\$ 649.8

The following table reconciles operating adjusted net income and operating adjusted net income per share to net income and net income per share for the periods presented:

<i>(in millions, except per share amounts), (unaudited)</i>	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
Net income	\$ 45.5	\$ 48.3	\$ 222.4	\$ 214.6
Acquired amortization expense <sup>(1)</sup>	25.8	22.3	97.1	87.5
Loss on extinguishment of debt <sup>(2)</sup>	1.4	—	5.4	—
Income taxes <sup>(3)</sup>	(10.0)	(8.0)	(38.3)	(32.4)
Operating adjusted net income	\$ 62.7	\$ 62.6	\$ 286.6	\$ 269.7
Net income per share – diluted	\$ 0.33	\$ 0.35	\$ 1.60	\$ 1.51
Acquired amortization expense	0.19	0.16	0.70	0.62
Loss on extinguishment of debt	0.01	—	0.04	—
Income taxes	(0.08)	(0.06)	(0.28)	(0.23)
Operating adjusted net income per share – diluted	\$ 0.45	\$ 0.45	\$ 2.06	\$ 1.90
Weighted average diluted shares	138.9	139.6	139.1	142.3

(1) Acquired amortization expense was \$25.8 million (\$16.3 million net of tax) and \$22.3 million (\$14.3 million net of tax) for the three months ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2016 and 2015, acquired amortization expense was \$97.1 million (\$60.8 million net of tax) and \$87.5 million (\$55.1 million net of tax), respectively.

(2) We incurred a loss on the extinguishment of debt totaling \$1.4 million (\$0.9 million net of tax) and \$5.4 million (\$3.4 million net of tax) for the three months and year ended December 31, 2016, respectively.

(3) The effective tax rate at the end of each period presented was used to determine the amount of income tax on the adjustments to net income.

The following table reconciles EBITDA, Adjusted EBITDA and free cash flow to net income for the 2017 Outlook presented:

<i>(in millions), (unaudited)</i>	<u>Low</u>	<u>High</u>
<b>Net income</b>	\$ 235.7	\$ 249.7
Add back:		
Income taxes	138.4	146.6
Interest expense, net of interest income	170.0	170.0
Depreciation and amortization	<u>278.0</u>	<u>278.0</u>
<b>EBITDA</b>	<u>822.1</u>	<u>844.3</u>
Total addbacks	<u>2.9</u>	<u>5.7</u>
<b>Adjusted EBITDA</b>	<u>\$ 825.0</u>	<u>\$ 850.0</u>
Cash interest expense on corporate debt	(120.0)	(120.0)
Capital expenditures	(145.0)	(145.0)
Cash taxes related to calendar year	<u>(165.0)</u>	<u>(165.0)</u>
<b>Free cash flow</b>	<u>\$ 395.0</u>	<u>\$ 420.0</u>

The following table reconciles operating adjusted net income and operating adjusted net income per share to net income and net income per share for the 2017 guidance presented:

<i>(in millions, except per share amounts), (unaudited)</i>	<u>2017 Outlook</u>	
	<u>Low</u>	<u>High</u>
Net income	\$ 235.7	\$ 249.7
Acquired amortization expense	101.1	101.1
Income taxes	<u>(37.4)</u>	<u>(37.4)</u>
Operating adjusted net income	<u>\$ 299.4</u>	<u>\$ 313.4</u>
Net income per share – diluted	\$ 1.70	\$ 1.80
Acquired amortization expense	0.72	0.72
Income taxes	<u>(0.27)</u>	<u>(0.27)</u>
Operating adjusted net income per share – diluted	<u>\$ 2.15</u>	<u>\$ 2.25</u>
Weighted average diluted shares	139	139

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