



ONTRACK

A
Newsletter
FOR THE
Auto Auction Industry

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Increasing

Volume 1 | 2018



Consider the Auction

Happy new year! It's 2018, and aside from getting excited for what's to come, the turning of the calendar is also a chance to look back and reflect on the previous year. A particular statistic I want to highlight is the number of vehicles on American roads. With 263.6 million registered passenger vehicles, the United States holds the title of the second largest passenger vehicle market in the world. But once those vehicles are inoperable, where do they go?

This is a question on the minds of many consumers, insurance carriers, dealerships, rental car companies and more.

There are several options for a used or even totaled vehicle besides sending it to a landfill, and these options are usually more sustainable to the environment. That's where the auction comes in. I'm proud of the auction's role as a gateway for vehicles to find new purpose. A lightly-used car can be sold at a wholesale price to a budget-conscious consumer. A totaled vehicle can be sold for scrap metal to be used in a new building, or dismantled for parts to be used in rebuilding other units.

That's why this issue of OnTrack is all about using the auction as an alternative solution for both salvage and remarketing vehicles. You'll find an analysis of sales volume and the industries that are taking advantage of the auction, along with a discussion about the logistical challenge of recovering thousands of damaged cars after a weather disaster and what to do with this excess inventory.

These topics cover the day-to-day concerns of our industry. I hope you find some insight within these pages, and ultimately consider the auction as a valuable solution for clearing your unwanted vehicles.

Regards,




JOHN
KETT

Chief Executive Officer and President

GREETINGS

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ONTRACK

Auction Sales Steadily Increasing

2016 was a record-breaking year for new-vehicle sales, and [2017 was another top-performing year](#). While new cars are flying off the lot, [the volume of units sold through auction is also picking up](#). This article examines the rise in units and the markets that are using the auction as a method to clear inventory.

10 MILLION + UNITS SOLD

Here are our top three categories sending vehicles through the auction.

Commercial Consignment

The commercial consignment segment includes expired rental and fleet vehicles, and sales have grown around 10.0% for 2017. These types of units—rental cars and moving trucks to municipal vehicles like police cars and ambulances—are required to retire after a certain number of years in service. Given that these types of vehicles are typically purchased wholesale in large quantities, a number of them can become obsolete at once and spend wasted time as stagnant inventory.

Dealer Consignment

Dealer consignment volume is closely related to number of new-vehicle sales. When consumers buy a new car, they typically trade in their old car at the same time. The value of trade-ins can vary, but dealers are usually stuck with high-mileage vehicles, even if they are undamaged.

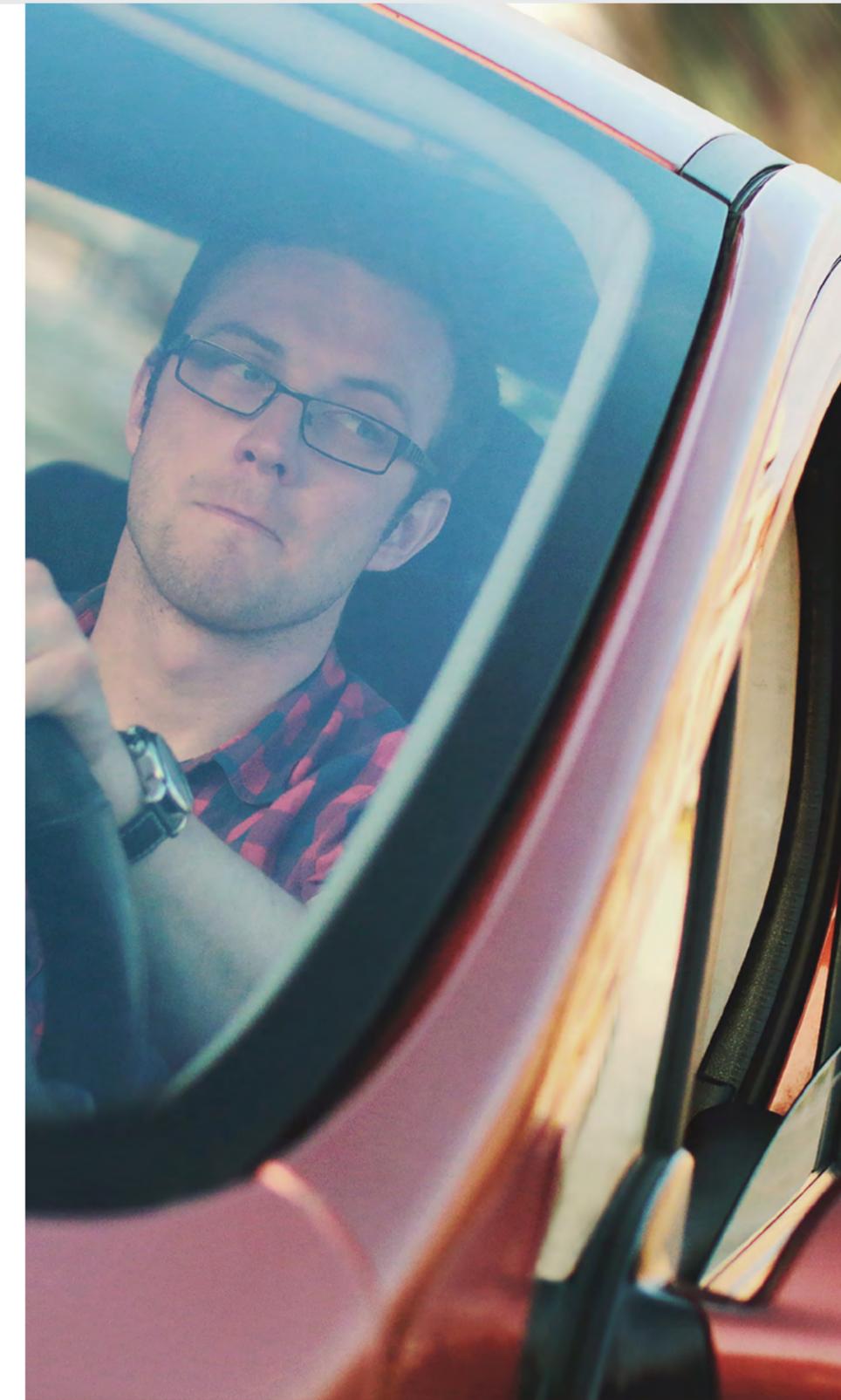
Repossessions

While car purchases surged, U.S. wage growth stalled and more consumers have turned to auto lending. Unfortunately, this has led to a spike in delinquencies and repossessions. [Nearly 6 million American consumers](#) are at least 90 days late on their car loan payments and analysts are predicting the wave of repossessed vehicles to continue. This results in many used vehicles taking up space on dealers' lots.

What all three categories have in common is that they tend to be older, lightly-damaged and high-mileage vehicles. With these characteristics, it can be difficult to find buyers willing to pay a reasonable price. Economic trends, a surplus of used inventory and depreciation all put downward pressure on prices, but that doesn't mean these cars need to be written off. That's where the auction can be a great sales solution.

Auctioning remarketing vehicles has the benefit of quick sales thanks to an audience not limited to public consumers. From rebuilders to recyclers, you're much more likely to find an interested buyer.

With whole-car capacity at such high levels, selling through an auction partner brings a network of support that provides an advantage for any partner liquidating lightly-damaged, high-mileage vehicles.



With an increase in new-vehicle sales, we're also seeing a rise in auction units sold—enough to possibly set a new record.

Preparing for Catastrophes

The severity of Hurricane Harvey was unprecedented and recovery teams had to assemble at a moment's notice as the storm rapidly approached. Ultimately heading straight for Houston, where the population stands at 2.3 million, the potential for disaster was high. Storms can cause a lot of damage, and getting back to normalcy can be a long and difficult task. IAA learns from each catastrophe, and while each experience is different, we have found consistency in our preparation, execution and the power of our auction model.

The Situation

Hurricane Harvey was forecasted as a Category 4 hurricane with meteorologists predicting up to 50 inches of rain and unprecedented flooding. To counter its effects, IAA would have to be smart and strategic. Our dedicated, best-in-class CAT team was ready to respond.

There are three main points of focus in IAA's recovery strategy: space, organization and technology.

Space accounts for the acreage needed to store flooded or damaged vehicles. When a storm of Harvey's caliber rolls in, you have the potential for hundreds of thousands of totaled vehicles in need of accessible storage. Earlier in 2017, we prepared for CAT weather season by establishing 22 locations in 10 states that would support the need for CAT storage space. That's an additional 720 acres of space across the country we could utilize once a storm rolls in. This real estate allows us to strategically organize auction inventory for the convenience of our buyers and disperses the effects of oversupply in one region.

However, we don't want to make a mess of things by storing vehicles haphazardly, especially when claim adjusters need to

be up close and personal with damaged vehicles to generate accurate estimates. That's why **organization** and resources are so important. The more quickly and accurately our partners can create estimates and locate vehicles, the sooner they are able to recoup their loss. Within 30 days of the hurricane making landfall, the first affected vehicles went through our auction, an accomplishment we attribute to stringent coordination. In fact, we're happy to say that our experience with CAT events has paid off. It took just 75 days to sell 50% of Hurricane Harvey inventory, and it's our goal to shorten that cycle even further.

Additionally, IAA team members utilized **technology** and real-time data to develop tools that allow insurance carriers to easily find the status and location of their vehicles. For example, the IAA Tow App allowed tow operators and insurance carriers to easily understand the status of a vehicle recovery. In the case of Harvey, it helped recover 85% of vehicles within 28 days of the hurricane. The speed and ease of this process gets the vehicles to auction faster with more accurate estimates, giving our partners the best value possible.

It's a Numbers Game

Ultimately, Hurricane Harvey required more than 325 IAA & KAR volunteers, 980 acres and 1,100 tow trucks. Managing operations on that level takes tremendous coordination and dedication, especially when there are more than 65,000 vehicles in need of recovery.

Supply almost always indicates a decrease in value, but we have several methods to maintain market value for the flood vehicles we run through the auction. With our unique, flexible, multi-channel auction model that includes live and online options, these units are exposed to a much larger buyer base than if they

were only run locally. Additionally, due to the heavy increase in inventory, we developed an alternative sales method where auctions were available online throughout the world six days a week. This method sold upwards of 1,000 vehicles each auction. In the face of increased inventory, we have to make sure we're pulling out all the stops when it comes to clearing our partners' supply glut.

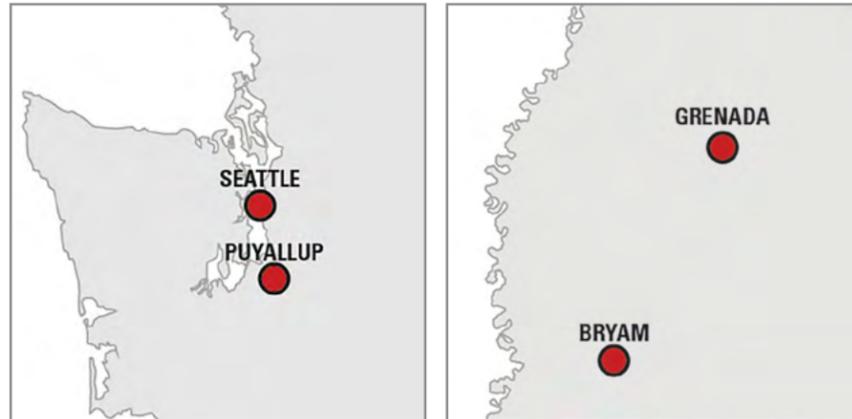
IAA refines this strategy after each catastrophe, and we hope to inform our customers' approach to weather recovery. For a detailed overview of our experience with Hurricane Harvey, be sure to check out our [FULL REPORT](#).



Weather recovery is an arduous task, but IAA has the strategies in place to make it as smooth as possible for our customers.

What's New at IAA

From expanding our services, to networking with peers in the industry, to responding in times of weather-related crises, everyone at IAA stays busy. Here's what we've been up to.



The Growth Continues

We're on track to open a new Seattle branch early this year in Puyallup, Washington. The 140-acre location will consolidate the existing IAA Seattle and IAA Seattle South branches. Meanwhile, our Mississippi facilities increase nearly 100 combined acres as IAA Jackson relocates to nearby Byram and IAA Grenada expands.



A Worthy Choice

We're proud to announce that John Kett, our CEO and President, was recently elected to the SkillsUSA national board of directors. Dedicated to community-building initiatives and non-profit service, Kett was honored with the SkillsUSA Pat Dalton Outstanding Achievement Award in 2016. The organization provides real-world training as a solution to the widening U.S. skills gap.

UPDATES

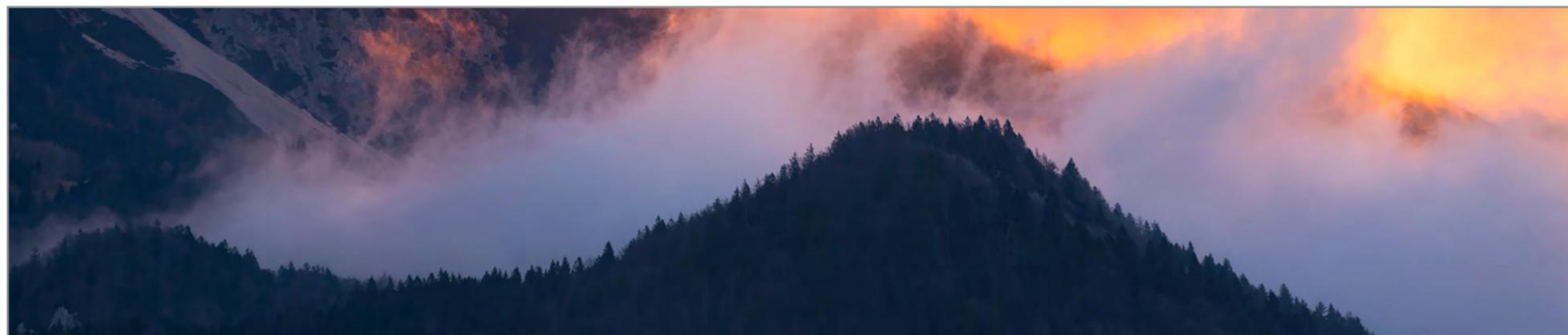
Send comments about ONTRACK to: OnTrack@iaai.com

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Honoring Veterans

Recently, we exercised our partnership with The Progressive Group of Insurance Companies to honor veterans and their families with the Keys to Progress® program. John Kett, CEO and President of IAA, said, "IAA is proud to continue its collaboration with Progressive and help provide transportation support to our military men and women."



Northern California Recovery

In response to devastating wildfires in Northern California's wine country, IAA took to the streets. Working with federal and local clean-up efforts, IAA has boots on the ground in affected cities like Santa Rosa and Napa to identify and assist in the hauling of damaged vehicles.