

KAR Auction Services, Inc.
Form 10-K
February 21, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Commission File Number: 001-34568

KAR Auction Services, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

20-8744739

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (800) 923-3725

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Common Stock, par value \$0.01 per share	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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The aggregate market value of the registrant's common stock held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was \$7,313,089,099 at June 30, 2018. As of February 15, 2019, 132,901,055 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

Documents Incorporated by Reference

Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference herein from the registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the registrant's fiscal year ended December 31, 2018.

Table of Contents

Index

<u>Defined Terms</u>	Page <u>3</u>
 <u>PART I</u>	
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>18</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>33</u>
<u>Item 2. Properties</u>	<u>33</u>
<u>Item 3. Legal Proceedings</u>	<u>33</u>
 <u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>35</u>
<u>Item 6. Selected Financial Data</u>	<u>37</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>68</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>70</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>114</u>
<u>Item 9A. Controls and Procedures</u>	<u>114</u>
<u>Item 9B. Other Information</u>	<u>114</u>
 <u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>115</u>
<u>Item 11. Executive Compensation</u>	<u>117</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>117</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>117</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>117</u>
 <u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>118</u>
<u>Signatures</u>	<u>124</u>

Table of Contents

DEFINED TERMS

Unless otherwise indicated or unless the context otherwise requires, the following terms used in this Annual Report on Form 10-K have the following meanings:

• "we," "us," "our" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries; "ADESA" or "ADESA Auctions" refer, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including Openlane, Inc. (together with Openlane, Inc.'s subsidiaries, "Openlane"), Nth Gen Software Inc. ("TradeRev") and ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS" or "ADESA Remarketing Limited"));

• "AFC" refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries and other related entities, including PWI Holdings, Inc.;

• "Credit Agreement" refers to the Amended and Restated Credit Agreement, dated March 11, 2014, as amended on March 9, 2016 and May 31, 2017, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent;

• "Credit Facility" refers to the three-year senior secured term loan B-1 facility ("Term Loan B-1"), the seven-year senior secured term loan B-2 facility ("Term Loan B-2"), the seven-year senior secured term loan B-3 facility ("Term Loan B-3"), the senior secured term loan B-4 facility due March 11, 2021 ("Term Loan B-4"), the senior secured term loan B-5 facility due March 9, 2023 ("Term Loan B-5"), the \$350 million, senior secured revolving credit facility due March 9, 2021 (the "revolving credit facility"), the \$300 million, five-year senior secured revolving credit facility (the "2016 revolving credit facility") and the \$250 million, five-year senior secured revolving credit facility (the "2014/2015 revolving credit facility"), the terms of which are set forth in the Credit Agreement. Term Loan B-1 and the 2014/2015 revolving credit facility were extinguished in March 2016 with proceeds received from Term Loan B-3. Term Loan B-2, Term Loan B-3 and the 2016 revolving credit facility were repaid in May 2017 with proceeds from Term Loan B-4, Term Loan B-5 and the senior notes (defined below);

• "IAA" refers, collectively, to Insurance Auto Auctions, Inc., a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc.'s subsidiaries and other related entities, including HBC Vehicle Services Limited ("HBC");

• "KAR Auction Services" refers to KAR Auction Services, Inc., and not to its subsidiaries; and

• "Senior notes" refers to the 5.125% senior notes due 2025 (\$950 million aggregate principal outstanding at December 31, 2018).

Table of Contents

PART I

Item 1. Business

Overview

We are a leading provider of used car auction services and salvage auction services in North America and the United Kingdom. We facilitate an efficient marketplace by providing auction services for sellers of used, or "whole car," vehicles and salvage vehicles through our 254 North American physical auction locations at December 31, 2018, and multiple proprietary Internet venues. In 2018, we facilitated the sale of approximately 6.0 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers, as well as by providing value-added ancillary services, including transportation, reconditioning, inspections, marshalling, titling and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and generally we do not take title to or ownership of vehicles sold through our auctions.

ADESA, our whole car auction services business, is the second largest provider of used vehicle auction services in North America. Vehicles at ADESA's auctions are typically sold by used vehicle dealers, vehicle manufacturers and their captive finance companies, financial institutions, commercial fleet operators and rental car companies to franchised and independent used vehicle dealers. Through ADESA.com, powered by Openlane technology, ADESA provides a comprehensive remarketing solution to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions. IAA, our salvage auction services business, is one of the two largest providers of salvage auction services in North America. Vehicles at our salvage auctions are typically older, high-mileage or damaged vehicles that are predominantly sold by automobile insurance companies, non-profit organizations, automobile dealers, vehicle leasing companies and rental and fleet car companies to licensed dismantlers, rebuilders, recyclers, exporters or qualified public buyers. An important component of ADESA's and IAA's services to their buyers is providing short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers through our wholly-owned subsidiary, AFC.

At December 31, 2018, we had a North American network of 75 whole car auction locations and 179 salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. ADESA also includes ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom. IAA also includes HBC Vehicle Services Limited, which operates from 14 locations in the United Kingdom. Our auction locations are primarily standalone facilities dedicated to either whole car or salvage auctions; however, some of our sites are utilized to service both whole car and salvage customers at the same location. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with providers and buyers of used and salvage vehicles.

Our Corporate History

KAR Auction Services (formerly KAR Holdings, Inc.) was incorporated in 2006 and commenced operations in 2007. In 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle remarketing industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC. ADESA remained a public company until 1995 when ALLETE, Inc. purchased a majority of its outstanding equity interests. In 2004, ALLETE, Inc. sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders. ADESA was acquired by the Company in 2007. IAA entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAA was acquired by two private equity firms in 2005. The two private equity firms and certain members of IAA management contributed IAA to KAR Auction Services in 2007. In a series of transactions between 2012 and 2013, our former owners (private equity firms) sold all of their common stock in secondary offerings.

Table of Contents

Our Industry

Auctions are the hub of the remarketing system for used and salvage vehicles, bringing professional sellers and buyers together and creating a marketplace for the sale of these vehicles. Whole car auction vehicles include vehicles from dealers turning their inventory, off-lease vehicles, vehicles repossessed by financial institutions and rental and other program fleet vehicles that have reached a predetermined age or mileage. The salvage vehicle auction industry provides a venue for sellers, primarily automobile insurance companies, to dispose or liquidate total loss, damaged or low value vehicles to dismantlers, rebuilders, scrap dealers or qualified public buyers. The following are key industry highlights:

Whole Car Auction Industry Volumes

Whole car auction volumes in North America, including online only volumes, were approximately 10.6 million and 11.1 million in 2016 and 2017, respectively. Data for the whole car auction industry is collected by the National Auto Auction Association ("NAAA") through an annual survey. NAAA industry volumes for 2018 have not yet been released. The NAAA industry volumes collected by the annual survey do not include online only volumes or mobile application volumes (e.g. Openlane and TradeRev). We have included online only volumes in the totals above for 2016 and 2017. We estimate that used vehicle auction volumes in North America in 2018 were approximately 11.6 million vehicles, including online only volumes and mobile application volumes.

Salvage Auction Industry Volumes

We believe that the North American salvage vehicle auction industry volumes are affected primarily by accident rates, the age of the vehicle fleet on the road, miles driven, weather, the complexity of vehicles in operation, repair costs and recycled parts utilization. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicle design becomes more complex with additional enhancements, such as airbags and electrical components, vehicles can cost more to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. The percentage of claims resulting in total losses was approximately 18% in 2018. In addition, the utilization of recycled parts from salvage vehicles by the collision repair industry continues to increase as the quality of these parts gains wider acceptance and insurance companies attempt to reduce their repair claim costs. We believe that salvage auction industry volumes will grow 5% to 7% annually, for the foreseeable future.

Consolidated Whole Car and Salvage Auction Markets

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, Inc. and ADESA together represent approximately 70% of the North American whole car auction market. We estimate that ADESA represents approximately 29% of the North American whole car auction market. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, IAA and Copart, Inc., together representing approximately 80% of the market.

Our Business Strategy

The Company has a comprehensive strategy that leverages KAR's unique collection of assets, proven track record with commercial sellers, extensive North American physical footprint, global network of customers and unique set of transaction data. The Company's strategy for the future builds on this base, and we believe it will enable the Company to meet new opportunities emerging in the automotive remarketing industry, which is being impacted by several meaningful trends, including:

- Remarketing channels and systems that are increasingly becoming more interconnected;
- An increase in customer demand and dependency on data in buying and selling decisions; and
- Rapidly advancing technology with opportunity for application in the remarketing industry.

KAR is focused on expanding our end-to-end remarketing platform across the used vehicle industry through innovation, data science and a strategic physical footprint. We have invested in technology and talent and deployed a suite of complementary online, digital and mobile capabilities that we believe will simplify and streamline the buying and selling experience for our customers. Additionally, we believe our unique, integrated platform of whole car, salvage and finance solutions deliver differentiated value to customers across North America, and positions the

Company for further growth around the globe. To execute our strategy of providing the best remarketing venue and analytical evidence for every vehicle, while generating value for our shareholders and customers, we intend to focus on the following strategic initiatives:

5

Table of Contents

- Extend and integrate our platform
- Leverage unique data and analytic capabilities
- Continue to improve operating efficiency
- Use excess cash flow to invest in strategic growth initiatives and return capital to shareholders

Extend and Integrate Our Platform

We believe that the Company's collection of 268 whole car and salvage auction sites, along with their online counterparts, makes us uniquely qualified to provide the best set of remarketing marketplaces for our customers. Additionally, these venues provide the opportunity to anchor further expansion and growth of the catalog of integrated ancillary and related services offered by the Company. We are therefore focused on the following strategies to further extend and integrate our platform.

Developing Alternative Marketplaces/Digital Channels: The Company continues to identify innovative venues for the exchange of used vehicles through internal development, targeted partnerships and acquisitions. For example, in 2017 we acquired the remaining interest in TradeRev, a mobile auction app and desktop solution that facilitates real time dealer-to-dealer vehicle auctions. In addition, with the increased use of vehicle sharing and the prospect of autonomous vehicles, we will look to identify opportunities to integrate our portfolio of service offerings with this emerging market segment. In February 2018, we acquired STRATIM Systems Inc., a mobility and fleet management software company that uses data analytics to help fleet owners manage, maintain and service their fleets.

Expanding our International Presence: In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with relationships in over 120 countries. In addition, some of our recent acquisitions and the launch of ADESA U.K. have provided an initial foothold in Europe. In November 2018, we reached a definitive agreement to acquire Belgium-based CarsOnTheWeb and in January 2019 we completed the acquisition. The addition of CarsOnTheWeb places KAR in the major automotive marketplaces across Europe. We believe we are well positioned to grow internationally and we continue to identify opportunities to expand certain of our service offerings globally. We expect that our ability to efficiently layer in our product and technology licensing will allow us to enter other mature auction markets.

Expanding Opportunities for Customers to Buy and Sell Online: We are focused on enhancing our Internet solutions in all of the key channels in which we operate, and we will continue to invest in technology platforms in order to capitalize on new opportunities and attract new customers. ADESA is continuously investing in initiatives to upgrade our platforms. Online vehicle remarketing solutions provide the opportunity to improve the customer experience, expand our volume of transactions and potentially increase proceeds for sellers through greater buyer participation at auctions. Online buying activity continues to accelerate and represents an increasing portion of wholesale transactions across the industry. Providing consistent, accurate and user-friendly online solutions remains a strategic priority. Advancing our online solutions allows us to connect more effectively with our current customers and engage with a broader range of geographically diverse customers. We will continue to make investments in our online technology to enhance the selling and buying experience for our customers. These investments involve creating a more streamlined user experience and embedding additional Company capabilities and offerings within our online tools.

Establishing Physical Auction Presence in Key Automotive Marketplaces: The Company is focused on expanding its physical auction footprint into key markets where there is opportunity for growth and meaningful customer demand for greater choice, technology and integrated remarketing solutions. These geographies also provide a platform for the regional deployment and expansion of the Company's other ancillary and related services, as well as enhancing AFC's floorplan financing to independent used vehicle dealers. Over the last few years, the Company has completed a number of acquisitions and opened new sites.

Leverage Unique Data and Analytic Capabilities

The Company has observed increased demand from commercial customers (e.g., OEMs, insurance companies, finance companies, rental companies, large dealer groups, etc.) for more sophisticated, data-driven, end-to-end remarketing solutions. Specifically, customers are seeking tools, technology and information that simplify the auction process and help them make more efficient and better-informed buying and selling decisions. As a result, the Company continues to invest in both its data analytics capabilities and leadership. The Company's data science team, coupled with the acquisition of CarCo Technologies, Inc. ("DRIVIN"), aggregates the Company's broad and unique data set captured through millions of auction transactions and ancillary and related services performed each year. As customer expectations and dependence on data continue to increase and evolve, the Company will further develop its data analytic capabilities.

Table of Contents

In 2017, the Company acquired DRIVIN. DRIVIN aggregates automotive retail, pricing, registration and other market and economic data from a variety of public and proprietary sources. The insights generated from that data are deployed through predictive pricing, inventory management and vehicle matching tools that help customers buy, sell and source vehicles. The acquisition of DRIVIN and the combination of our analytic capabilities under the Data as a Service function will help maximize value through data science.

Continue to Improve Operating Efficiency

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. A number of initiatives have been implemented, which have streamlined operations and improved operating efficiencies.

The Company is focused on integrating its acquisitions. Since the time of acquisition, work has been underway to evaluate current levels of performance, resources, and productivity and ensure they are operating as efficiently and effectively as possible.

Using Excess Cash Flow to Invest in Strategic Growth Initiatives and Return Capital to Shareholders

We generate strong cash flows as a result of our attractive margins, the ability to leverage our corporate infrastructure across our multiple auction locations, relatively low levels of capital expenditures and limited working capital requirements. Management plans to utilize excess cash generated by the business to invest in strategic growth initiatives and return capital to shareholders. We generated \$749.8 million and \$588.8 million of cash flow from operations for the twelve months ended December 31, 2018 and 2017, respectively. After paying any future dividends to shareholders (subject to prior declaration by our board of directors), we expect that significant cash flow will remain to support growth initiatives or return additional capital to shareholders.

Targeted acquisitions and greenfield expansion represent possible growth initiatives. Increased demand for single source solutions by our customers and other factors may increase our opportunities to acquire competitors. Both ADESA and IAA have a strong record of acquiring and integrating independent auction operations and improving profitability. We will continue to evaluate opportunities to open and acquire new sites in selected markets in order to effectively leverage our sales and marketing capabilities and expand our buyer base and geographic presence for both ADESA and IAA. In addition, we may pursue opportunities to acquire additional product offerings in each of our business segments.

We paid cash dividends to shareholders of \$188.3 million and \$174.8 million for the years ended December 31, 2018 and 2017, respectively. In addition, we paid \$150.0 million for the years ended December 31, 2018 and 2017, to repurchase and retire shares of our common stock.

Our Business Segments

We operate as three reportable business segments: ADESA Auctions, IAA and AFC. Our revenues for the year ended December 31, 2018 were distributed as follows: ADESA 56%, IAA 35% and AFC 9%.

ADESA

Overview

We are the second largest provider of whole car auctions and related services to the vehicle remarketing industry in North America. We serve our customer base through online auctions and auction facilities that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely via ADESA.com or in person. Our online service offerings include ADESA.com, LiveBlock and DealerBlock and allow us to offer vehicles for sale from any location. ADESA also includes TradeRev, an online automotive remarketing system where dealers can launch and participate in real-time vehicle auctions at any time and ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom.

Vehicles available at our auctions include vehicles from institutional customers such as off-lease vehicles, repossessed vehicles, rental vehicles and other program fleet vehicles that have reached a predetermined age or mileage and have been repurchased by the manufacturers, as well as vehicles from used vehicle dealers turning their inventory. The number of vehicles offered for sale at auction is the key driver of our costs incurred in the whole car auction process, and the number of vehicles sold is the key driver of the related fees generated by the remarketing process.

Table of Contents

We offer both online and physical auctions as well as value-enhancing ancillary services in an effective and efficient manner to maximize returns for the sellers of used vehicles. We quickly transfer the vehicles and ownership to the buyer and the net funds to the seller. Vehicles are typically offered for sale at the physical auctions on at least a weekly basis at most locations and the auctions are simulcast over the Internet with streaming audio and video (LiveBlock) so that remote bidders can participate via our online products. Our online auctions (DealerBlock) function 24 hours a day, 7 days a week, providing our customers with maximum exposure for their vehicles and the flexibility to offer vehicles at "buy now" prices or in auctions that last for a few hours, days or even weeks. We also provide customized "private label" selling systems (including "buy now" functionality as well as online auctions) for our customers, primarily utilizing technology acquired with the purchase of Openlane.

We generate revenue primarily from auction fees paid by vehicle buyers and sellers, as well as fees from related services. Generally, we do not take title to or bear the risk of loss for vehicles sold at whole car auctions. Our buyer fees are typically based on a tiered structure with fees increasing with the sale price of the vehicle, while seller fees are typically fixed. We add buyer fees to the gross sales price paid by buyers for each vehicle, and generally customers do not receive title or possession of vehicles after purchase until payment is received, proof of floorplan financing is provided or credit is approved. We generally deduct seller fees and other ancillary service fees to sellers from the gross sales price of each vehicle before remitting the net amount to the seller.

Customers

Suppliers of vehicles to our whole car auctions primarily include (i) large institutions, such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, and commercial fleets and fleet management companies (collectively "institutional customers"); and (ii) franchised and independent used vehicle dealers (collectively "dealer customers"). Buyers of vehicles at our whole car auctions primarily include franchised and independent used vehicle dealers.

Table of Contents

Services

Our whole car auctions also provide a full range of innovative and value-added services to sellers and buyers that enable us to serve as a "one-stop shop." Many of these services may be provided or purchased independently from the auction process, including:

Services	Description
Auction Related Services	ADESA provides marketing and advertising for the vehicles to be auctioned, dealer registration, storage of consigned and purchased inventory, clearing of funds, arbitration of disputes, auction vehicle registration, condition report processing, photo services, post-sale inspections, security for consigned inventory, title processing, sales results reports, pre-sale lineups and auctioning of vehicles by licensed auctioneers.
Transportation Services	We provide both inbound (pickup) and outbound (delivery) transportation services utilizing our own equipment and personnel as well as licensed and insured third party carriers. Through our subsidiary, CarsArrive and its Internet-based system which provides automated vehicle shipping services, customers can instantly review price quotes and delivery times, and vehicle transporters can check available loads and also receive instant notification of available shipments. The same system is utilized at our whole car auction locations.
Reconditioning Services	Our auctions provide detailing, body work, paintless dent repair ("PDR"), light mechanical work, glass repair, tire and key replacement and upholstery repair. Key replacement services are primarily provided by our subsidiary, HTL.
Inspection Services Provided by AutoVIN	AutoVIN provides vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspections. Field managers are equipped with handheld computers and digital cameras to record all inspection and audit data on-site. The same technology is utilized at our whole car auction locations and we believe that the expanded utilization of comprehensive vehicle condition reports with pictures facilitates dealers sourcing vehicles via the Internet.
Title and Repossession Administration and Remarketing Services	PAR provides end-to-end management of the remarketing process including titling, repossession administration, inventory management, auction selection, pricing and representation of the vehicles at auction for those customers seeking to outsource all or just a portion of their remarketing needs. Recovery Database Network, Inc. ("RDN") is a specialized provider of B2B software and data solutions for automotive lenders and repossession companies.
Vehicle Research Services Provided by Autoniq	Autoniq provides dealers real-time vehicle information such as pricing, history reports and market guides. Its mobile app allows used car dealers to scan VINs on mobile devices, view auction run lists and access vehicle history reports and market value reports instantly. Autoniq offers access to valued resources such as CARFAX and AutoCheck, as well as Black Book Daily, NADA guides, Kelley Blue Book and Galves pricing guide information. It also includes a comprehensive wholesale and retail market report for all markets in the United States.
KAR Analytical Services	KAR Analytical Services provides value-added market analysis to our customers and the media. These services include access to publications and custom analysis of wholesale market trends for KAR's customers, including peer group and market benchmarking studies, analysis of the benefits of reconditioning, site selection for optimized remarketing of vehicles, portfolio analysis of auction sales and computer-generated mapping and buyer analysis.
Data as a Service	Our Data as a Service team aggregates automotive retail, pricing, registration and other market and economic data from a variety of public and proprietary sources. The insights generated from that data are deployed through predictive pricing, inventory management and vehicle matching tools that help customers buy, sell and source vehicles.

Sales and Marketing

Our sales and marketing approach at ADESA is to develop strong relationships and interactive dialogue with our customers. We have relationship managers for the various institutional customers, including vehicle manufacturers,

fleet companies, rental car companies, finance companies and others. These relationship managers focus on current trends and customer needs for their respective customers in order to better coordinate our sales effort and service offerings.

9

Table of Contents

Managers of individual auction locations are ultimately responsible for providing services to the institutional customers whose vehicles are directed to the auctions by the corporate sales team. Developing and servicing the largest possible population of buying dealers for the vehicles consigned for sale at each auction is integral to maximizing value for our vehicle suppliers.

We have local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of local markets. These local representatives focus on the dealer segment and are complemented by local telesales representatives and are managed by a corporate-level team focused on developing and implementing standard best practices and expanding relationships with major dealer groups. We believe this combination of a centralized structure with decentralized resources enhances relationships with the dealer community and may further increase dealer consignment business at our auctions.

Through our ADESA Analytical Services department, we also provide market analysis to our customers, as they use analytical techniques in making their remarketing decisions.

Online Solutions

Our current ADESA online solutions include:

ADESA Technology	Description
ADESA.com and ADESA DealerBlock®	This platform provides for either real-time or "bulletin-board" online auctions of consigned inventory at physical auction locations and is powered by Openlane technology. We also utilize this platform to provide upstream and midstream selling capabilities for our consignors, which facilitate the sale of vehicles prior to their arrival at a physical auction site. Auctions can be either closed (restricted to certain eligible dealers) or open (available to all eligible dealers) and inventory feeds of vehicles are automated with many customers' systems as well as third party providers that are integrated with various dealer management systems. Oftentimes, the upstream and midstream closed sales are "private-labeled" for the consignors.
ADESA LiveBlock®	Our live auction Internet bidding solution, ADESA LiveBlock®, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. ADESA LiveBlock® provides real-time streaming audio and video from the live auction and still images of vehicles and other data. Buyers inspect and evaluate the vehicle and listen to the live call of the auctioneer while viewing the physical auction that is underway.
TradeRev	An online automotive remarketing system where dealers can launch and participate in real-time vehicle auctions at any time.
ADESA Run List®	Provides a summary of consigned vehicles offered for auction sale, allowing dealers to preview inventory and vehicle condition reports prior to an auction event.
ADESA Market Guide®	Provides wholesale auction prices, auction sales results, market data and vehicle condition information.
ADESA Virtual Inventory	Subscription-based service to allow dealers to embed ADESA's search technology into a dealer's website to increase the number of vehicles advertised by the dealer.

Competition

In the North American whole car auction industry, we compete with Manheim, a subsidiary of Cox Enterprises, Inc., OVE.com (Manheim's "Online Vehicle Exchange"), RMS Automotive (a subsidiary of Cox Enterprises, Inc.), SmartAuction, as well as several smaller chains of auctions and independent auctions, some of which are affiliated through their membership in industry associations, and auctions held by retail dealers. In the United States, competition is strongest with Manheim for the supply of used vehicles from national institutional customers. In Canada, we are the largest provider of whole car vehicle auction services. The supply of vehicles from dealers is dispersed among all of the auctions in the used vehicle market.

Table of Contents

Due to the increased viability of the Internet as a marketing and distribution channel, new competition has arisen from Internet-based companies and our own customers who have historically remarketed vehicles through various channels, including auctions. Direct sales of vehicles by institutional customers and large dealer groups through internally developed or third-party online platforms have largely replaced telephonic and other non-auction methods, becoming a significant portion of overall used vehicle remarketing. The extent of use of direct, online systems varies by customer. In addition, we and some of our competitors offer online auctions in connection with physical auctions, and other online companies now include used vehicles among the products offered at their auctions.

IAA

Overview

As one of the leading providers of damaged and total loss claim solutions and salvage vehicle auctions, we operate as IAA in the United States, Impact Auto Auctions in Canada and HBC Vehicle Services Limited in the United Kingdom and serve our customer base through salvage auction locations throughout North America and the United Kingdom. We facilitate the remarketing of vehicles for a variety of sellers, including insurance companies, used-vehicle dealers, rental car and fleet lease companies, auto lenders and charitable organizations. Our marketplaces provide buyers from around the globe with the damaged and total loss vehicles they need to fulfill their scrap demands, replacement part inventory demands or vehicle rebuild requirements. Fees for our services are earned from both sellers and buyers of vehicles sold through our channels.

In exchange for agreed-upon processing and service fees, we sell damaged and total loss vehicles on behalf of vehicle sellers primarily on a consignment basis, meaning that our sellers continue to own their vehicles until they are sold to buyers through one of our marketplaces. We also offer our vehicle sellers a number of other services for which fees may be charged, including but not limited to total loss claims solutions (as described below), inspection services, and marketing and other administrative services. In addition to the fees we collect from our vehicle sellers, we also charge service fees to our buyers for each vehicle purchased based on a tiered structure that increases with the sales price of the vehicle. We likewise offer our buyers additional services for which we also charge service fees.

Vehicles are marketed to prospective buyers through our many marketplaces, 24 hours per day and seven days per week. Auctions are typically held weekly at most locations and are simulcast in a manner that allows bidders to participate both physically at the auction, and online via a desktop internet browser or through our proprietary mobile device applications. Certain vehicles are also offered for sale online via Timed Auctions, where bidders may bid on those vehicles for a fixed duration of time and via Buy Now where vehicles are offered for sale at a fixed price. All vehicles which are ready for auction are listed and available online on IAA's Auction Center, allowing prospective bidders to preview and Proxy bid on vehicles prior to the actual auction event. IAA's Auction Center includes an "Advanced Search" function that allows for filtering to quickly locate specific vehicles and offers buyers additional services such as Enhanced Vehicle Details that includes VIN details and Hollander Interchange parts data to help buyers make informed purchasing decisions. IAA's Auction Center provides online buyers with an open, competitive bidding environment that reflects the dynamics of a live physical auction. Our mobile and online capabilities provide buyers flexibility in their purchasing options, exposing vehicles to bidders from around the globe and allowing bidders to participate in a greater number of auctions. Online inventory browsing and digital alerts (via email or through buyer app) reduce the time required to acquire vehicles and the broader market exposure and increased competitive bidding generally drive higher selling prices at auction. We believe the capabilities of our auction models maximize auction proceeds and returns to our vehicle sellers.

Tools and services focused on total loss claims have been developed to assist insurance sellers in improving policy holder satisfaction and more effectively managing costs during the total loss claims process. IAA Total Loss Solutions includes IAA Inspection Services™, IAA Title Services™ and additional service offerings within the suite of products. These products and services help to reduce total loss claims cycle time, provide transparency for the insured, and more deeply integrate sellers within IAA's flagship salvage management tool, CSAToday®.

HBC is a salvage auction services business operating in the United Kingdom. HBC provides salvage collection and disposal services for the U.K.'s top insurance, fleet and accident management companies, and conducts business using a variety of sales channels, including online auctions. HBC's business model differs from that of IAA, as more of HBC's vehicles are sold under purchase contracts as opposed to consignment based arrangements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional financial information about geographic areas.

Services

IAA offers a comprehensive suite of auction, logistics and vehicle selling services aimed at maximizing the value of vehicles sold at auction, lowering administrative costs, shortening the selling cycle and increasing the predictability of returns

Table of Contents

to vehicle sellers. This is achieved while expanding IAA's ability to handle an increasing proportion of the vehicle-processing function as a "one-stop shop" for sellers. Some of the services provided by IAA include:

Services	Description
CSAToday®	IAA's online reporting and analysis tool that gives seller customers the ability to manage their vehicle assets. It also provides a detailed overview of salvage performance and identifies factors influencing timeline efficiency and net returns.
IAA Market Value™	A solution for seller customers looking to estimate the values of their vehicles. Part of the CSAToday app on iOS and Android devices, this tool utilizes user-provided information and our historical auction data to deliver results to their smartphones.
Mobile Vehicle Assignment	Gives customers the ability to assign a vehicle from their iOS or Android device through the CSAToday app. Simplifies the desktop assignment process to a five-swipe workflow that uses smartphone technology to minimize manual input.
BidFast®	A salvage valuation solution that comprehensively analyzes a vehicle to determine its value and provides a guaranteed bid for 60 days. Intended to be used for partial-loss conversions, denied coverage, subrogation file closure and owner-retained salvage.
Catastrophe (CAT) Services	To better service our insurance carrier partners, we track storm patterns and have response teams ready when disaster strikes. In the event of a catastrophe, IAA draws from an established network of partners to secure towing services and storage space. A mobile CAT Command Center as well as dedicated IAA staff serve as an on-the-go, centralized point of crisis management. When the vehicles are ready for sale, we promote them to our global buyer base with targeted marketing efforts for efficient sale and file closure.
IAA Total Loss Solutions®	Provides insurance carrier customers with a comprehensive platform to process auto insurance claims efficiently, from the loss event to asset liquidation. Solutions include: - IAA Loss Advisor™ - IAA Inspection Services® - IAA Title Services® - Title Procurement Dashboard - IAA Express Notary™ - IAA Loan Payoff™ - MyVehicleClaim.com - IAA Active Inventory Management
Multi-Channel Auction Model	Vehicles are offered simultaneously through a variety of channels to live and online buyers in a live auction format utilizing i-Bid LIVE SM and other web technology. We believe this exposes the vehicles to the maximum number of potential buyers.
Vehicle Inspection Centers	We maintain vehicle inspection centers ("VIC") at many of our facilities. A VIC is a temporary storage and inspection facility located at one of our sites that is operated by the insurance company. Some of these sites are formalized through temporary license agreements with the insurance companies that supply the vehicles. A VIC is designed to minimize vehicle storage charges incurred by insurance company suppliers at the temporary storage facility or repair shop and to improve service time for the policyholder.
Transportation and Towing	Inbound logistics administration with actual services typically provided by third-party carriers.
Remarketing Market	Focuses on low-end, high mileage and damaged vehicles from rental sellers, fleet and leasing companies, banks and dealer trade-in inventory.
Donation Market	Processes vehicles for a variety of charitable organizations across the United States and Canada, assisting them in turning donated vehicles into cash to support their respective cause.

Table of Contents

IAA also offers solutions focused on a diverse set of global buyer customers to provide the vehicles they need to fulfill their vehicle rebuild requirements, replacement part inventory or scrap demand. Some of the services provided by IAA include:

Services	Description
i-Bid LIVE SM	Our live auction Internet bidding solution, i-Bid LIVE, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. In addition, i-Bid LIVE provides real-time streaming audio from the live auction and images of damaged and total loss vehicles and other data. Buyers inspect and evaluate the damaged and total loss vehicle and listen to the auction while it is underway.
IAA Buy Now TM	Provides a unit for sale for a specific price using analytical data. This model allows units to get exposure and sell between scheduled auctions.
IAA Timed Auctions TM	Offering a unit for sale for a specified period of time. This model allows for competitive bidding and sale prior to our scheduled IAA Live and Online Auctions.
IAA Online Exclusive TM	Offers units for sale via a live online auction. Using a live auctioneer simulcast over the internet, this model is designed to sell a specific segment of vehicles, such as recreational vehicles or boats.
IAA Screen Sale TM	This method offers units for sale via a screen at one of our IAA branches. This method uses a live auctioneer selling vehicles to both live in-person and online bidders. This method is intended for buyers when units are off-site, such as located at a CAT yard.
IAA Live & Online TM	This auction model is IAA's traditional method of selling vehicles. This model is used by our branches allowing both live and online bidders to interact with a live auctioneer.
IAA Run & Drive [®]	As part of the live auction, operable vehicles run and drive through a dedicated lane to showcase sellers' inventory and give buyers the chance to determine an item's full value.
IAA High-Resolution Images TM	Provides high-resolution images designed to improve buyer confidence to bid, while ensuring sellers' inventory receives maximum exposure.
Vehicle Parts Search	Integrates Hollander Interchange TM Part Numbers into the search functionality of IAAI.com and helps buyer customers search IAA nationwide inventory for specific vehicle components.
IAA Fast Search	Enhanced vehicle search and filter options providing what we believe is the most comprehensive search tool in the industry.
IAA Cost Calculator TM	Provides buyers with an estimate of total cost to make more informed bidding and buying decisions.
I-Pay [®]	A convenient, secure tool that allows buyers to make payments via the internet directly from any bank account in the United States. Available through the Auction Center and the IAA Buyer app.
IAA Transport TM	An integrated shipping solution allowing buyers to schedule shipment of vehicles during the checkout process.

Customers

We obtain IAA's supply of vehicles from insurance companies, used vehicle dealers, rental car and fleet leasing companies, auto lenders, non-profit organizations and the general public. We have established long-term relationships with virtually all of the major automobile insurance companies. The vast majority of the vehicles we process are on a consignment basis. The buyers of damaged and total loss vehicles include automotive body shops, rebuilders, used car dealers, automotive wholesalers, exporters, dismantlers, recyclers, brokers, and where allowed, non-licensed (public)

buyers.

Sales and Marketing

The IAA sales force solicits prospective vehicle sellers and buyers at the national, regional and local levels. Branch managers address customer needs at the local level. We also participate in a number of local, regional and national trade show events that further promote the benefits of our products and services.

In addition to providing sellers with a means of processing and selling vehicles, IAA offers a comprehensive suite of services to help maximize returns and shorten the selling and processing time. We help establish workflow integration within

13

Table of Contents

our sellers' processes, and view such mutually beneficial relationships as an essential component of our effort to attract and retain suppliers.

By analyzing industry data, we provide sellers with a detailed analysis of their current selling prices and returns, and a proposal detailing methods to improve selling prices and returns, reduce administrative costs and provide proprietary turn-key selling and processing services.

We also focus on expanding our seller relationships through recommendations from customers at the local level to other local offices of the same company. Our broad and industry leading geographic coverage allows us to service sellers on a national basis.

Internal Online Operating Solution

Our current IAA internal online operating solution includes:

IAA Technology Description

We have developed a proprietary web-based information system, Automated Salvage Auction Processing system, or ASAP, to streamline all aspects of our operations and centralize operational data collection. The system provides sellers with 24-hour online access to powerful

Automated Salvage Auction Processing tools to manage the salvage disposition process, including inventory management, sales price analysis and electronic data interchange of titling information.

(ASAP)

Our other information systems, including i-Bid LIVE and CSAToday systems, are integrated with our ASAP product, facilitating auction processes and information flow with internal operational systems.

Competition

In the salvage sector, the competition includes Copart; Total Resource Auctions, a subsidiary of Cox Enterprises, Inc.; independent auctions and a limited number of used vehicle auctions that regularly remarket damaged and total loss vehicles. Additionally, some dismantlers of damaged and total loss vehicles such as LKQ Corporation and Internet-based companies have entered the market, thus providing alternate avenues for sellers to remarket vehicles. While most insurance companies have abandoned or reduced efforts to sell damaged and total loss vehicles without the use of service providers such as us, they may in the future decide to dispose of their vehicles directly to end users.

AFC

Overview

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through branches throughout North America. In 2018, AFC serviced approximately 1.8 million loan transactions, which includes both loans paid off and loans extended, or curtailed. We sell the majority of our U.S. dollar-denominated finance receivables without recourse to a wholly-owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a group of bank purchasers on a revolving basis. We also securitize the majority of our Canadian dollar denominated finance receivables through a separate third-party facility. We generate a significant portion of our revenues from fees. These fees include origination, floorplan, curtailment and other related program fees. When the loan is extended or paid in full, AFC collects all accrued fees and interest.

Preferred Warranties, Inc. is a vehicle service contract business. We receive advance payments for the vehicle service contracts and unearned revenue is deferred and recognized over the terms of the contracts, which range from 3 months to 7 years, on an individual contract basis. The average term of these contracts originated in 2018 was approximately 1.8 years. We currently purchase program insurance which provides for satisfaction of certain of the Company's vehicle service contracts related liabilities in the event the Company is unable to perform under the terms of specific vehicle service contracts covered by program insurance.

Customers and Locations

Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles from our auctions, other auctions and non-auction purchases. In 2018, approximately 83% of the vehicles floorplanned by AFC were vehicles purchased by dealers at auction. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction. As of December 31, 2018, we serviced auctions through 127 locations which are conveniently

located at or within

14

Table of Contents

close proximity of auctions held by ADESA and other auctions, which allows dealers to reduce transaction time by providing immediate payment for vehicles purchased at auction. We provide availability lists on behalf of our customers to auction representatives regarding the financing capacity of our customers, thereby increasing the purchasing potential at auctions. In addition, we have the ability to send finance representatives on-site to most approved independent auctions during auction sale-days, as well as maintaining a presence at the ADESA auctions. Geographic proximity to the customers gives our employees the ability to stay in close contact with outstanding accounts, thereby better enabling them to manage credit risk.

As of December 31, 2018, AFC had approximately 12,300 active dealers with an average line of credit of approximately \$270,000 and no one dealer representing greater than 1.6% of our portfolio. An average of approximately 15 vehicles per active dealer was floorplanned with an approximate average value outstanding of \$10,200 per vehicle as of December 31, 2018.

Sales and Marketing

AFC approaches and seeks to expand its share of the independent dealer floorplan market through a number of methods and channels. We target and solicit new dealers through both direct sales efforts at the dealer's place of business as well as auction-based sales and customer service representatives, who service our dealers at auctions where they replenish and rotate vehicle inventory. These largely local efforts are handled by branch managers, branch personnel and dealer sales managers. AFC's corporate-level team and Business Development Center provide sales and marketing support to AFC field personnel by helping to identify target dealers and coordinating promotional activity with auctions and other vehicle supply sources.

Credit

Our procedures and proprietary computer-based system enable us to manage our credit risk by tracking each vehicle from origination to payoff, while expediting services through our branch network. Typically, we assess a floorplan fee at the inception of a loan and we collect all accrued fees and interest when the loan is extended or repaid in full. In addition, AFC generally holds the title or other evidence of ownership to all vehicles which are floorplanned. Typical loan terms are 30 to 90 days, each with a possible loan extension. For an additional fee, this loan extension allows the dealer to extend the duration of the loan beyond the original term for another 30 to 90 days if the dealer makes payment towards principal and pays accrued fees and interest.

The extension of a credit line to a dealer starts with the underwriting process. Credit lines up to \$600,000 are extended using a proprietary scoring model developed internally by AFC. Credit lines in excess of \$600,000 may be extended using underwriting guidelines which generally require dealership and personal financial statements, monthly bank statement, sales reports and tax returns. The underwriting of each line of credit requires an analysis, write-up and recommendation by the credit department and, in case of credit lines in excess of \$600,000, final review by a credit committee.

Collateral Management

Collateral management is an integral part of daily operations at each AFC branch and our corporate headquarters. AFC's proprietary computer-based system facilitates this daily collateral management by providing real-time access to dealer information and enables branch and corporate personnel to assess and manage potential collection issues. Restrictions are automatically placed on customer accounts in the event of a delinquency, payments by dealers from bank accounts with insufficient funds or poor audit results. Branch personnel are proactive in managing collateral by monitoring loans and notifying dealers that payments are coming due. In addition, approximately 90,000 routine audits, or lot checks, are performed annually on the dealers' lots through our AutoVIN subsidiary. Poor results from lot checks typically require branch personnel to take actions to determine the status of missing collateral, including visiting the dealer personally, verifying units held off-site and collecting payments for units sold. Audits also identify troubled accounts, triggering the involvement of AFC's collections department.

AFC operates three divisions which are organized into fourteen regions in North America. Each division and region is monitored by managers who oversee daily operations. At the corporate level, AFC employs full-time collection specialists and collection attorneys who are assigned to specific regions and monitor collection activity for these areas. Collection specialists work closely with the branches to track trends before an account becomes a troubled account and to determine, together with collection attorneys, the best strategy to secure the collateral once a troubled account

is identified.

Securitization

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity.

15

Table of Contents

AFC's securitization facility has been in place since 1996. AFC Funding Corporation had a committed facility of \$1.70 billion from a third-party facility for U.S. finance receivables at December 31, 2018. The agreement expires on January 28, 2022.

We also have an agreement in place for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables. This securitization facility provides up to C\$175 million in financing for eligible finance receivables through a third-party conduit (separate from the U.S. facility). The agreement expires on January 28, 2022. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

Competition

AFC primarily provides short-term dealer floorplan financing of wholesale vehicles to independent vehicle dealers in North America. At the national level, AFC's competition includes NextGear Capital, a subsidiary of Cox Enterprises, Inc., other specialty lenders, banks and financial institutions. At the local level, AFC faces competition from banks, credit unions and independent auctions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions.

Some of our industry competitors who operate whole car auctions on a national scale may endeavor to capture a larger portion of the floorplan financing market. AFC competes primarily on the basis of quality of service, convenience of payment, scope of services offered and historical and consistent commitment to the sector. Our long-term relationships with customers have been established over time and act as a competitive strength for us.

Seasonality

The volume of vehicles sold through our auctions generally fluctuates from quarter to quarter. This seasonality is caused by several factors including weather, the timing of used vehicles available for sale from selling customers, the availability and quality of salvage vehicles, holidays, and the seasonality of the retail market for used vehicles, which affects the demand side of the auction industry. Used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions. In addition, mild weather conditions and decreases in traffic volume can each lead to a decline in the available supply of salvage vehicles because fewer traffic accidents occur, resulting in fewer damaged vehicles overall. As a result, revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis. The fourth calendar quarter typically experiences lower used vehicle auction volume as well as additional costs associated with the holidays and winter weather.

Vehicle and Lending Regulation

Our operations are subject to regulation, supervision and licensing under various federal, state, provincial and local authorities, agencies, statutes and ordinances, which, among other things, require us to obtain and maintain certain licenses, permits and qualifications, provide certain disclosures and notices and limit interest rates, fees and other charges. Some examples of the regulations and laws that impact our company are included in Item 1A "Risk Factors" under the risk: "We are subject to extensive governmental regulations, including vehicle brokerage and auction laws and currency reporting obligations. Our business is subject to risks related to litigation and regulatory actions."

Environmental Regulation

Our operations are subject to various foreign, federal, state and local environmental, health and safety laws and regulations, including those governing the emission or discharge of pollutants into the air or water, the generation, treatment, storage and release of hazardous materials and wastes and the investigation and remediation of contamination. Our failure to comply with current or future environmental, health or safety laws or to obtain and comply with permits required under such laws, could subject us to significant liability or require costly investigative, remedial or corrective actions.

In the used vehicle remarketing industry, large numbers of vehicles, including wrecked vehicles at salvage auctions, are stored and/or refurbished at auction facilities and during that time minor releases of fuel, motor oil and other materials may occur. We have investigated or remediated, or are currently investigating or remediating, contamination resulting from various sources, including gasoline, fuel additives (such as methyl tertiary butyl ether, or MTBE), motor oil, petroleum products and other hazardous materials released from aboveground or underground storage tanks or in connection with current or former operations conducted at our facilities. We have incurred, and may in the future incur, expenditures relating to releases of hazardous materials, investigative, remedial or corrective actions, claims by third parties and other environmental issues, and such expenditures, individually or in the aggregate, could be

significant.

Federal and state environmental authorities are currently investigating IAA's role, if any, in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAA's potential liability, if any, at this site cannot be estimated at this time. See Item 3, "Legal Proceedings" for a further discussion of this matter.

16

Table of Contents

Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including environmental matters are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period.

Employees

At December 31, 2018, we had a total of approximately 18,400 employees, of which approximately 14,100 were located in the U.S. and approximately 4,300 were located in Canada, Mexico and the United Kingdom. Approximately 79% of our workforce consists of full-time employees. Currently, less than 1% of our total employees participate in collective bargaining agreements.

In addition to the employee workforce, we also utilize temporary labor services to assist in handling the vehicles consigned to us and to provide certain other services. Nearly all of our auctioneers are independent contractors. Some of the services we provide are outsourced to third party providers that perform the services either on-site or off-site. The use of third party providers depends upon the resources available at each auction facility as well as peaks in the volume of vehicles offered at auction.

Available Information

Our web address is www.karauctionservices.com. Our electronic filings with the Securities and Exchange Commission ("SEC") (including all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports) are available free of charge on the website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, our Corporate Governance Guidelines, Code of Conduct and Ethics, Code of Ethics for Principal Executive and Senior Financial Officers and charters of the audit committee, the nominating and corporate governance committee, the risk committee and the compensation committee of our board of directors are available on our website and available in print to any shareholder who requests it. The information posted on our website is not incorporated into this Annual Report. The SEC maintains a website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

Table of Contents

Item 1A. Risk Factors

Investing in our Company involves a high degree of risk. You should carefully consider the following risk factors, as well as all of the other information contained in this Annual Report on Form 10-K, before deciding to invest in our Company. The occurrence of any of the following risks could materially and adversely affect our business, financial condition, prospects, results of operations and cash flows. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially affect our business, financial condition, results of operations and prospects.

Risks Related to Our Business

If we are not successful in competing with our known competitors, customers and/or disruptive new entrants, then our market position or competitive advantage could be threatened, as well as our business and results of operations.

We face significant competition for the supply of used and salvage vehicles, the buyers of those vehicles and the floorplan financing of these vehicles. Our principal sources of competition historically have come from: (1) direct competitors (e.g., Manheim, Copart and NextGear Capital), (2) new entrants, including new vehicle remarketing venues and dealer financing services, and (3) existing alternative vehicle remarketing venues. Due to the increasing use of the Internet and other technology as marketing and distribution channels, we also face increasing competition from online wholesale and retail vehicle selling platforms (generally without any meaningful physical presence) and from our own customers when they sell directly to end users through such platforms rather than remarket vehicles through our auctions and other channels. Increased competition could result in price reductions, reduced margins or loss of market share.

Our future success also depends on our ability to respond to evolving industry trends, changes in customer requirements and new technologies. One potentially adverse trend would be a market shift towards the simultaneous listing and selling of vehicles on multiple online sales platforms. Were such a trend to take hold, the vehicle remarketing industry's economics could significantly change. For example, we might need to incur additional costs or otherwise alter our business model to adapt to these changes. In such case, the volume of vehicles supplied to us and our overall revenues and fees per vehicle sold could decrease. Since 2013, many participants in the whole car industry have been discussing the development of a multiple platform bidding system. Any such collaboration may be unsuccessful, unworkable or deemed inadvisable. In such case, we may lose vehicle volume and market share, and our business, revenues and profitability could be negatively impacted.

Some of our competitors may have greater financial and marketing resources than we do, may be able to respond more quickly to evolving industry dynamics and changes in customer requirements, or may be able to devote greater resources to the development, promotion and sale of new or emerging services and technologies. Our ability to successfully grow through investments in the area of emerging opportunities depends on many factors, including advancements in technology, regulatory changes and other factors that are difficult to predict, that may significantly affect the future of electrification, autonomy, and mobility. If we are unable to compete successfully or to successfully adapt to industry changes, our business, revenues and profitability could be materially adversely affected.

ADESA, through its physical and online wholesale vehicle platforms, currently competes with online wholesale and retail vehicle selling platforms, including OVE.com and RMS Automotive (both affiliated with Cox Enterprises, Inc.), SmartAuction, mobile applications (including TradeRev) and others. With the exception of OVE.com, these online selling platforms generally do not have any meaningful physical presence and may cause the volume of vehicles sold through our online and physical auctions to decrease. If the number of vehicles sold through our auctions decreases due to these competitors or other industry changes, our revenue and profitability may be negatively impacted. In addition, our long-lived assets could also become subject to impairment.

In the dealer-to-dealer auction market, our mobile application, TradeRev, currently competes with ACV Auctions, EBlock, Manheim Express, BacklotCars, Dealers' Forum, TradeHelper and others. The dealer-to-dealer space is experiencing a digital disruption. If TradeRev is unable to compete and gain market share in the dealer-to-dealer space, our business and revenues may be negatively impacted.

In our salvage auction business, potential competitors include used vehicle auctions, providers of claims software to insurance companies and certain salvage buyer groups and automobile insurance companies, some of which currently supply salvage vehicles to us. Insurance companies may in the future decide to dispose of their salvage vehicles directly to end users, which would negatively affect our volumes, revenue and profitability.

Table of Contents

At the national level, AFC's competition includes NextGear Capital, a subsidiary of Cox Enterprises, Inc., other specialty lenders, banks and financial institutions. At the local level, AFC faces competition from banks, credit unions and independent auctions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions. Some of our industry competitors who operate whole car auctions on a national scale may endeavor to capture a larger portion of the floorplan financing market. AFC offers its customers competitive rates and fees and competes primarily on the basis of quality of service, convenience of payment, scope of services offered and historical and consistent commitment to the sector. If the number of loans originated and serviced decreases due to these competitors, our revenue and profitability may be negatively impacted.

We may not properly leverage or make the appropriate investment in technology advancements, which could result in the loss of any sustainable competitive advantage in products, services and processes.

Our business is dependent on information technology. Robust information technology systems, platforms and products are critical to our operating environment, digital online products and competitive position. Understanding technology innovation is necessary to remain at the forefront of our industry. It is strategically significant that we lead the digital transformation/technology disruption occurring in our industry. We may not be successful in structuring our information technology or developing, acquiring or implementing information systems which are competitive and responsive to the needs of our customers. We might lack sufficient resources to continue to make the significant investments in information technology to compete with our competitors. Certain information technology initiatives that management considers important to our long-term success will require capital investment, have significant risks associated with their execution, and could take several years to implement. We may not be able to develop/implement these initiatives in a cost-effective, timely manner or at all. There can be no assurance that others will not acquire similar or superior technologies sooner than we do or that we will acquire technologies on an exclusive basis or at a significant price advantage. If we do not accurately predict, prepare and respond to new kinds of technology innovations, market developments and changing customer needs, our revenues, profitability and long-term competitiveness could be materially adversely affected.

We may not be successful in the implementation of our business strategy or we may improperly align new strategies with the Company's vision, which could lead to the misapplication of Company resources.

Our strategy is to provide the best remarketing venue and analytical evidence for every vehicle. To execute our strategy, we are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to developing alternative marketplaces, expanding fleet mobility relationships, expanding our international footprint, establishing exceptional analytics capabilities, leveraging the Company's unique remarketing portfolio and data and growing the Company's buyer base. There are significant risks involved with the execution of these initiatives, including significant business, economic and competitive uncertainties, many of which are outside of our control. Accordingly, we cannot predict whether we will succeed in implementing these strategic initiatives. For example, if we are unsuccessful in continuing to generate significant cash provided by operations (we generated \$749.8 million and \$588.8 million of cash flow from operations for the years ended December 31, 2018 and 2017, respectively), we may be unable to reinvest in our business, return capital to shareholders or reduce our outstanding indebtedness, which could negatively affect our financial position and results of operations and our ability to execute our other strategies. It could take several years to realize any direct financial benefits from these initiatives, if any direct financial benefits from these initiatives are achieved at all. Additionally, our business strategy may change from time to time, which could delay our ability to implement initiatives that we believe are important to our business.

We may be unable to meet or exceed our customers' expectations, which could result in poor customer retention and adversely affect our operating results and financial condition.

We believe our future success depends in part on our ability to respond to changes in customer requirements and our ability to meet regulatory requirements for our customers. Our customers include vehicle manufacturers and their captive finance arms, vehicle leasing and rental companies, financial institutions, fleet management companies, franchised and independent used vehicle dealers, insurance companies, non-profit organizations, automotive body shops, rebuilders, automotive wholesalers, exporters, dismantlers, recyclers and brokers. We work to develop strong relationships and interactive dialogue with our customers to better understand current trends and customer needs. If we are not successful in meeting our customers' expectations, our customer relationships could be negatively affected and result in a loss of future business, which would adversely affect our operating results and financial condition.

ADESA and IAA's agreements with its largest institutional suppliers of used and salvage vehicles are generally subject to cancellation by either party upon 30 to 90 days' notice. In addition, it is common that institutional suppliers regularly review their relationships with whole car and salvage auctions through written requests for proposals. Such suppliers may from time to time require us to make changes to the way we do business as part of the request for proposal process. There can be no

Table of Contents

assurance that our existing agreements will not be canceled or that we will be able to enter into future agreements with these or other suppliers that disrupt our supplier base on similar terms, or at all, and our ability to grow and sustain profitability could be impaired.

If we acquire businesses that: are not aligned with the Company's strategy; lack the proper research and preparation; create unnecessary risks; improperly value and price a target; have poor integration execution; and/or do not achieve the desired outcomes, then our operating results, financial condition and growth prospects could be adversely affected.

Acquisitions are a significant part of our growth strategy and have enabled us to further broaden and diversify our service offerings. Our strategy generally involves acquisitions of companies, products, services and technologies to expand our online, digital and mobile capabilities and the acquisition and integration of additional auction sites and personnel. Acquisition of businesses requires substantial time and attention of management personnel and may also require additional equity or debt financings. Further, integration of newly established or acquired businesses is often disruptive. Since we have acquired or in the future may acquire one or more businesses, there can be no assurance that we will identify appropriate targets, will acquire such businesses on favorable terms, or will be able to successfully integrate such organizations into our business. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and they could materially adversely affect our business, financial condition and results of operations. Acquisitions may also have unanticipated tax, legal, regulatory and accounting ramifications, including as a result of recording goodwill and non-amortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges. In addition, we expect to compete against other auction groups or new industry consolidators for suitable acquisitions. If we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions.

In pursuing a strategy of acquiring other businesses, we face other risks including, but not limited to:

- incurring significantly higher capital expenditures, operating expenses and operating losses of the business acquired;
- entering new markets with which we are unfamiliar;
- incurring potential undiscovered liabilities at acquired businesses;
- failing to maintain uniform standards, controls and policies;
- incorporating acquired technology and rights into our offerings and unanticipated expenses related to such integration;
- impairing relationships with employees and customers as a result of management changes; and
- increasing expenses for accounting and computer systems, as well as integration difficulties.

Acquisitions and other strategies to expand our operations beyond North America subject us to significant risks and uncertainties. As a result, we may not be successful in realizing anticipated synergies or we may experience unanticipated integration expenses. As we continue to explore opportunities to expand our business internationally, we will need to develop policies and procedures to manage our business on a global scale. There can be no assurance that we will identify appropriate international targets, acquire such businesses on favorable terms, or be able to successfully grow and integrate such organizations into our business. Operationally, acquired businesses typically depend on key relationships and our failure to maintain those relationships could have an adverse affect on our operating results and financial condition.

In addition, we anticipate that our non-U.S. based operations will continue to subject us to risks associated with operating on an international basis, including:

- exposure to foreign currency exchange rate risk, which may have an adverse impact on our revenues and profitability;

- restrictions on our ability to repatriate funds, as well as repatriation of funds currently held in foreign jurisdictions, which may result in higher effective tax rates;

- tariffs and trade barriers and other regulatory or contractual limitations on our ability to operate in certain foreign markets;

- compliance with the Foreign Corrupt Practices Act;

Table of Contents

- compliance with various privacy regulations, including the General Data Protection Regulation;
- dealing with unfamiliar regulatory agencies and laws favoring local competitors;
- dealing with political and/or economic instability;
- the difficulty of managing and staffing foreign offices, as well as the increased travel, infrastructure, legal and compliance costs associated with international operations;
- localizing our product offerings; and
- adapting to different business cultures and market structures.

As we continue to explore opportunities to expand globally, our success will depend on our ability to anticipate and effectively manage these and other risks associated with operating on an international basis. Our failure to manage these risks could have an adverse affect on our operating results and financial condition.

Significant disruptions of information technology systems or breaches of information technology systems, infrastructure and business information could interfere with our operations and could compromise the confidentiality of private customer data or our proprietary information and adversely affect our business and reputation.

We rely on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of our business processes and activities. The secure operation of these systems, and the processing and maintenance of the information processed by these systems, is critical to our business operations and strategy. Information technology risks (including the confidentiality, integrity and availability of digital assets) for companies have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. These threats may derive from fraud or malice on the part of our employees or third parties, or may result from human error or accidental technological failure. Our customers and other parties in the payments value chain rely on our digital online products as well as other information technologies, computers, software and networks to conduct their operations. In addition, to access our online products and services, our customers increasingly use personal smartphones, tablet PCs and other mobile devices that may be beyond our control.

We are subject to cyber-threats and our information technology has been subject to cyber-attacks and we believe we will continue to be a potential target of such threats and attacks. Continuous cyber-attacks or a sustained attack could lead to service interruptions, malfunctions or other failures in the information technology that supports our businesses and customers (such as the lack of availability of our value-added systems), as well as the operations of our customers or other third parties. Continuous cyber-attacks could also lead to damage to our reputation with our customers and other parties and the market, additional costs (such as repairing systems, adding new personnel or protection technologies or compliance costs), regulatory penalties, financial losses to both us and our customers and partners and the loss of customers and business opportunities. If such attacks are not detected in a timely manner, their effect could be compounded.

Despite security measures and business continuity plans, our systems may be vulnerable to damage, disruptions or shutdowns caused by hackers, computer viruses, or breaches due to errors or malfeasance by employees, third parties and others who have access to these systems. If our information technology is compromised, becomes inoperable for extended periods of time or ceases to function properly, we may have to make a significant investment to fix or replace the information technology and our ability to provide many of our electronic and online solutions to our

customers may be impaired, which would have a material adverse effect on our consolidated operating results and financial position. In addition, as cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could compromise or result in the loss of the information processed by these systems and proprietary data, disrupt our business, damage our reputation and materially adversely affect our consolidated financial position and results of operations.

In addition, aspects of our operations and business are subject to privacy regulation in the United States and elsewhere, including the California Consumer Privacy Act. We collect and store sensitive data, including the intellectual property, proprietary business information, proprietary business information of our customers, as well as personally identifiable information of our customers and employees, in data centers and on information technology networks. Many U.S. states have enacted data breach regulations and laws requiring varying levels of consumer notification in the event of a security breach. Increased regulation and enforcement activity throughout the world in the areas of data privacy and data security/breach may

Table of Contents

materially increase our costs, which could have a material adverse effect on our operating results. Our failure to comply with the privacy and data security/breach laws to which we are subject could also result in fines, sanctions and damage to our reputation and tradenames or the loss of significant customers.

Decreases in the supply of used vehicles coming to auction may impact auction sales volumes, which may adversely affect our revenues and profitability. In addition, a decrease in the number of used vehicles sold at physical auctions could adversely affect our revenue growth, operating results and financial condition.

The number of new and used vehicles that are leased by consumers affects the supply of vehicles coming to auction in future periods as the leases mature. If manufacturers and other lenders decrease the number of new vehicle lease originations and extend the terms of some of the existing leases, the number of off-lease vehicles available at auction for the industry would decline. If the supply of off-lease vehicles coming to auction declines, our revenues and profitability may be adversely affected.

Volumes of off-lease vehicles in subsequent periods will be affected by total new vehicle sales and the future leasing behavior of manufacturers and lenders; therefore, we may not be able to accurately predict the volume of vehicles coming to auction. The supply of off-lease vehicles coming to auction is also affected by the market value of used vehicles compared to the residual value of those vehicles per the lease terms. In most cases, the lessee and the dealer have the ability to purchase the vehicle at the residual price at the end of the lease term. Generally, as market values of used vehicles rise, the number of vehicles purchased at residual value by the lessees and dealers increases, thus decreasing the number of off-lease vehicles available at auction.

Furthermore, online only auction platforms were utilized for the sale of approximately 38% of vehicles sold in North America by ADESA in 2018, compared with approximately 30% in 2017. If sellers and buyers increase the number of vehicles transacted on online only auction platforms, our revenue per vehicle will likely decline. In connection with online auctions, ADESA offers physical auctions, which allow buyers to physically inspect and compare vehicles. In addition, our cost structure includes a significant fixed cost component, including occupancy costs, that cannot be readily reduced if revenue per vehicle declines. If a shift in the percentage of used vehicles sold on online only auction platforms as compared with used vehicles sold at physical auctions occurs, and we are unable to generate new sources of revenue, our operating results and financial condition could be adversely affected.

Our business and operating results would be adversely affected if we lose one or more significant customers.

Loss of business from, or changes in the consignment patterns of, our key customers could have a material adverse effect on our business and operating results. Generally, institutional and dealer customers make no binding long-term commitments to us regarding consignment volumes. Any such customer could reduce its overall supply of vehicles for our auctions or otherwise seek to materially change the terms of its business relationship with us at any time. Any such change could harm our business and operating results. While no single customer accounted for 10% or more of our consolidated revenues in 2018, the loss of, or material reduction in business from, our key customers could have a material adverse effect on our business and operating results.

At a segment level, approximately 80% of IAA segment's revenues derive from insurance company customers and a small number of these customers account for a large share of IAA's revenues. In 2018, approximately 40% of IAA's revenues were associated with the fees generated from the auction of salvage vehicles, including buyer fees, from its three largest insurance customers, each of which accounted for over 10% of IAA's revenue. If one or more of IAA's large customers were to significantly reduce consignments for any reason or favor competitors or new entrants, IAA may not be successful in replacing such business and IAA's profitability and operating results would be materially adversely affected.

If we fail to attract and retain key personnel, or have inadequate succession planning, we may not be able to execute our business strategies and our financial results could be negatively affected.

Our success depends in large part on the performance of our executive management team and other key employees, including key field and information technology personnel. If we lose the services of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete with us, we may not be able to effectively implement our business strategies, our business could suffer and the value of our common stock could be materially adversely affected. Our auction business is directly impacted by the business relationships our employees have established with customers and suppliers and, as a result, if we lose key personnel, we may have difficulty in retaining and attracting customers, developing new services, negotiating favorable agreements with customers and providing acceptable levels of customer service. Leadership changes will occur from time to time and we cannot predict whether significant resignations will occur or whether

Table of Contents

we will be able to recruit additional qualified personnel. We do not have nor do we currently expect to obtain key person insurance on any of our executive officers.

Used vehicle prices impact fee revenue per unit and may impact the supply of used vehicles, as well as loan losses at AFC.

The volume of new vehicle production, accuracy of lease residual estimates, interest rate fluctuations, customer demand and changes in regulations, among other things, all potentially affect the pricing of used vehicles. Used vehicle prices may affect the volume of vehicles entered for sale at our auctions and the demand for those used vehicles, the fee revenue per unit, loan losses for our dealer financing business and our ability to retain customers. When used vehicle prices are high, used vehicle dealers may retail more of their trade-in vehicles on their own rather than selling them at auction. In addition, a sustained reduction in used vehicle pricing could result in lower proceeds from the sale of salvage vehicles and a related reduction in revenue per vehicle, a potential loss of consignors, an increase in loan losses at AFC and decreased profitability. Furthermore, when vehicles are purchased, we are subject to changes in vehicle values, such as those caused from changes in commodity prices for steel and platinum. Decreases in commodity prices may negatively affect vehicle values and demand at salvage auctions.

If our facilities lack the capacity to accept additional vehicles, then our relationships with insurance companies or other vehicle suppliers could be adversely affected.

We regularly evaluate our capacity in all our markets and where appropriate, seek to increase capacity through the acquisition of additional land and facilities. Capacity at our facilities varies from period to period and by region as a result of various factors, including natural disasters. We may not be able to reach agreements to purchase or lease storage facilities in markets where we have limited excess capacity, and zoning restrictions or difficulties obtaining use permits may limit our ability to expand our capacity through acquisitions of new land. In addition, we may not be able to renew or enter into new leases at commercially reasonable rates. If we fail to have sufficient capacity at one or more of our facilities, our relationships with insurance companies or other vehicle suppliers could be adversely affected, which could adversely affect our operating results and financial condition.

Fluctuations in the supply of and demand for salvage vehicles impact auction sales volumes, which may adversely affect our revenues and profitability.

We are dependent upon receiving a sufficient number of total loss vehicles to sustain profit margins in our salvage auction business. Factors that can adversely affect the number of vehicles received include, but are not limited to, a decrease in the number of vehicles in operation or miles driven, mild weather conditions that cause fewer traffic accidents, reduction of policy writing by insurance providers that would affect the number of claims over a period of time, changes in vehicle technology and autonomous vehicles, a decrease in the percentage of claims resulting in a total loss or elimination of automotive collision coverage by consumers, delays or changes in state title processing, government regulations on the standards for producing vehicles and changes in direct repair procedures that would reduce the number of newer, less damaged total loss vehicles, which tend to have higher salvage values. In addition, our salvage auction business depends on a limited number of automobile insurance companies to supply the salvage vehicles we sell at auction. Our agreements with these insurance company suppliers are generally subject to cancellation by either party upon 30 to 90 days' notice. There can be no assurance that our existing agreements will not be canceled or that we will be able to enter into future agreements with these suppliers. Future decreases in the quality and quantity of vehicle inventory, and in particular the availability of newer and less damaged vehicles, could have a material adverse effect on our operating results and financial condition. If the supply or value of salvage vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected. In addition, decreases in commodity prices, such as steel and platinum, may negatively affect vehicle values and demand at salvage auctions.

Adverse economic conditions may negatively affect our business and results of operations.

Future adverse economic conditions could increase our exposure to several risks, including:

Fluctuations in the supply of used vehicles. We are dependent on the supply of used vehicles coming to auction, and our financial performance depends, in part, on conditions in the automotive industry. During the past global economic downturn and credit crisis, there was an erosion of retail demand for new and used vehicles that led many lenders to cut back on originations of new loans and leases and led to significant manufacturing capacity reductions by automakers selling vehicles in the United States and Canada. Capacity reductions could depress the number of vehicles received at auction in the future and could lead to reduced vehicles from various suppliers, negatively impacting auction volumes. In addition, weak growth in or declining new vehicle sales negatively impacts used vehicle trade-ins to dealers and auction volumes. These factors could adversely affect our revenues and profitability.

23

Table of Contents

Decline in the demand for used vehicles. We may experience a decrease in demand for used vehicles from buyers due to factors including the lack of availability of consumer credit and declines in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles at auction, which further negatively affects buyer demand. In addition, a reduction in the number of franchised and independent used car dealers may reduce dealer demand for used vehicles.

Decrease in consumer spending. Consumer purchases of new and used vehicles may be adversely affected by economic conditions such as employment levels, wage and salary levels, trends in consumer confidence and spending, reductions in consumer net worth, interest rates, inflation, the availability of consumer credit and taxation policies. Consumer purchases in general may decline during recessions, periods of prolonged declines in the equity markets or housing markets and periods when disposable income and perceptions of consumer wealth are lower. Changes to U.S. federal tax policy may negatively affect consumer spending. In addition, the increased use of vehicle sharing and alternate methods of transportation, including autonomous vehicles, could lead to a decrease in consumer purchases of new and used vehicles and a decrease in vehicle rentals. To the extent retail and rental car company demand for new and used vehicles decreases, negatively impacting our auction volumes, our results of operations and financial position could be materially and adversely affected.

Volatility in the asset-backed securities market.