



# Remarketing Quarterly Report

## QUARTER 1 2016

The Remarketing Division of Insurance Auto Auctions, Inc. (IAA) focuses on vehicles that have high mileage or light damage, have been repossessed, are in arbitration or are otherwise not sold in whole-car auctions. Vehicle sellers include fleet companies, rental-car companies, financial institutions, and retail and wholesale dealers. Vehicles sold through the Remarketing Division tend to be in drivable or near-drivable condition, and many fall among the High Grade segment (top 20% of sale price) of IAA's auctions. The providers of vehicles in the Remarketing Division fall into three distinct categories:

- **Dealer Category** – Retail and wholesale automobile dealers disposing of inventory not sold through normal retail channels.
- **Commercial Category** – Financial companies disposing of their fleets of off-lease and repossessed financed vehicles.
- **Rental Category** – Rental-car companies disposing of aging inventory through the Remarketing Division.

An explanation of the methodology used to develop this report can be found on [page 11](#).



U.S.  
Dollar  
Index



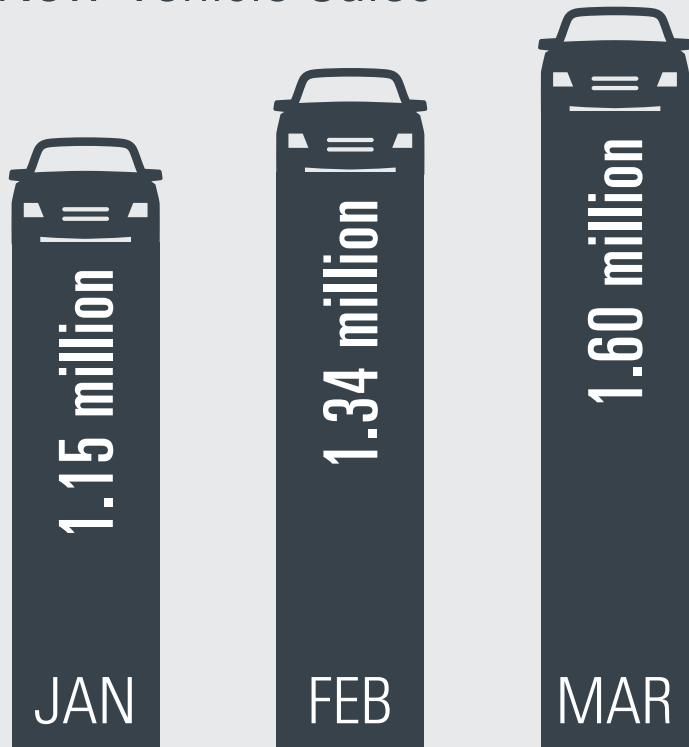
Auto-Loan  
Default  
Rate



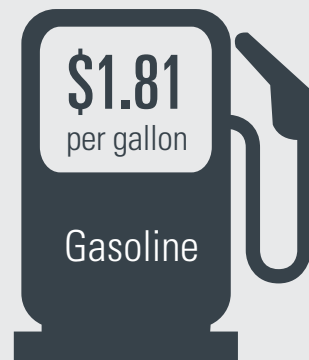
# Overview Of The Automobile Industry

New-vehicle sales were up 3.4% year-over-year during the first quarter of the year, outpacing what turned out to be a record-breaking 2015. The industry welcomed this news, but some analysts warned dealer incentives and fleet sales, potentially unsustainable avenues of future growth, were responsible for an increasing portion of sales.<sup>1</sup>

## New-Vehicle Sales



## Economic Drivers



## Top Movers



8.9%



8.9%

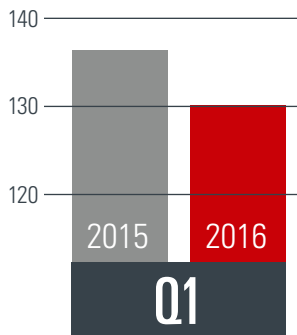


8.1%

# Remarketing Division Vehicles

The average selling price of Remarketing Division vehicles followed seasonal trends throughout the quarter, decreasing in January and February before rebounding in March. In aggregate, prices declined on a year-over-year and quarter-over-quarter basis. Continued weakness in dealer and rental vehicle values was somewhat offset by month-to-month gains in commercial vehicle prices. Inventory mix shifted slightly toward lower-value dealer vehicles during the quarter, likely negatively affecting average selling prices.

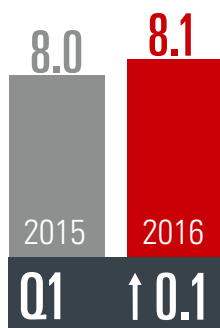
## Selling Price Index



[VIEW THE FULL CHART](#)

Source: IAA

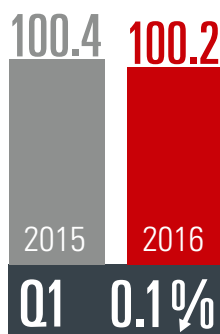
## Average Age (years)



[VIEW THE FULL CHART](#)

Source: IAA

## Average Mileage Index



[VIEW THE FULL CHART](#)

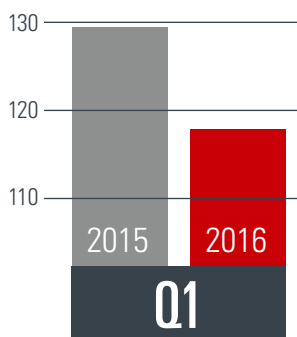
Source: IAA



# Dealer Category

Once again, abundant used-vehicle supply was the primary influencer of dealer vehicle selling prices throughout the first quarter of 2016, which fell on a year-over-year basis despite increasing relative to the previous quarter. The National Auto Auction Association (NAAA) reported that auction volume increased roughly 6% in 2015, and expects growth of 4% in 2016.<sup>2</sup>

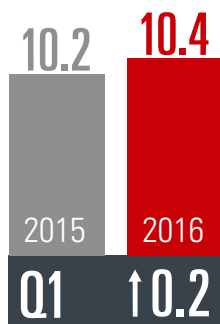
## Selling Price Index



[VIEW THE FULL CHART](#)

Source: IAA

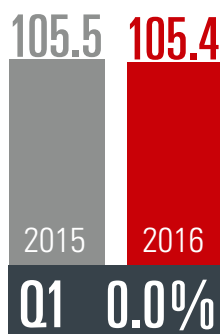
## Average Age (years)



[VIEW THE FULL CHART](#)

Source: IAA

## Average Mileage Index



[VIEW THE FULL CHART](#)

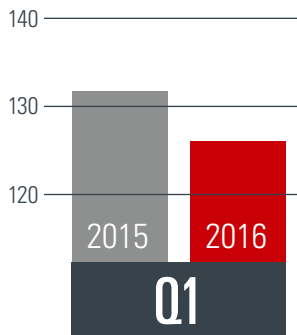
Source: IAA



# Commercial Category

Commercial vehicle prices increased during each month of the period, posting a quarterly gain by the end of March. The positive momentum wasn't enough to stem a decline relative to the year prior, however, as the well-documented supply surge continued to apply downward pressure. Vehicle leases reached a record 32.3% of total retail sales in February, indicating this trend may persist over the coming years.<sup>3</sup>

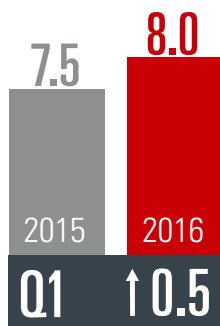
## Selling Price Index



[VIEW THE FULL CHART](#)

Source: IAA

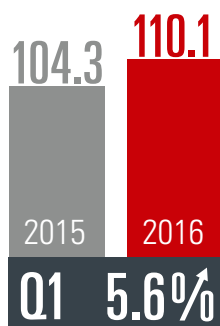
## Average Age (years)



[VIEW THE FULL CHART](#)

Source: IAA

## Average Mileage Index



[VIEW THE FULL CHART](#)

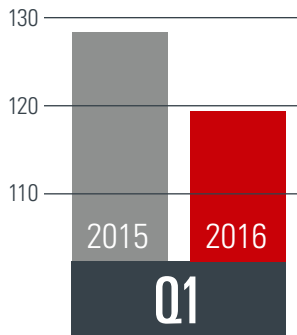
Source: IAA



# Rental Category

The average selling price of rental vehicles once again fell on a year-over-year basis, but held steady compared with the previous quarter. Higher average age and mileage suggest an extension of rental vehicle cycles, which is supported by data from NADA that indicates auction volume through February of model year 2015 vehicles was 12% below volume of model year 2014 vehicles over the same time period last year.<sup>4</sup>

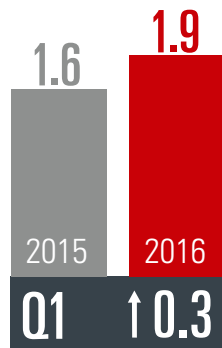
## Selling Price Index



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Source: IAA

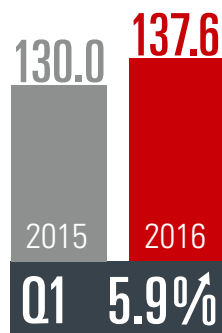
## Average Age (years)



[VIEW THE FULL CHART](#)

Source: IAA

## Average Mileage Index



[VIEW THE FULL CHART](#)

Source: IAA



# Used-Car Price Index

Used-car prices increased during the first quarter, rising 0.6% year-over-year. Weak performance in February which could have derailed the gain was overcome by strong results in January and March. The diverse economic forces that influence vehicle values were on display, as a tale of two categories emerged during the period. The truck market benefited from low gas prices and falling supply, but prices fell for every car and crossover segment as the much-maligned oversupply issue continued to take its toll.<sup>5</sup> Thanks to early tax refunds, consumers had money to spend in March, which led to a 1.7% and 6.0% gain year-over-year and month-to-month, respectively.



Source: ADESA Analytical Services

# Auto-Loan Default Rate

The auto-loan default rate remained unchanged year-over-year, and edged up only one basis point from the previous quarter. The default rate hovered at 1.04% in January 2016, the same rate it was at in November and December 2015, before ticking up to 1.05% in February. In March the rate fell to 1.02%.

Increased subprime auto lending, a topic of conversation for some time, may finally be rearing its head, as Fitch Ratings reported that February's subprime auto ABS delinquency rate of 5.16% was the highest in more than 20 years, eclipsing even the most recent recessionary levels.<sup>6</sup> While there is some debate as to what's driving this behavior – TransUnion attributed the increase to weakness in the energy sector causing regional job displacement<sup>7</sup> – it is a trend that warrants additional scrutiny.

Though rising delinquency rates may be cause for future concern, they have not yet translated into significant increases in the auto-loan default rate. And according to Equifax, the distribution of auto loans by credit risk remains stable. Equifax reports that subprime loans constituted 21.7% of all auto loans from January through November 2015, which is in line with the 21% to 22% during the previous four years.<sup>8</sup>

Year-Over-Year

**0.0**

percentage points

Quarter-to-Quarter

**↑ 0.01**

percentage points

Sources: S&P Dow Jones Indices & Experian






# U.S. Dollar

Even when it loses, the U.S. dollar still wins. Case in point, the first quarter of 2016, which saw the greenback post quarterly and annual gains to the tune of 0.3% and 4.3%, respectively, despite losing value in February and March. A 1.2% monthly increase in January was quickly erased by a 2.2% drop in February – which brought the largest two-day drop in value since March of 2015 – and further exasperated by another 1.6% decline in March. Volatile global markets, economic slowdowns and signs the Fed is unlikely to raise interest rates again in the near future presented obstacles to what has been the undisputed champion of international currencies over the past few years. It was an even split for the four foreign currencies tracked by IAA, with two appreciating against the greenback and two moving in the opposite direction.


Year-Over-Year

**4.3%**



Quarter-to-Quarter

**0.3%**




Source: Federal Reserve Bank of St. Louis

# € Euro

Once again, speculation on what the European Central Bank (ECB) may do to stimulate Europe's lackadaisical economy drove investor behavior throughout the period. A March announcement that the ECB saw no need to cut interest rates further provided positive momentum for the euro.<sup>9</sup>



Source: OANDA Corp.

# \$ Canadian Dollar

The loonie once again depreciated against the U.S. dollar on a sequential and year-over-year basis, but there are signs the currency may have finally turned a corner. Rebounding oil prices and the nation's fastest economic growth in three years drove a late-quarter surge.



Source: OANDA Corp.

# \$ Mexican Peso

The Mexican peso took a beating during the first quarter of 2016, though some of this can be attributed to external factors. The peso is often traded as an emerging market asset, and as investors grew weary of global growth prospects and riskier investments, they largely shied away.<sup>10</sup>



Source: OANDA Corp.

# ¥ Japanese Yen

Unlike the Mexican peso, the yen is viewed as a safe-haven asset by investors. As a result, the global market volatility that persisted throughout much of the first quarter worked to the yen's benefit.



Source: OANDA Corp.

# Methodology

This report tracks performance over time for each of the Remarketing Division's seller categories using three monthly indicators. The base month for each of these indexes is January 2009 (index value of 100):

- Index of average sale price of vehicles sold through IAA.
- Index of average age of vehicles sold through IAA.
- Index of average mileage of vehicles sold through IAA.

The report also examines Remarketing Division categories in relation to these key economic indicators:

- **Used-Car Price Index** is a measure of the average price of a used car on the market. Because vehicles sold through the Remarketing Division tend to be in drivable condition, this index should be a good determinant of sale prices for each category. The index values are wholesale prices provided by ADESA Analytical Services.
- **Auto-loan default rate** measures the default rates across auto loans based on data from Experian's consumer credit database. This can provide insight to the number and sale price of units in the commercial category, which is a proxy for the level of vehicles repossessed by financial companies. This rate is jointly developed by S&P Dow Jones Indices LLC and Experian.

**Note:** Vehicles from recently signed providers are not included in this analysis, an intentional omission used to demonstrate how different economic factors affect the performance of vehicles regardless of the addition of new provider accounts.

# References

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3. [CHRISTINA ROGERS, "Record Vehicle Leasing Could Pinch New Auto Margins," \*The Wall Street Journal\*, Mar. 6, 2016.](#)
4. [National Automobile Dealers Association, "March 2016 NADA Used Car Guide."](#)
5. [Tom Kontos, "January 2016 Kontos Kommentary," ADESA.](#)
6. [Fitch Ratings, "Fitch: U.S. Subprime Auto ABS Delinquencies Hit Highest Level Since 1996," Mar. 14, 2016.](#)
7. [Nick Zulovich, "The likely 'shock' that pushed Q4 delinquencies higher," \*SubPrime Auto Finance News\*, Feb. 17, 2016.](#)
8. [Equifax, "Equifax: Auto Lending Performance is Stable," Mar. 18, 2016.](#)
9. [Lananh Nguyen and Rachel Evans, "Draghi's Stimulus Effect Fizzles as Euro Rallies to Reverse Drop," \*Bloomberg\*, Mar. 10, 2016.](#)
10. [Isabella Cota, "Mexican Peso Falls to Record, Leads Drop Among Major Currencies," \*Bloomberg\*, Feb. 11, 2016.](#)

# Overview of IAA

Insurance Auto Auctions, Inc. (IAA) is the leading live and live-online salvage vehicle auction company and a business unit of KAR Auction Services (NYSE: KAR). With 170+ auction facilities — the largest footprint in North America — IAA provides registered buyers from more than 110 countries the opportunity to bid on and purchase vehicles from a comprehensive group of sellers, including insurance companies, fleet and rental companies, financing companies, charitable organizations and the general public. Through its weekly auctions, IAA has sold millions of vehicles, offering towing, financing and titling services. IAA leverages its business model to assist charitable organizations in the U.S. through its One Car One Difference® program. To date, IAA has provided millions of dollars in additional funding to charities by assisting in the processing of donated vehicles. Learn more about the program by visiting [1Car1Difference.com](http://1Car1Difference.com). With a talented team of more than 2,700 employees, IAA is committed to technological innovation and providing its customers the highest level of service in the salvage auto industry. To learn more, visit [IAA-Auctions.com](http://IAA-Auctions.com), and follow IAA on [Facebook](#), [Twitter](#) and [LinkedIn](#).



## About the Author

Robert Guerrero is vice president of remarketing sales at Insurance Auto Auctions, Inc. Since joining IAA in 2005, Mr. Guerrero has led the growth of the organization's Remarketing Division, creating the auction solution of choice for dealers, fleet lease companies, rental companies, financial institutions and more. Today, Remarketing Division vehicles are available to bidders at IAA facilities throughout North America and online to customers in more than 110 countries. Previously, Mr. Guerrero worked for Manheim, where he held several positions within the auto auction industry, including roles in marketing, dealer sales and fleet lease sales.

The auto remarketing industry as discussed in this document refers to the industry as experienced by IAA. IAA does not possess data on the performance of other remarketing companies; therefore, the analyses are based on how different economic factors affect the performance of vehicles sold through IAA's auctions.

The statements contained in this report and statements the company may make orally in connection with this report that are not historical facts are forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include those matters disclosed in KAR Auction Services Inc.'s Securities and Exchange Commission filings. KAR and IAA do not undertake any obligation to update any forward-looking statements.

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