

## OPENLANE

# Solid close to 2023 in tough environment, 2024 outlook in-line – 4Q first take

Maintain Rating: UNDERPERFORM | PO: 16.00 USD | Price: 14.15 USD

## 4Q:23 results slightly above expectations

OPENLANE (KAR) reported 4Q:23 adj. EBITDA of \$61.8mm, above our estimate of \$58.2mm and the Bloomberg consensus of \$59.5mm. On a YoY basis, adj. EBITDA increased 9.4% from \$56.5mm reported in 4Q:22. The adj. EBITDA beat was driven by the Marketplace segment, which was helped largely by other income as gross profit and SG&A were in line with our estimates although our forecast was predicated on stronger sales. The Finance segment missed our estimate due to lower loan transaction volumes during the quarter. Operating adj. EPS, a less relevant metric for KAR, came in at \$0.16 vs. our \$0.13 estimate and consensus of \$0.13. Nonetheless, management is forging forward amidst a challenging industry backdrop.

## Marketplace segment largely in-line on operating basis

Marketplace revenue increased 8.3% YoY to \$295mm, in line with our estimate of \$296mm. This was driven by an 11% YoY increase in Auction Fees and a 34% YoY increase in purchased vehicle sales, partially offset by a 1% YoY decline in Service. Commercial vehicles sold increased 21% YoY, while Dealer consignment vehicles sold declined 2% YoY. We continue to see pressure on total vehicles sold due to a lack of wholesale supply, which is a pervasive issue for the broader used vehicle industry. Auction fees per vehicle sold increased \$3 YoY to \$283 (BofAe \$300), while gross profit per vehicle sold was up \$37 YoY to \$334 (BofAe \$336). Marketplace adjusted EBITDA increased to \$23.7mm, above our estimate of \$19.1mm.

## Finance segment softer, provision for credit losses rises

Finance revenue declined 4% YoY to \$96.6mm, below our \$98.1mm forecast, driven by lower revenue per loan transaction (-5% YoY), partially offset by higher loan transaction volumes (+1.3% YoY). Provision for credit losses increased to 2.5% of average managed receivables versus 1.1% in 4Q:22. As a result of the weaker top-line performance, adjusted EBITDA of \$38.1mm came in below our estimate of \$39.2mm.

## FY23 in-line with outlook, 2024 outlook brackets BofAe

KAR reported full year 2023 adj. EBITDA of \$272mm, in-line with its prior announced outlook of \$250mm to \$270mm. KAR also announced its 2024 adj. EBITDA outlook of \$285mm-\$305mm, which brackets BofA estimates of \$289.7mm.

## Maintain Underperform on volume pressures

We maintain our Underperform rating on KAR. Although the company is undergoing a management-led turnaround and is focused on better execution on the physical to digital business transformation, we remain concerned that the pressures on new vehicle sales over the last 2+ years will limit supply of wholesale used vehicles available to KAR, which will likely drag on revenue and earnings for 2024+.

21 February 2024

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### Stock Data

Price	14.15 USD
Price Objective	16.00 USD
Date Established	10-Aug-2023
Investment Opinion	C-3-9
52-Week Range	12.19 USD - 16.49 USD
Mkt Val (mn) / Shares Out (mn)	2,149 USD / 151.9
Free Float	98.0%
Average Daily Value (mn)	8.44 USD
BofA Ticker / Exchange	KAR / NYS
Bloomberg / Reuters	KAR US / KAR.N
ROE (2023E)	-11.0%
Net Dbt to Eqty (Dec-2022A)	12.6%
ESGMeter™	High

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KAR = OPENLANE

GPU = Gross profit per unit

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Timestamp: 21 February 2024 05:00AM EST

**Exhibit 1: KAR variance table – YoY & versus BofAe**

KAR reported 4Q:23 adjusted EBITDA of \$61.8mm versus BofAe of \$58.2mm

Income Statement Basics	YoY Change			Variance vs BofAe		
	4Q:23	4Q:22	YoY D	4Q:23A	4Q BofAe	Variance
Cars Sold (000s)	318	289	10.0%	318	315	1.0%
Total Revenue	\$391.3	\$372.8	5.0%	\$391.3	\$394.2	(0.7%)
Adjusted EBITDA	\$61.8	\$56.5	9.4%	\$61.8	\$58.2	6.1%
Shares Outstanding	144.7	145.7	-0.7%	144.7	145.2	-0.3%
<b>Operating Adj Net Income per share</b>	<b>\$0.16</b>	<b>\$0.33</b>	<b>-51.3%</b>	<b>\$0.16</b>	<b>\$0.13</b>	<b>22.6%</b>
<b>Segment Data</b>						
<b>Segment Revenue:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>YoY D</b>	<b>4Q:23A</b>	<b>4Q BofAe</b>	<b>Variance</b>
Market	294.7	272.1	8.3%	294.7	296.1	(0.5%)
Finance	96.6	100.7	(4.1%)	96.6	98.1	(1.5%)
<b>Total Revenue</b>	<b>\$391.3</b>	<b>\$372.8</b>	<b>5.0%</b>	<b>\$391.3</b>	<b>\$394.2</b>	<b>(0.7%)</b>
<b>Segment Adj. EBITDA:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>YoY D</b>	<b>4Q:23A</b>	<b>4Q BofAe</b>	<b>Variance</b>
Market	23.7	7.7	207.8%	23.7	19.1	24.2%
Finance	38.1	48.8	(21.9%)	38.1	39.2	(2.6%)
<b>Total Adjusted EBITDA</b>	<b>\$61.8</b>	<b>\$56.5</b>	<b>9.4%</b>	<b>\$61.8</b>	<b>\$58.2</b>	<b>6.1%</b>
<b>Adjusted EBITDA Margin:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>YoY D</b>	<b>4Q:23A</b>	<b>4Q BofAe</b>	<b>Variance</b>
Market	8.0%	2.8%	521 bps	8.0%	6.4%	160 bps
Finance	39.5%	48.5%	-899 bps	39.5%	39.9%	-45 bps
<b>Total Adjusted EBITDA</b>	<b>15.8%</b>	<b>15.2%</b>	<b>64 bps</b>	<b>15.8%</b>	<b>14.8%</b>	<b>102 bps</b>
<b>Consolidated Margins:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>YoY D</b>	<b>4Q:23A</b>	<b>4Q BofAe</b>	<b>Variance</b>
Gross Margin	47.7%	45.8%	185 bps	47.7%	47.5%	15 bps
SG&A % of sales	26.5%	24.9%	157 bps	26.5%	26.8%	-25 bps
Adjusted EBITDA Margin	15.8%	15.2%	64 bps	15.8%	14.8%	102 bps

Source: Company filings, BofA Global Research estimates

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## Price objective basis & risk

### OPENLANE (KAR)

Our price objective of \$16 is based on an adjusted EV/EBITDA multiple of roughly 8x on our 2024 estimates. Although KAR's longer-term historical average EV/EBITDA multiple range is somewhat illustrative, it is not directly applicable because of significant changes in the company since it was last public. We believe recent management changeover will catalyze a broader turnaround effort and result in more sustainable improved operating performance. However, the lack of wholesale vehicle supply in the short term may usurp management's best efforts.

Upside risks: 1) supply of wholesale vehicles bounces back faster than currently expected, 2) execution of a large, transformational acquisition, 3) development of relationships with new suppliers and customers.

Downside risks: 1) supply of new vehicles does not recover or further declines 2) failure to maintain relationships with key customers, 3) failure to maintain key managers.

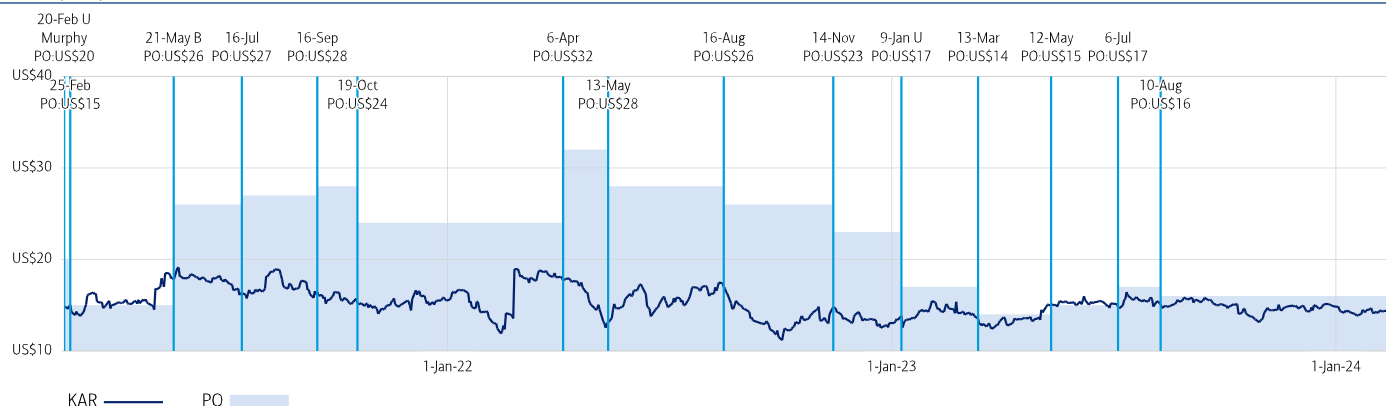
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### OPENLANE (KAR) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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