



Charity

QUARTERLY
REPORT
Q1 2017



INTRODUCTION



- **The Insurance Auto Auctions (IAA) Charity Quarterly Report** focuses on economic indicators related to the market for donated vehicles. Included is a detailed analysis of external factors, followed by an overview of the vehicles sold through auction.

Sale prices are heavily influenced by a variety of macroeconomic variables, including scrap-metal prices, commodity prices, the U.S. Dollar Index and average used-car prices. The following factors are monitored because they have shown to be good indicators of the price movement of donated vehicles:

Whole Crushed Auto-Body Price Index

Compiled monthly by *American Recyclers*, this index measures five regional monthly averages for whole crushed-auto prices.

Metal Prices

Aluminum (London Metal Exchange spot prices)

Platinum (Johnson Matthey base prices)

Palladium (Johnson Matthey base prices)

U.S. Dollar Index

This index from the Federal Reserve Bank of St. Louis measures the value of the U.S. dollar against an index of major currencies.

Used-Car Price Index

Compiled by IAA's sister company, ADESA, this index measures the average monthly selling price of used cars and light trucks in the whole-car auction industry.

**WHOLE CRUSHED
AUTO-BODY PRICES** ↑

U.S. DOLLAR INDEX ↑

ALUMINUM ↑

PLATINUM ↑

PALLADIUM ↑



donated vehicles

► **The average actual cash value (ACV)** of donated vehicles was up for the first quarter of 2017, with a quarterly increase of 2.3% and a decline of 3.6% compared to the same period last year. The uptick in ACV bucked the trend of the nine previous quarterly declines. Average ACV, a representation of a vehicle's estimated value in an undamaged state, is a good indicator of the quality of donated vehicles at auction. The average age of donated vehicles rose 0.1 years and the average mileage increased 0.8%. Both of these factors somewhat tempered the improved vehicle quality relative to prior-year ACV.

AVERAGE ACV QUARTER-TO-QUARTER

↑ **2.3%**

Source: IAA

YEAR-OVER-YEAR

↓ **3.6%**

Source: IAA

AVERAGE AGE YEAR-OVER-YEAR

↑ **0.1** YEARS

Source: IAA

AVERAGE MILEAGE YEAR-OVER-YEAR

↑ **0.8%**

Source: IAA

WHOLE ...CRUSHED... AUTO-BODY PRICES

► Overall, whole crushed auto-body prices extended their recent gains in the first quarter of 2017, hitting the highest quarterly mark since the fourth quarter of 2014. Prices were up 24.4% compared to Q4 2016 and 47.0% year-over-year, though these heady numbers are less impressive when taken in the context of the historic price lows of recent years. Gains in steel prices helped push up the value of crushed cars, particularly in the first two months of the year.¹ Chinese supply continues to dominate the steel price discussion as an anticipated reduction in production has positively affected the metal's value.²

QUARTER-TO-QUARTER

↑24.4%

YEAR-OVER-YEAR

↑47.0%

JANUARY
MONTH-TO-MONTH

↑6.2%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑33.4%

— Source: American Recyclers —

FEBRUARY
MONTH-TO-MONTH

↑5.8%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑56.1%

— Source: American Recyclers —

MARCH
MONTH-TO-MONTH

↑6.1%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑52.5%

— Source: American Recyclers —

...USED CAR PRICE... INDEX

► **Average used-car prices remained higher** on an annual basis in the first quarter, rising sequentially in January, falling uncharacteristically in February and ending the quarter on a modest gain. According to Tom Kontos, chief economist at KAR Auction Services, Inc., used-vehicle values held up surprisingly well in January, despite soft retail demand and high new-vehicle incentives.³ February, on the other hand, saw monthly declines in nearly all model classes as prices bucked typical seasonal trends.⁴ It is possible this atypical decline in prices was due to delays in tax returns that usually arrive in February and arm consumers with disposable income for used-vehicle purchases. Prices recovered in March, as is characteristic of the spring and tax return season, though the increase masked the difference between the car and truck markets. Wholesale prices for cars remained down year-over-year, while prices for trucks and SUVs were up, a likely consequence of low gasoline prices.⁵



JANUARY MONTH-TO-MONTH

↑2.8%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑6.7%

Source: ADESA Analytical Services

FEBRUARY MONTH-TO-MONTH

↓2.3%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑4.8%

Source: ADESA Analytical Services

MARCH MONTH-TO-MONTH

↑2.0%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑1.0%

Source: ADESA Analytical Services

METALS

Aluminum

Aluminum prices realized a fifth-consecutive quarter of sequential growth after climbing 7.8% in the first quarter of 2017. The current rise can at least somewhat be attributed to growing demand for the material due to positive signals of U.S. infrastructure investment as well as more strict Chinese industry emission regulations.⁶ Likewise, Chinese infrastructure development also contributed to the strong quarter for aluminum. Altogether, Alcoa, one of the world's largest producers of aluminum, expects the surplus to ease this year due to a predicted 4% growth in global demand, with a 6% demand growth expected in China alone.⁷

QUARTER-TO-QUARTER

↑ 7.8%

Source: International Monetary Fund

YEAR-OVER-YEAR

↑ 21.8%

Source: International Monetary Fund

Platinum

Platinum prices remain low by historical standards, but the metal rallied slightly in the first quarter of 2017, rising to better than \$1,000/ounce for the first time since October 2016.⁸ Though supported by steady vehicle sales in the U.S. and China, continued reduction in the market share of diesel engine vehicle sales in Europe has put downward pressure on platinum prices as a whole so far in 2017.⁹

QUARTER-TO-QUARTER

↑ 3.7%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑ 7.3%

Source: Johnson Matthey

Palladium

Palladium was up 46.2% year-over-year and three month-to-month price increases made it the top precious metals performer of the quarter. Concerns with diesel engines from recent scandals at Volkswagen and Fiat Chrysler have shifted investment toward petrol vehicles, where palladium is often used in their catalytic converters.¹⁰ The uptick in demand is the most likely driver of the price increase, though expected economic recoveries in the U.S. and China¹¹ as well as investment demand have also played a role.¹² Palladium prices rose as high as \$809/ounce and achieved an average of \$779 in March, its highest since May of 2015.¹³

QUARTER-TO-QUARTER

↑ 11.9%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑ 46.2%

Source: Johnson Matthey

U.S. DOLLAR

► **The value of the U.S. dollar** continued its strong performance in the first quarter of 2017, rising 0.9% from Q4 2016 and 1.4% year-over-year. The U.S. dollar picked up steam in March – up 3.6% from the same month last year – after being down in both January and February. Higher interest rates are typically associated with an appreciation of the U.S. dollar, and as expected, the Federal Reserve raised the federal funds rate another 25 basis points to a range of 0.75% to 1% in mid-March amid strengthened employment numbers and modest inflation.¹⁴ However, domestic policy likely held the dollar back slightly. Following the inability to repeal the Affordable Care Act in late March, investors showed skepticism about the administration's ability to enact other plans for fiscal spending, and pushed some to seek investments in other currencies.¹⁵

QUARTER-TO-QUARTER

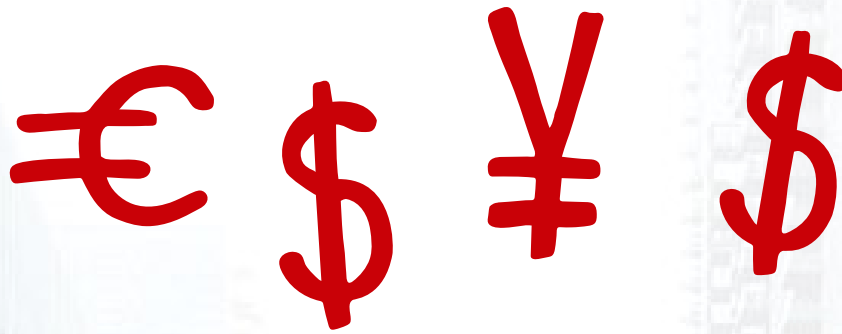
APPRECIATED **↑0.9%**

Source: Federal Reserve Bank of St. Louis

YEAR-OVER-YEAR

APPRECIATED **↑1.4%**

Source: Federal Reserve Bank of St. Louis



Euro

The euro made its biggest year-over-year depreciation since the fourth quarter of 2015, falling 3.5% in Q1 2017. Continued uncertainty about U.S. policies and their implications drove the euro up in January and February, but it was still down from the same months last year.¹⁶ However, while consumer confidence could be described as uneasy with upcoming elections in European Union states, and the fact that many investors are still uncertain about the impacts of Brexit,¹⁷ the euro was slightly balanced out with encouraging construction numbers. The currency depreciated at 1.1% for the quarter.¹⁸



Canadian Dollar

The Canadian dollar appreciated against the U.S. dollar in January and February, and was up 0.9% from Q4 2016. Canada saw job growth of more than 15,000 in February, which likely contributed to the loonie's rise. However, it took a step back in March, which prevented a larger quarter-to-quarter change.¹⁹ Canada's central bank decided to keep its primary interest rate unchanged at 0.5% in mid-January, which resulted in a 1% drop in the value of the loonie for the first few hours after the announcement before guiding the currency to a relatively stable first quarter. The Bank of Canada has indicated a willingness to cut rates further this year in light of concerns over U.S. trade policy – which accounts for 75% of Canada's exports – and expectations of higher fiscal spending in the U.S.²⁰



Mexican Peso

The Mexican peso turned things around its most volatile period since the 2008 recession, fueled against the U.S. dollar since mid-January, reversing a long-term trend of depreciation and earning the top spot against the dollar compared to changes in 52 other major currencies.²¹ Banxico, the Mexican central bank, lifted its interest rate by 50 basis points in early February, making the peso more attractive to investors. As a result, the peso had a 0.8% appreciation against the dollar on the day of the announcement.²² Statements from the White House that NAFTA renegotiations would benefit Mexico, and the fact that Mexico's credit rating is less likely to be cut also played a role in the Q1 2017 rebound.²³



Japanese Yen

Appearing to have bounced back from its depreciation shortly after the U.S. election, the yen strengthened throughout Q1 2017 from the near-yearly low set in December 2016 as Japan continues its run of a negative nominal interest rate, currently set at -0.1%.²⁴ In March, investors retreated to what they believed were safer currencies after Congress failed to vote on the American Health Care Act. That resulted in the yen seeing a high of 110.42 JPY/USD.²⁵ However, the differentials between U.S. and Japanese interest rates continued to put downward pressure on the yen.



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ABOUT THE AUTHOR

Corey Kusaba is National Sales Director at Insurance Auto Auctions, Inc. (IAA). His background in the Charity (Vehicle Donation) and Direct Purchase (“Cash for Car”) industries allows him to implement both internal and external marketing strategies that increase public awareness as well as total donations. A 16-year fundraising veteran, Mr. Kusaba uses his experience to cultivate and manage large National Charity Accounts. His day-to-day includes integrating strategic operational efficiencies to maximize vehicle conversions, consulting on paid marketing opportunities, and developing pricing strategies to increase per unit margin. And when he’s not doing all that, he’s educating our people internally which is a key component to the growth of IAA.

DONATION EXPERTS

IAA’s donation team is recognized as a leading and respected resource for charity vehicle donation programs. Since 1994, it has provided complete processing services for nonprofit organizations. The donation team represents more than 100 of the most recognized and trusted U.S. charities whose missions are supported by proceeds from the sale of donated vehicles.

The auto salvage industry as discussed in this document refers to the industry as experienced by IAA. IAA does not possess data on the performance of other salvage 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.

OVERVIEW OF IAA

Founded in 1982, Insurance Auto Auctions (IAA), the leading live and live-online salvage vehicle auction company, is headquartered in Westchester, IL and employs over 2,800 employees in more than 170 auction facilities throughout the U.S. and Canada. IAA is a business unit of KAR Auction Services (NYSE: KAR), a FORTUNE 1000 company, with approximately 17,400 employees and 310 operating locations. IAA is part of an end-to-end remarketing solution providing global buyers opportunities to bid on and purchase total loss, donated, higher mileage, damaged, and clean-title vehicles utilizing cutting-edge technology. IAA’s multi-platform model enables insurance companies, fleet and rental companies, banks, finance companies, car dealerships and the general public to simultaneously participate in multiple auctions online and in-person. Additional services include registration, financing, towing and title services. Go to www.IAA-Auctions.com to learn more, and follow IAA on [Facebook](#) and [Twitter](#).

OVERVIEW OF KAR

KAR Auction Services (NYSE: KAR) provides sellers and buyers across the global wholesale used vehicle industry with innovative, technology-driven remarketing solutions. KAR’s unique end-to-end platform supports whole car, salvage, financing, logistics and other ancillary and related services, including the sale of more than 4.4 million units valued at over \$40 billion through our auctions. Our integrated physical, online and mobile marketplaces reduce risk, improve transparency and streamline transactions for customers in 110 countries. Headquartered in Carmel, Ind., KAR has approximately 17,400 employees across the United States, Canada, Mexico and the United Kingdom. www.karauctionservices.com.