COVID-19 DRIVING INCREASE IN NEGATIVE EQUITY VEHICLES

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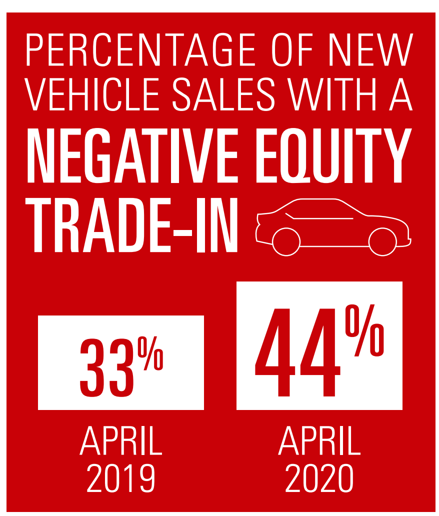
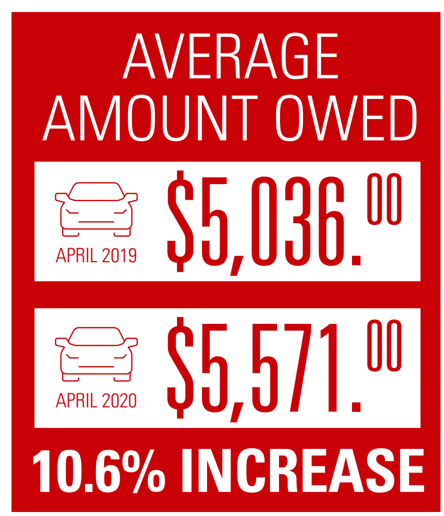
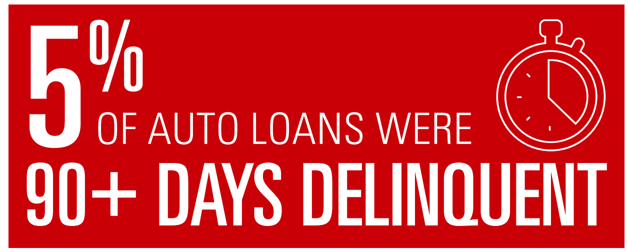
COVID-19 has had a severe impact on the automotive industry throughout most of 2020, affecting sales volatility, miles driven, and accidents. But arguably one of the most damaging consequences of the pandemic as it relates to the automotive industry, is how it has created a spike in negative equity vehicles.

44% of new vehicle sales with a trade-in had negative equity, up 11% from the previous year. That number is even higher when looking at IAA Loan Payoff™ units. According to our internal data, 65.8% of IAA Loan Payoff units were in a negative equity situation. The average amount of negative equity peaked at $5,571. Compare these numbers to April 2019 figures when only 33% of new vehicle sales involved negative equity and the average amount owed sat at $5,036. This uptick means that now more than ever, consumers are upside down on their car loans.

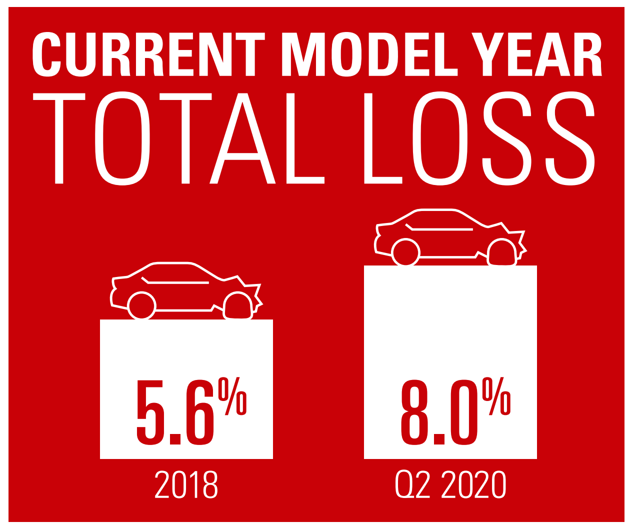




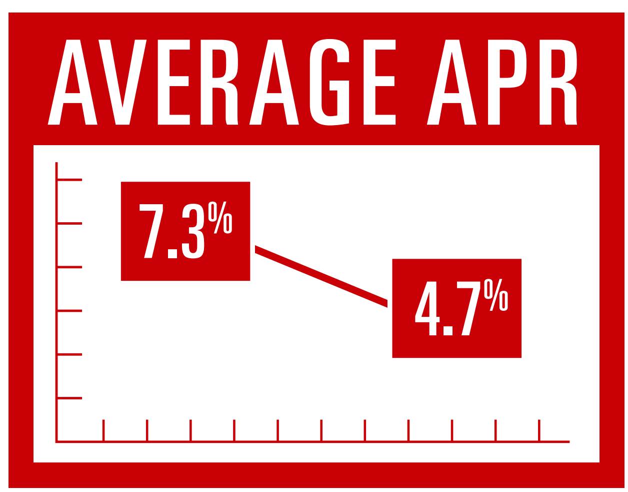
Even before the pandemic hit the United States, auto loans were already becoming more expensive and extended up to 84 months, surpassing the country's average loan length of 69 months. Since 85% of new vehicles are bought with financing, there is likely a large portion of vehicles on the road that are impacted by negative equity. The weakened economy and high unemployment means that many Americans may begin to slide into delinquency status on their loans. During this crisis, the government has put several debt relief measures in place, such as deferred payments on student loans and eviction moratoriums, which helped provide temporary assistance to debt and rental payments. However, as these programs end, there may be more pressure on delinquency, depending on the state of the economy. This could have a trickle-down effect on the auto loan market. According to data from the New York Federal Reserve, roughly 5% of auto loans were 90+ days delinquent. The percent of auto loans that transitioned into 30-day delinquency actually fell slightly in Q2, while the percent that transitioned into serious delinquency (90+ days) stayed relatively flat. These delinquency levels will be important to monitor over the coming quarters.



While there are currently fewer cars on the road, and therefore fewer accidents, there still has been an overall increase in the percentage of total loss claims. According to CCC Information Services Inc., the percent of non-comprehensive claims that are categorized as a total loss rose over the second quarter of 2020. New vehicles are seeing an especially concerning increase in total losses, as almost 8% of current model year vehicles were considered total losses in Q2 compared to just 5.6% in 2018. As mentioned in the recent *Exploring Market Inefficiencies in Total Loss Claims* IAA article, the total loss process is time-consuming, and this has only been amplified by pandemic pressures.



While the number of negative equity vehicles has risen, there have been many 0% financing deals offered during the pandemic in hopes of boosting sales. The average APR dropped from 7.3% to 4.7% year-over-year in April of 2020 due to such low financing offers. For consumers who are underwater, there are some attractive offers available now, but experts warn that low-interest, long-term loans with little money down could be damaging to the industry.



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Certain statements contained in this release include “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, statements made that are not historical facts may be forward-looking statements and can be identified by words such as “should,” “may,” “will,” “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions. In this release, such forward-looking statements include statements regarding the impact of COVID-19 on our business and plans regarding our growth strategies and margin expansion plan, and to our customers and company generally. Such statements are based on management’s current expectations, are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to: uncertainties regarding the duration and severity of the COVID-19 pandemic and measures intended to reduce its spread; the loss of one or more significant vehicle seller customers or a reduction in significant volume from such sellers; our ability to meet or exceed customers’ demand and expectations; significant current competition and the introduction of new competitors or other disruptive entrants in our industry; the risk that our facilities lack the capacity to accept additional vehicles and our ability to obtain land or renew/enter into new leases at commercially reasonable rates; our ability to effectively maintain or update information and technology systems; our ability to implement and maintain measures to protect against cyber attacks and comply with applicable privacy and data security requirements; our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements, including from our margin expansion program; business development activities, including acquisitions and integration of acquired businesses; our expansion into markets outside the U.S. and the operational, competitive and regulatory risks facing our non-U.S. based operations; our reliance on subhaulers and trucking fleet operations; changes in used-vehicle prices and the volume of damaged and total loss vehicles we purchase; economic conditions, including fuel prices, commodity prices, foreign exchange rates and interest rate fluctuations; trends in new- and used-vehicle sales and incentives; and other risks and uncertainties identified in our filings with the Securities and Exchange Commission (the “SEC”), including under Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 29, 2019 filed with the SEC on March 18, 2020 and in our Quarterly Report on Form 10-Q for the quarter ended March 29, 2020 filed with the SEC on May 6, 2020, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the SEC, including subsequent Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. Many of these risk factors are outside of our control, and as such, they involve risks which are not currently known that could cause actual results to differ materially from those discussed or implied herein. The forward-looking statements included in this release are made as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statement to reflect new information or events, except as required by law.

