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KAR Auction Services, Inc. (KAR)

Q3 2017 Earnings Call

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Analyst, Robert W. Baird & Co., Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the KAR Auction Services Third Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only-mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to introduce Treasurer and Vice President of Investor Relations, Mr. Mike Eliason.

Michael Eliason

Vice President, Investor Relations & Treasurer, KAR Auction Services, Inc.

Thanks, Andrew. Good morning, and thank you for joining us today for the KAR Auction Services third quarter 2017 earnings conference call. Today, we'll discuss the financial performance of KAR Auction Services for the quarter ended September 30, 2017. After concluding our commentary, we will take questions from participants.

Before Jim kicks off our discussion, I'd 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 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 non-GAAP financial measures to the applicable GAAP financial measure can be found in the press release that we issued last night, 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?

James P. Hallett

Chairman & Chief Executive Officer, KAR Auction Services, Inc.

Thank you, Michael, and good morning, ladies and gentlemen. Before I walk you through my agenda for the call today, let me start by saying that, I'm extremely pleased with our third quarter results, especially when you consider all the things that we found ourselves dealing with in the month of September.

In terms of the agenda today, I want to give you an overview of our consolidated performance; provide you with a summary of the impact of Hurricanes Harvey and Irma on the third quarter; provide an update on our annual guidance. And I want to talk about the acquisition of the remaining 50% of TradeRev that was completed on the 3rd of October, and review our capital allocation activities and provide some insight into future capital allocation opportunities. And then, I want to close with a brief update on our outlook for the remainder of the year.

So let me get started with an overview of our third quarter results, where we saw consolidated EBITDA was up over 13% compared to the prior year. Consolidated revenue growth was just under 7% and we're able to drive strong 46% incremental margins on this revenue growth. All of this contributed to a 14% increase in operating adjusted net income per share. And finally, our operations have generated significant free cash flow in the first nine months of 2017.

As I turn to the business units, starting with ADESA, ADESA's revenue grew 4% in the third quarter, volume was up 8%, driven by the 34% increase in the online-only volume offset in part by a 1% decline in physical auction volumes. I'm not surprised by this mix shift given the need for certain Texas and Florida markets to acquire late model, low mileage inventory, quickly from around United States to meet the immediate demand following the hurricanes. I was also pleased to see that the online-only and the physical revenue per unit sold were both up over the prior year. And our adjusted EBITDA at ADESA increased 9% and adjusted EBITDA margin for ADESA increased to 25.6%, up from 24.4% in the prior year.

Turning to AFC. AFC's revenue was up 10% over the prior year, despite a 6% decline in the number of loan transactions. The decline in loan transactions is also not surprising given the decline in physical auction volumes throughout the industry in the third quarter, and the level of activity that we experienced with franchise dealers buying in the lanes in certain markets. Loan losses were only 1.1% of average loans outstanding in the third quarter, this is something that we've been talking about, the lower loan losses that we expected to have in the second half of the year and now you can see it in our actual performance.

And finally, I'll turn to Insurance Auto Auctions where we saw adjusted EBITDA grow 18% on revenue growth of 10%, and strong expense control that saw SG&A down slightly from the prior year. The strong third quarter results were despite the $4.3 million in net losses incurred related to the Hurricanes Harvey and Irma that I will talk about momentarily. Adjusted EBITDA margins at Insurance Auto Auctions were approximately 27% in the third quarter driven by the continued strong incremental margin performance in this business.

Turning to the Hurricanes Harvey and Irma, the hurricanes did directly affect Insurance Auto Auctions. After the flooding receded in Houston, I took the opportunity to visit our sites in the area and I saw firsthand the devastation of the property. I also took the opportunity to visit Florida recently where there were significantly fewer total loss vehicles. It is obvious that many of the communities had extensive damage, but we saw much less damage and less impact on our businesses in Florida. I can tell you that I was truly inspired by the spirit and the energy of our people and how they rallied around each other to get through this hurricane season and the flooding.

The energy that I've seen from everyone I met on the ground, we have an incredible team that is doing what I would call incredible work in the communities that were affected by these massive storms, not only did we have the Insurance Auto Auction employees performing well, but we pulled resources from the entire KAR organization to assist with the events that were taking place. We took employees from across KAR who volunteered to work in Houston, and work – and continue to work in Houston with the IAA team, as you know much of the heavy lifting in these markets and in these conditions occurs long after the press coverage stops.

So we previously committed to providing the direct impact of hurricanes on our results to help investors analyze our financial performance, and I can tell you that we've received approximately 70,000 vehicle assignments related to the hurricane. The influx of vehicles from these hurricanes requires to use temporary facilities, increase our labor force in the area that has been impacted, bring in transportation resources, primarily tow truck drivers into the area as quickly as possible to pick these vehicles up once they are assigned to us by the insurance carriers.

In the third quarter, we sold less than 1,000 hurricane vehicles, accounting for approximately $500,000 in net revenue. We incurred approximately $4.8 million in incremental costs in September, that is directly related to the hurricane activity. Net-net, our results at Insurance Auto Auctions were reduced by $4.3 million in the third quarter due to the net loss incurred. All of the incremental costs incurred at Insurance Auto Auctions were recorded as direct expenses and reduced gross profit.

There is no doubt that the hurricanes had some impact on ADESA and AFC as well. Texas and Florida represent large populations and very strong used car markets. We had to cancel physical auctions as the hurricanes hit land, where we also saw reduced activity in some of the physical auctions not directly impacted by the hurricanes due to lower buyer participation. And this is probably what contributed to lower physical volumes at the ADESA auctions in September.

On the flip side, we saw strong online-only volumes in the third quarter and specifically in September, as the buyers were obtaining high quality inventory on the private label sites that we operate. And we're always concerned about increased losses in our loan portfolio, when independent dealers experience losses due to damage on their lots, especially during a hurricane or this type of event. And I'm pleased to report that the losses in our portfolio are at a very minimal.

Looking forward, we expect to recover the net losses incurred at Insurance Auto Auctions, as the hurricane vehicles are sold over the next two quarters. We will have increased revenue, increased costs and increased number of vehicles sold, but no corresponding increase in profitability. Obviously, this means a minor drag on margins in the next couple quarters.

And I often get asked, why do we agree to provide these services for no profit or in some cases, even at a loss? And I can tell you the answer is quite simple as I look at it. We were able to generate significant profits from serving the insurance carriers throughout the course of the year with their normal collision activity. And our focus during these catastrophic insurance events is to be the best business partners that we can possibly be when they're under pressure created by these events that challenge their people, their operations and their bottom lines.

So with that, I want to turn to our guidance for 2017. While we are not changing our guidance on adjusted EBITDA of $825 million to $850 million in 2017, we continue to expect to be above the midpoint of the range. We have increased our expectations for net income per share and operating adjusted net income per share, and I will let Eric provide more information on our guidance in just a few moments.

Now, I want to turn to talk about the acquisition of the remaining 50% of TradeRev. Clearly, the industry is going more digital and TradeRev creates a digital wholesale venue. I also see the opportunity to expand their total addressable market by getting a piece of the dealer-to-dealer market that has never used auctions. And as you know, TradeRev is a tool that allows franchise dealers to sell more new cars, take more trade-ins with real-time money and bottom line, and allows the dealers to make more money overall. This is just another channel for cars to change hands, and I'm truly excited about the opportunities TradeRev provides for KAR, and it's now time to put the full force of all the resources behind the efforts that are going on at TradeRev.

Along with TradeRev, let me discuss other aspects of our capital allocation. Our capital allocation strategy has not changed. Our first priority is utilizing our strong predictable cash flows to provide a return to our stockholders through a recurring dividend. As announced last night, we have increased our quarterly dividend to $0.35 per share from $0.32 per share.

After allocating capital for our recurring dividend, we think the best use of cash is the investment in strategic growth. We will continue to look for acquisition opportunities that provide long-term growth and accretive contribution to value. And at this time, we have no acquisitions that are imminent. Because of the consistent and the predictable nature of our businesses, we are confident in our ability to generate cash.

This allows us to utilize capital consistently throughout the year. We acquired $100 million of stock in the open market in the third quarter. This represented about 1.6% of our fully diluted shares outstanding. And I expect to continue buying our shares in the open market in the fourth quarter as well. The number of shares and the timing are subject to the market conditions and we will report on our progress on acquiring shares following the end of the year quarter. I believe our balanced and disciplined approach to allocating capital serves our businesses and our shareholders well.

In conclusion, let me comment on our outlook. First, our businesses are well-positioned for the fourth quarter and going forward as we look at 2018. We will provide our outlook for 2018 in February with our year-end update. We continue to have strong supply of used cars for ADESA segment, which will be driven primarily by the off-lease and the repossessions. The other consignment will continue to face challenges at physical auctions, but I believe that our acquisition of TradeRev will provide us with an opportunity to serve the dealer-to-dealer market outside of the physical auctions. And our market-leading position in the online space will continue to be a key contributor to our performance in the fourth quarter. I believe AFC will continue to benefit from the improved credit performance and Insurance Auto Auctions is in a good spot. They're well set up for another strong quarter, while moving the vehicles that have been assigned to us in the recent hurricanes, but also handling the rest of the total loss business.

I would point to recent industry data that indicates that in the third quarter 18.8% of all auto insurance claims resulted into total loss. And historically, the percent of total claims resulting in total loss is highest in the fourth quarter of each calendar year. So, this sets up very well for the salvage business in our fourth quarter.

And finally, we continue to be focused on controlling SG&A. We've had two consecutive quarters of strong incremental margins and we recognize that controlling SG&A is an important driver of our overall profitability and strong incremental margins.

So thank you for joining us today. I'm now going to turn it over to Eric for some additional comments and we'll be back to take your questions. Eric?

Eric M. Loughmiller

Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

Thank you, Jim. Let me start by updating some of the details within our guidance that Jim has already covered. We have increased our expectations for capital expenditures in 2017 to $150 million from $145 million to reflect the acquisition of equipment used for Hurricanes Harvey and Irma.

We also have continued to execute certain tax planning strategies and have reduced our expectation for cash tax payments. We are now expecting cash taxes of approximately $140 million. On a net basis, these two changes offset and we continue to expect free cash flow of $415 million to $440 million. We have increased our guidance for net income per share to $1.68 to $1.78. We've also increased our expectations for operating adjusted net income per share to $2.30 to $2.40. The biggest impact on our expectations for the year is a reduction in our effective tax rate for the year to 34% from 37%.

The reduction in our tax rate is directly related to how we executed the purchase of the remaining 50% of TradeRev. We utilized cash accumulated in Canada to acquire the remaining ownership of Nth Gen Software, a Canadian company and owner of the TradeRev technology. This permits us to significantly reduce U.S. taxes on income generated in Canada in 2017. Accordingly, we have changed our estimate for the effective tax rate for 2017. While we are not prepared to discuss 2018 guidance on this call, I will let you know that this tax savings will not apply to 2018 income generated in Canada. Accordingly, I expect our effective tax rate in 2018 to be higher than the 2017 effective tax rate. Of course, this could all change if Congress acts on tax reform in 2018. In addition to the impact of lower effective tax rate, our updated guidance also reflects improved performance at KAR and a reduction in the weighted average number of shares outstanding, as a result of our share repurchases.

The TradeRev acquisition will have an impact on our 2017 income statement. We are in the process of completing the purchase accounting. Our guidance for net income per share does not include a gain that will be recorded in our income statement, relating to the valuation of our original investment in TradeRev. This gain is excluded also in determining operating adjusted net income per share, so it will not impact our actual results for operating adjusted net income per share for the year. Beginning in the fourth quarter, we will consolidate the financial statements of Nth Gen Software into the KAR financial statements.

The impact of TradeRev will not be material to the financial statements of KAR in 2017 and are contemplated in our guidance for adjusted EBITDA and free cash flow. We provided commentary on the results of operations in the earnings supplement provided last night along with our earnings announcement. I want to highlight the strong incremental margins delivered by ADESA and Insurance Auto Auctions. Our incremental adjusted EBITDA margin at ADESA was 53% in the third quarter, and Insurance Auto Auctions delivered incremental adjusted EBITDA margin of 43%. Overall, for KAR we delivered 46% incremental adjusted EBITDA margins in the quarter.

Our focus on controlling SG&A is a primary driver of the strong incremental margins. We continue to see the power of the consignment business model in generating strong operating results and cash flows. Our balanced approach to capital allocation is also seen in Q3 activities. We paid a dividend during the quarter, bought back shares in the open market, and deployed capital for future growth by acquiring the remaining interest in TradeRev, all in the same quarter.

Overall, our third quarter was a clean quarter. Jim reviewed the impact of the hurricanes on our results, but I believe you can see this did not impact our ability to grow earnings and generate cash. We recently completed an analysis of the proposed U.S. tax reform framework and it confirms that KAR would be a significant beneficiary of corporate tax reform. As we have mentioned before, for each 1% reduction in the U.S. corporate income tax rate, we will have a $0.02 per share increase in our earnings and a $3 million reduction in cash taxes. The current framework being debated in Congress would provide this level of tax savings for KAR, if passed.

In September, we announced our plans to develop a new corporate headquarters. To give you some background, our current headquarters lease expires in August 2019. As we near the end of this lease, we looked at our options including extending the lease. Obviously, KAR has grown over the past 13 years while in our current headquarters and we have clearly outgrown our current building. The new headquarters will allow us to consolidate various corporate teams that are in locations outside our current headquarters and develop a facility that better facilitates how our people work and use technology today. The total project is approximately $80 million including the building, technology, furniture, and fixtures and other infrastructure including a parking deck needed to work efficiently and effectively. We have secured $17 million in city and state grants, which will offset this cost. Approximately $11 million of these funds are available for the construction of the building and the remaining $6 million is available after completion of the building. We will be leasing the building upon completion with an initial term of 15 years, that is expected to commence in August 2019.

We've shared quite a bit of information with you on the call, so let me turn the call back to Andrew, our operator, to take your questions. And again I thank you for joining us today.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Matt Fassler with Goldman Sachs. Your line is now open.

Matthew J. Fassler
Analyst, Goldman Sachs & Co. LLC

Q

Thank you so much guys for those remarks. I have two quick ones. The first relates to the ADESA gross margin, which tracked better than we had expected and looking at the seasonality of gross margin within ADESA, historically, Q3 tracks lower than Q2. That was not the case this year. And it didn't seem like that the mix shift to online really changed all that much from what you have been seeing. So what accounts for the better underlying gross margin rate trends within the ADESA business?

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

Matt, this is Eric. Let me take that one. The mix shift is beyond online and physical. You also get a mix shift within the components of revenue at the physical auctions. And the truth is, we had a richer mix of revenue in terms of generating profitability and when we file our Q, you'll see the description is really along the lines of the net realization of these some improvement in performance in Canada as the currency is – the U.S. dollar has softened and a number of things that have really helped the mix shift, and less dependence on things like transportation which are pass-throughs. So that would account for that.

And then second, as you know, we've had a real focus on cost control on SG&A that also goes to the field in maintaining a labor force that's working on the volume that's in the physical auction, so I was really proud of the team and how well they did in controlling the labor costs in line with that volume that we had which was down in the physical auctions.

Matthew J. Fassler
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for that. My second question, hopefully a quick one, relates to total loss inventory. So you indicated that it was up 12% overall year-on-year, 9 percentage points of that related to the storms, ex that up about 3%. Now the increase in total loss inventory ex the storms is actually a bit more subdued than what you have been seeing. Does the industry somehow slowdown its production of total loss inventory when there is a storm, in other words, keep other inventory out of the channel or is this a natural moderation on the rate of growth of total losses that was then offset by the surge that we saw from the storms?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah, Matt, this is Jim. I think, one quarter is certainly not a trend, and I think what you've seen in the third quarter was just the way the businesses I would say shook out. What I would get more focused on is I'd focus more on the percentage of vehicles that we see that are being written off and that number continues to grow. I mentioned in my commentary, it's 18.8%.We expect the fourth quarter is normally the strongest quarter. And if I reflect on that and take you back only two years or three years we were talking about total loss rates of 13%. So, I think, it's a – I look at it as more of an anomaly in the third quarter. Eric, would you want to add to that?

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

Yeah, Matt. Just a reminder, in the third quarter of last year, our inventory was up 22% over the prior year, and in the fourth quarter, up 25% over the prior year. Those are strong inventory builds. So to be up even 3% excluding the storms is quite a performance given the strong growth we had a year ago as well.

Matthew J. Fassler
Analyst, Goldman Sachs & Co. LLC

Q

That's very fair. Thank you so much guys. Appreciate it.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

You're welcome, Matt.

Operator: And our next question comes from the line of Craig Kennison with Baird. Your line is now open.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Good morning, Craig.

Craig R. Kennison
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, good morning. Good morning. Thank you for taking my questions. Really want to focus on TradeRev. I'm wondering if you could share what the key metrics are around dealer engagements, so that we can track your performance. And then also address the competitive landscape. Who else is in this kind of dealer to dealer space?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Right. Okay, Craig, let me take that. First of all, when you think about TradeRev, it doubles our total addressable market. If you think about the number of dealer vehicles that come to physical auctions, it's about 10 million vehicles in total. And there's another 10 million vehicles that typically don't get to a physical auction. So that's really not – it's not just a case of another channel for the existing market, it's an opportunity to expand the market to a much bigger market.

I can tell you that as I look at TradeRev, as I've seen TradeRev initially and as I've continued to see TradeRev and the product that we offer, I absolutely think this is the best product of its kind in the marketplace. There are a number of other companies that are trying to get into this space, and we're seeing some new entrants, but I'm confident that number one, that we have the best technology. I'm confident that we have the best leadership in this area. And I'm confident that as we look at the amount of vehicles that are being transacted on a mobile application right now, I'm confident that TradeRev is in a leadership position. And I really want to try and grow that leadership position as much as I can as fast as I can. You know I've shared with you before and I'll share with you again, that this really resonates with me, because when I take myself back to the days that I was a dealer, I often think of, if I'd have had a tool like this, and number one, how many more new cars could I've sold? Because I was able to get real time information on my trade-ins and the bottom-line is how much more money could I've made as a dealer? And this is not a product that we really have to sell very hard. This is a product, once we introduce it to the dealers. This is a product that they're very, very interested in knowing how they get signed up on. It's just a question of us getting rolled out to these markets as soon as we can.

And then the final thing, I would mention is that having a 100% of this company allows us to bundle the other car services with it. For example, on the TradeRev app, we can now provide AFC financing, we can provide [ph] cars or ride (27:09)transportation. And it gives us complete control of the entire business, which I think puts us in a better position to drive it going forward. So I hope, I've answered your questions and if there's anything else?

Craig R. Kennison
Analyst, Robert W. Baird & Co., Inc.

Q

[Technical Difficulty] (27:26-27:33).

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

I think I lost you.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

Craig, we're not hearing you.

Operator: All right. And our next question comes from the line of John Murphy with Bank of America. Your line is now open.

John Murphy
Managing Director, Bank of America Merrill Lynch

Q

Good morning guys.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Good morning, John.

John Murphy
Managing Director, Bank of America Merrill Lynch

Q

Jim, maybe just a follow-up on TradeRev. I mean, so as you're looking at this, I mean, is this complementary to the physical auctions and your online efforts and really goes after the sort of the wholesalers in the market and those will be the folks who will be disintermediated or do you think that this may also eat away potentially the physical and online business that you have right now?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

There is no question that it fits into our online strategy and our digital strategy. I think that as we look at this business, we know again to repeat, John, we know that we can expand the market and we know that – we know that it does displace – I believe, it does displace the wholesaler. If you take today, many dealerships still operate, when they get a trade-in and they don't really know how to value the trade, they get on the phone, as you know, and they phone their favorite four wholesalers, five wholesalers and they get a number on the trade-in, and as I said, the wholesalers controlling their gross profit and controlling the amount of new cars they sell. And they're not always getting the best number, because the wholesalers got to eat too. So at the end of the day what you got here is you're getting the best money available in the market today, real live money, that's committed and allows you to go ahead and make your deal. And as you get that, that instant appraisal coming in, it allows the dealer to know what his gross profit is from the moment that those prices start rolling in. If that makes sense?

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

And John, let me add. In 2011, we acquired OPENLANE, there was clearly an emphasis; can we expand beyond call it off-lease and commercial vehicles. And the truth is, this is the product that does that, not the OPENLANE system itself. And I think that's what's important is, we believe there's an opportunity to sell dealer-to-dealer cars online. Jim, do you have anything to add to that?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. You know, John, the other thing that I want to add to that is and it goes to maybe your question as well is, this is just another channel. Again, we've been telling you for years that we never want to dictate where a car sells. We believe that our responsibility is to provide the best markets, the best channels, the best platforms and then let the market and the customers decide where the car should be bought and sold.

And so, as I think about developing multiple channels, this is just another channel. But it's a channel that gets you access to another 10 million vehicles. And if we get some slice of that market, I'd like the potential outcome of that. [indiscernible] (30:40)

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

In terms of while we'll report this, we're still working on all of that as we just completed it, but I am expecting that this volume will get reported in our online volumes and this will become the dealer channel and the OPENLANE system or the private label will be commercial channel and that'll be the mix between the two. And the revenue per unit is a little bit higher on this dealer channel through TradeRev than it is on the commercial channel within the OPENLANE environment.

John Murphy
Managing Director, Bank of America Merrill Lynch

Q

Seems like it makes a lot of sense. Second question just on the conversion rate, 61.3%, that was – it was a little bit higher than we were looking for. I'm just curious if that was solely a result of a higher mix of institutional vehicles and as we think about you know the lease tsunami that's coming in the next two years, do you think that that will actually increase over time and actually make these physical auctions that much more profitable?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

I'd say two things, John. One, I would agree with you – your statement that there was a richer mix of these off-lease vehicles, which tend to have a higher conversion rate. The other thing I'd point to is, I'd point to the storms, the hurricanes definitely drove retail act – or wholesale activity, which drove retail activity. No one really knows what the real number of cars lost in that Houston and Florida markets were. We've heard all kinds of estimates, but I can tell you that for sure I'm confident – I feel confident that there's hundreds of thousands of vehicles that are needing to be replaced. And I think that had an impact on conversion as well.

But going forward, I would expect that these commercial sellers, with these off-lease cars come in, they're not interested in stockpiling them. They want to move these vehicles through the system. And I'm hopeful that conversion rates can stay relatively high here.

John Murphy
Managing Director, Bank of America Merrill Lynch

Q

Okay. And then just lastly Eric, I mean, the provisions on AFC were on the low side. Just curious how sustainable you think that is and as we – you know, as we look forward beyond maybe the fourth quarter and into next year, the state of your dealers that you're working with and the floor plan lines, you know, do you think things are tightening up there, and you should expect better performance maybe going forward?

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

Yes. John, that's a good assessment. Yes, we – the portfolio is in very good shape. There is a bit of seasonality. We typically will have a little bit more, but again, fairly consistent with what we had in third quarter is how I expect it to be as I look forward. We said 1.75% to 2.25% loss rate for the year, we're still above 2%. So I actually, am anticipating that coming down even a little bit more in the fourth quarter and we'll have a good result. We'll give you some guidance as we talk about in February but, yes, I'm expecting us to continue at these lower loss levels looking into 2018 right now.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. John, I would just add to Eric's comments that, number one, we're going to continue to maintain our discipline with the portfolio. We're not going to chase the market, but we're going to grow with the market. And I believe that even as you take a look at that portfolio, it was down 6% in terms of volume. But if you look at the revenue per loan transaction, it was about $174. So again, let's not chase the market, let's maintain our discipline, and let's grow with the market, so you know if there's an opportunity there, we'll take advantage of that opportunity without chasing it.

John Murphy
Managing Director, Bank of America Merrill Lynch

Q

Great. Thank you very much, guys.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

You're welcome.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

Thanks John.

Operator: And our next question comes from the line of Ryan Brinkman with JPMorgan. Your line is now open.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Hey, Ryan.

Ryan Brinkman
Analyst, JPMorgan Securities LLC
Q

Hi, thanks for taking my questions. Hi. Could you please just discuss the driver of the 3% lower ARPU in the ADESA business? I'm guessing it has more to do with the increase in the percentage of vehicles sold online only, but maybe you can also talk about what's happening with used car prices? What was happening in July and August in 3Q prior to the hurricanes, then what's been happening since the hurricanes and where do you think used car prices might go?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Okay. There's a lot there, Ryan, I'll try and cover it. So I think in terms of the revenue, I think it's really the mix of vehicles that we're speaking to, and then, where were we going next.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.
A

Let me add before you go on, on the revenue – on the mix of vehicles, our physical auction ARPU was up and our online ARPU was up, but the average is down the 3% you're citing, it's just the mix between the two. We don't even look at those as an average, it's a historical number that I continue to report. There are two separate numbers and I would prefer that we start focusing on those separate numbers to get to what's happening in the business. So revenue per unit was up on both channels.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

And Ryan, sorry, to the rest of your question. You talked about used car prices. We've said that we were expecting over the course of the year that used car prices would dip somewhere in the norm – in a range of 3% to 5%. We're very much in line with that 3% to 5% drop. And I can tell you that, as a result of the storms again, the prices actually kicked up a little bit in September. So prices – prices, I think, have been rather favorable as we line it up with our expectations throughout the year.

Ryan Brinkman
Analyst, JPMorgan Securities LLC
Q

I see. Thanks. And then, just last question...

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.
A

And let's not forget that in 2018, we have another 400,000 additional lease terminations compared to 2017 that will continue to put that pressure on us.

Ryan Brinkman
Analyst, JPMorgan Securities LLC
Q

Very helpful. Thanks. And then, just finally on TradeRev. There have been a couple of questions already, but just curious if the decision to purchase the remainder now might have anything to do with your desire to expand internationally in an asset light way, maybe give us a little bit of an update on what some of your overseas trials have been doing like with [ph] our volume (36:33)in the UK et cetera?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yes. So it wasn't the absolute driver. I mean the driver was to get complete 100% control of this business and to really put the resources together and as I say to bundle the services and to get to that expand the total addressable market. Those were the drivers, but there's no question this business as we've reported earlier has done very, very well in Canada. And to your point Ryan, we do have a number of pilots going in the UK, and those all are proving to be what I would call successful in terms of how the customers are receiving the results. And we can definitely do things not only in the UK, but this is a product that pretty much works anywhere in the world.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

Very good. Thank you.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

You're welcome.

Operator: And our next question comes from the line of Gary Prestopino with Barrington. Your line is now open.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Hi, Gary.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Hey. Good morning. How are you guys?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Pretty good.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Good. Good. Here just a couple of quick questions on some of the numbers here. Based on the D&A and the interest expense metrics that you give us for putting our projections together, it looks like sequentially there is a big bump up in interest expense, and there is a big bump up in G&A. So unless I'm wrong in what I'm reading here, is there a reason for that?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Well, both are impacted by – well, the interest expense is impacted by the refinancing. And in terms of our guidance, some assumptions of a rate increase that may or may not happen. It looks like there is a high percentage likelihood in December. On the D&A front, it really is, the numbers are going up, because every time I do an acquisition, I end up with more D&A, and including acquisitions like TradeRev. We also have more assets being placed in service, some of which will have a shorter life, as they relate to things around the hurricanes, those will have some assets with longer lives, but the use of that is fairly short a year or a little bit more in some cases.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.
Q

So I guess what I'm leading to is that, I don't know you've not given anything for 2018, but those levels in Q4 are they probably good proxies for 2018?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Let's wait till I give you the numbers in February. And the reason I'm hedging a little bit on that Gary, and this is for everybody, we have some long lived assets that are beginning to roll off from the purchase accounting in 2007. And so, I'll give you those numbers in February, but there are probably some offsets that come up next year.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.
Q

Okay. And then the last question, I mean, there's been a lot of questions asked about TradeRev, but I seem to recall as far as the revenue model, when you first bought it, talking with you, first made the investment that it wasn't so much a success fee business as much as it was a price discovery business. Is that correct or have you moved it to a success fee business?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Yeah. No, there's no question. I mean, it's a price discovery, but it's a success fee-based. There's no question about that. And I think, Gary, we also told you that the opportunity – the revenue opportunities were somewhere between what we do online and somewhere between that and the physical auction.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.
Q

Okay. So it is a success fee business, then if you sell a car through the system, you get paid for it?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

It's predominately success fee. There are subscription fees and there are some bidding fees that would apply if a car is not sold, but it's predominantly success fee.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.
A

Yeah.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Does the seller or the buyer pay or both?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Well, it's primarily the seller, but the buyer will generally subscribe, whether we charge them for that as we're introducing it to the market, the rates might be different, but that's a subscription model to be on the system.

Gary Frank Prestopino
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

You're welcome.

Operator: And our next question comes from the line of Ben Bienvenu with Stephens, Inc. Your line is now open.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Hey, Ben.

Benjamin Bienvenu
Analyst, Stephens, Inc.

Q

Good morning, guys. I want to ask about the grounding dealer volume continues to be really strong, up almost 19% year-over-year against a pretty substantial growth rate in 3Q of last year. I'm wondering, kind of the key drivers behind that? And to what extent, replacement demand stemming from Hurricane Harvey and Irma in the quarter, drove that grounding dealer rate higher?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Ben, you're correct on 19%, but it was up 22% in the second quarter, 16% in the first quarter. It's been a trend we've seen, and I really think it's the programs putting to get – being put together by the captive finance companies to incent dealers to buy residual with some assistance.

Benjamin Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Fair enough. And then, shifting gears to AFC. The revenue per loan transaction increasing pretty substantially, ex-credit loss provisions, you said due to higher average loan balances. Can you talk about kind of what you're seeing there, why you're seeing higher balances and how sustainable you think this is?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. I think, it goes back to the richer mix of cars that we talked about. You've got so many of these off-lease vehicles come in, and as you know, the average car – and these are rough numbers, the average cars in the auctions, just around $10,000, but if you take the average lease cars been sold that's more like a $17,000 car. So that's what's driving that.

Benjamin Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Great. Thanks. Best of luck.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

You're welcome.

Operator: And our next question comes from the line of James Albertine with Consumer Edge. Your line is now open.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Good morning.

James J. Albertine
Analyst, Consumer Edge Research LLC

Q

Thank you. Good morning. Appreciate you taking the question. Wanted to ask with respect to the storm activity again, not to dwell on this point, but you've got a few playbooks historically, right, Hurricane Sandy, Hurricane Katrina and so forth. Wanted to understand, you mentioned, but no one really knows how many total loss vehicles are out there at this point and there are likely still claims being assessed and vehicles that will come back in the future. But from here looking out, is it generally – there's generally no surprises, I would imagine, with respect to total loss vehicles going up significantly in the months of October and November. In your experience, is that is a fair point?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

I'm sorry. I want to make sure I understood that. There is no surprises on the bottom.

James J. Albertine
Analyst, Consumer Edge Research LLC

Q

You're saying 70,000 vehicles that you've sort of been asked to deal with, I mean materially, do you see the number going up significantly from here...

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

No.

James J. Albertine
Analyst, Consumer Edge Research LLC

Q

– or do you feel like that's a pretty big number?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

No, we feel that's a good number.

James J. Albertine
Analyst, Consumer Edge Research LLC
Q

Understood. I appreciate that. And then – and if I may, when you think about physical and online channels, is there any – and I think in the past, you've maybe given some color with respect to sort of gross margins through in individual channels or even to some degree, if we can ask sort of EBIT dollars per unit in online versus physical? Is there any color you can provide to help us sort of understand that better?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Only Jamie that there's less dollars of revenue, we'll give you the revenue number. It's a very high margin business in the online only channels, but it's only generating, excluding ADESA [indiscernible] (44:29) $112 per car sold, as compared to the physical channel, which is generating that's – I'm looking at my cheat sheet $781 per car sold. And so far more dollars, here's the way to describe it. The physical auction, you're going to be much closer to my average margin at ADESA. It's going to be in that 40%s. And on the online auction, it's a technology-based business, that's going to have margin – gross margins, and I'm talking gross margins, you know, that is going to be a very high. I typically say over 70% as a guide. So that's kind of the relative magnitude. The SG&A, split it – I mean, there's SG&A in all of our businesses. So it really comes down to the relative magnitude of the revenue is probably more important than what is the margin percent. Does that make sense to you, Jamie?

James J. Albertine
Analyst, Consumer Edge Research LLC
Q

It does indeed. Just thank you for the clarification. I appreciate that, and best of luck in the next quarter.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Thank you.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.
A

Thank you.

Operator: And our next question comes from the line of Bob Labick with CJS Securities. Your line is now open.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Hey, Bob.

Robert Labick
President, CJS Securities, Inc.
Q

Good morning, hi. Wanted to start with ADESA. Do you have enough capacity for your ancillary services at your existing ADESA locations given that there's obviously a lot more off lease vehicles coming and they tend to be higher utilizers of the ancillary services?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

That would be, yes, Bob, and we are looking forward to the opportunity.

Robert Labick
President, CJS Securities, Inc.

Q

Excellent. And then just shifting to IAA, can you give us an update on your land acquisition strategy or where you stand? You talked about in the past growing your acres and improving utilization at yards. How has that been going? Is there more land to come or where do you stand in that process?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. Bob, we talk about land and land isn't a once in a while thing. It's kind of an everyday thing that we deal with, and we continue to acquire capacity, as we need it. In some cases, we're expanding, in some cases we're relocating, and in some cases we're merging. So we have a staff that's totally focused on the acquisition of land and the management of land, and it's just something that is just part of what we do. Eric, do you want add to that?

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

Yeah. I mean, not surprising, we're adding hundreds of acres per year every year. Maybe we'll be more specific on quantifying that in the year-end call.

Robert Labick
President, CJS Securities, Inc.

Q

Super. All right. Thanks very much.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

You're welcome.

Operator: And our next question comes from the line of Chris Bottiglieri with Wolfe Research. Your line is now open.

Chris Bottiglieri
Analyst, Wolfe Research LLC

Q

Hi.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Hi, Chris.

Chris Bottiglieri
Analyst, Wolfe Research LLC
Q

Hi. Thanks for taking my questions. I had a question. Just wanted to think through kind of IAA volumes. I get the sense that accident rates are probably trending down slightly to up slightly. Looks like the total loss rate change is probably contributing mid-single digit to high-single digit. So maybe you could just help explain kind of what's bridging the gap between the two? Because it looks like both of your peers are kind of driving collectively double-digit growth? Are you doing more in non-insurance? Are there just more maybe non-insured vehicles that you're doing that are – I'm just trying to think of what the drivers are?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

So I don't think, it's necessarily growing the non-insurance business. As we take a look at the drivers of that business it's really the accident rate going up. And then as you think about proceeds, all the drivers of proceeds, the things that we think about, we think about the international buyer base, we think about commodity prices, steel prices, we think about world currencies compared to the U.S. currency, we think about replacement parts and the cost of repairs, all those things are very much tailwinds for IAA as we look at that business right now.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.
A

And, Chris, miles driven is increasing, even though you've made a statement that frequency is declining in auto accidents...

Chris Bottiglieri
Analyst, Wolfe Research LLC
Q

Yeah.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.
A

...the car park is growing, so there's actually more cars direct. We're seeing more total losses. And not surprisingly, if you look, our purchase vehicles at IAA is down to 4%, which tells you there's a lot of insurance vehicles, because if we were looking for volume that'd be the first place I'd look as a trend is are we supplementing with purchase vehicles and we're not needing to. We have enough to do with servicing the insurance companies right now.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.
A

Yeah. Chris, one other area I'd point to is the age of the car park. You've got a car park that's still average age is somewhere in the order of 11 years to 12 years. And as you have this aging car park, the insurance companies are going to have a much higher tendency to write these cars off rather than think about repairing them.

Chris Bottiglieri
Analyst, Wolfe Research LLC
Q

That makes lot of sense. Then I want to switch over to physical. So I think previously your outlook was kind of of like low-single digit growth in physical auction volume. Now I understand with everything with the hurricane and acceleration online, if I ascribe all the acceleration of online growth came from physical because of the storm, it's about a 3-point headwind. But I guess maybe there was less selling days and maybe less units made their way to auction as dealers kind of reallocated inventory. So kind of piecing this all together, what do you think the right outlook is for physical as you kind of look out maybe a couple quarters from now?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. So I would tell that we would still maintain low to – single mid-digit growth at physical. And let me give you a few thoughts on why. As you take a look at the business going forward, our visibility is very good for the next few years and then maybe some where we say it's going to be driven heavily by these off-lease cars and their repossessions. There's been no slowdown on leasing to speak off. Consumers are continuing to finance cars. And so we know that these volumes are going to come. It's going to drive the market. And I think the online channel can grow, but I think it can only absorb so many cars. And I do believe that these cars will get the physical auction and we can see that low-single mid-digit growth where we also pick up the ancillary services as well. So I think just based on the visibility that we have and what's going on in the marketplace, we feel pretty comfortable with those numbers.

Chris Bottiglieri
Analyst, Wolfe Research LLC

Q

Got you. Okay. And then, sorry, just one quick unrelated one, more theoretical. I know most your capabilities are in the B2B market. But now that you have this TradeRev app and the technology from it, could you ever under any scenario envision yourself getting into that pretty sizable C2C market? Maybe what are the kind of the friction points that prevent you from doing that?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. Well, I've learned to never say never and I've learned to get out of the prediction business, if you've been around. So I would say that we're very focused on the dealer being our customer. We're focused on the wholesale business, and that's where our strategy is focused and will continue to be. And I don't see that changing anytime soon. But with that said, as I said at the outset, never say never.

Chris Bottiglieri
Analyst, Wolfe Research LLC

Q

Yeah, that's helpful. Thank you.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Thank you.

Operator: And our next question comes from the line of Bret Jordan with Jefferies. Your line is now open.

Bret Jordan
Analyst, Jefferies LLC

Q

Hey. Good morning, guys.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Hey, Bret.

Bret Jordan
Analyst, Jefferies LLC

Q

Got on a little late. Did you say anything about cycle time impact in the hurricanes given the volume or the insurance processing time split?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. Bret, I just mentioned that we're probably going to sell the balance of the hurricane cars over the next two quarters.

Bret Jordan
Analyst, Jefferies LLC

Q

Okay, great. And then on TradeRev, I guess as we measure the traction, is there a conversion number, the number of cars that are shown amongst the dealers that are selling versus where we were? Are you saying the more dealers participate, your conversion might go up?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. We certainly track conversion, and we don't spell that out. But certainly, it's something that we keep a very, very close eye on and it's a very important metric for us.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

And just in terms of color, it actually converts very similar to what we see in the physical auction in terms of cars that run across the lane, how many are acquired. It's probably closer to that than it is to other online venues that might have low conversion rate because there's a lot of price discovery and listings? It's a very effective report network.

Bret Jordan
Analyst, Jefferies LLC

Q

Was it something you would report...

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Again, we just ...

Bret Jordan
Analyst, Jefferies LLC

Q

Is that something you would report going forward or...?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

No, I doubt it, Bret, to be honest, but again we've given you the flavor. It converts at a much lower rate than a commercial car.

Bret Jordan
Analyst, Jefferies LLC

Q

Okay, great. Thank you.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

You're welcome.

Operator: And our next question comes from the line of Matthew Paige with Gabelli. Your line is now open.

Matthew Paige
Analyst, G.research LLC

Q

Good morning. Just a couple of quick ones from me. I guess with regards to buying the rest of TradeRev, could you remind us if the ability to purchase that was a part of the original purchase agreement? And then the follow-on to that, why it was now the right time to buy it?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Right. So we did have a original purchase agreement to buy the second half – or to buy the other 50% of that. And why now? I would tell you it just made sense to us for a whole lot of reasons. Number one is we're very focused on digital. We know there's a transformation taking place. Now more and more people are doing business over their mobile phones, whether it be in the car industry or other industries as transformation continues to take place. And the other thing was really to – when you have 100% control of the asset, you're able to do more things with it. We're able to apply, as I say, the resources and bundle other services and just direct and manage that product better than you could with a 50% partner.

Matthew Paige
Analyst, G.research LLC

Q

Great. And then lastly for me. Are you able to quantify or provide some directional guidance as to how much more costs are left related to the hurricanes? I would assume that as you sell through units, you'll need less land, and transportation cost would also come down?

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Yeah. No, I think the costs that we outlined for you are the costs that we expect. It's primarily the land that's in place. We're not going to be getting any more land. The transportation is taking care of itself. The labor is not going to be anything more than what we've shared with you. And so I think the money is spent. As we said, the money went into direct expenses in the third quarter, and now as we sell off those cars, we'll bring that revenue back in.

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer, KAR Auction Services, Inc.

A

Yeah. We'll have corresponding revenue, Matt. Again, we'll see where it ends up after a couple of quarters, but we're seeing we're pretty comfortable we can recover the September loss.

Matthew Paige
Analyst, G.research LLC

Q

Excellent. Well, thanks for the color, and congrats on a nice quarter.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

A

Thank you.

Operator: And I would now like to turn the conference back over to CEO, Mr. Jim Hallett, for closing remarks.

James P. Hallett
Chairman & Chief Executive Officer, KAR Auction Services, Inc.

Good. Well, thank you. And I want to thank everybody for being on the call today, and as I say, I continue to appreciate your interest in our company and your interest in our business. I can tell you that the management team feels very good about the business, feels very good about not only 2017 but the visibility we have and where we're heading here in 2018 and over the course of the next few years. We think our businesses are all performing well, all set up to perform well, and we look forward to continuing to grow the business and continuing to satisfy our investors with the investments that we have going forward.

So with that, thank you for being on, and we'll look forward to talking to you in the new year.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. And you may all disconnect. Everyone have a wonderful day.