



Charity Quarterly Report

QUARTER 2 2016

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

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 Prices**
Compiled monthly by *American Recycler*, it 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 seven major currencies: the euro, Canadian dollar, Japanese yen, British pound, Swiss franc, Australian dollar and Swedish krona.
- **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.



Donation Division Vehicles

The average actual cash value (ACV) of Donation Division vehicles continued its decline in the second quarter of 2016, extending its downward turn sequentially and annually to five quarters in a row. ACV, as a representation of a vehicle's estimated value in an undamaged state, is a good indicator of the quality of donated vehicles at auction. Along with the decline in ACV, an annual increase in average age and relatively stagnant average mileage put further downward pressure on the overall quality of donated vehicles.

Average
ACV

Year-Over-Year

10.9% ↓

Quarter-to-Quarter

0.5% ↓

Source: IAA

Average
Age

Year-Over-Year

0.4
YEARS ↑

Quarter-to-Quarter

0.05
YEARS ↓

Source: IAA

Average
Mileage

Year-Over-Year

0.3% ↓

Quarter-to-Quarter

0.02% ↑

Source: IAA



Whole Crushed Auto-Body Price Index

Whole crushed auto-body prices improved from the market floor that appeared to be established in the first quarter with average prices showing an increase, on an annual basis, for the first time in 10 quarters. On a quarter-to-quarter basis, average prices were up 39.1%. At least a portion of the resurgence in whole crushed auto-body prices can be attributed to stronger demand from Turkish mills and a tighter supply. Domestic market conditions have also contributed to improved average scrap prices as demand has increased while supply has tightened, though prices still remain below 2013 and 2014 levels.



USED-CAR PRICE INDEX

Average used-car prices increased during the second quarter, rising 2.5% on an annual basis. The strong top-line results did not convey the underlying softness that is present due to increased supply. However, the retail market continued to show signs of its ability to absorb the increasing supply.³ In June, average prices declined sequentially for the third month in a row while increasing on an annual basis. The annual increase seen in average prices was largely due to the strength of truck pricing.⁴ On an annual basis, average wholesale prices remained higher as strong retail sales volume provided the needed demand-side support to mitigate increased supply volume.⁵

April



Source: ADESA Analytical Services

May



Source: ADESA Analytical Services

June



Source: ADESA Analytical Services



Metals

Aluminum

Average aluminum prices fell 11.2% year-over-year in the second quarter of 2016, but for the second quarter in a row, prices were up 3.8% on a sequential basis. At the end of 2015, China renewed government stimulus to help the expansion of infrastructure building and credit, which has improved the demand for industrial metals like aluminum.⁶ However, there is concern that China may increase aluminum production in the face of higher demand and higher prices, which could put downward pressure on prices in the future.⁷

Year-Over-Year

11.2% 

Quarter-to-Quarter

3.8% 

Source: International Monetary Fund

Platinum

The relative softness of the U.S. dollar throughout the quarter helped buoy average platinum prices for the second quarter. At the end of April, the dollar reached an 11-month low on the back of weaker-than-expected U.S. growth prospects.⁸ Supply and demand fundamentals also supported increased average platinum prices throughout the quarter. Total platinum supply is expected to fall 3.0%, while demand is anticipated to climb 2.0% for the quarter.⁹

Year-Over-Year

10.8% 

Quarter-to-Quarter

10.0% 

Source: Johnson Matthey

Palladium

The average price of palladium performed similarly to that of platinum in the second quarter, increasing 8.6% on a quarter-to-quarter basis, but declining 25.3% on an annual basis. As with platinum, a weaker dollar supported higher average prices early in the quarter, but a downturn in sentiment toward China's industrial activity near the end of the quarter put downward pressure on average palladium prices.¹⁰

Year-Over-Year

25.3% 

Quarter-to-Quarter

8.6% 

Source: Johnson Matthey

U.S. Dollar

The average value of the dollar stabilized compared to the previous quarter, even as it slipped 4.1% on a quarterly basis and 0.5% annually. The dollar faced downward pressure early in the quarter when the Commerce Department announced consumer spending growth was lower than anticipated and the Federal Reserve announced interest rates would remain unchanged.¹¹ The U.S. dollar felt some upward pressure in May when Q1 GDP numbers were revised upward and Fed Chairwoman Janet Yellen made comments about a potential increase in interest rates.¹² In June, the U.K. voted to exit the European Union (Brexit). Prior to the vote, the dollar felt downward pressure as most people believed the U.K. would stay in the EU, reducing the need for the safe-haven asset.¹³ After the U.K. voted to leave, however, there was a large push toward the U.S. dollar as a safe-haven asset, all but erasing the lost value the dollar experienced earlier in the month.¹⁴

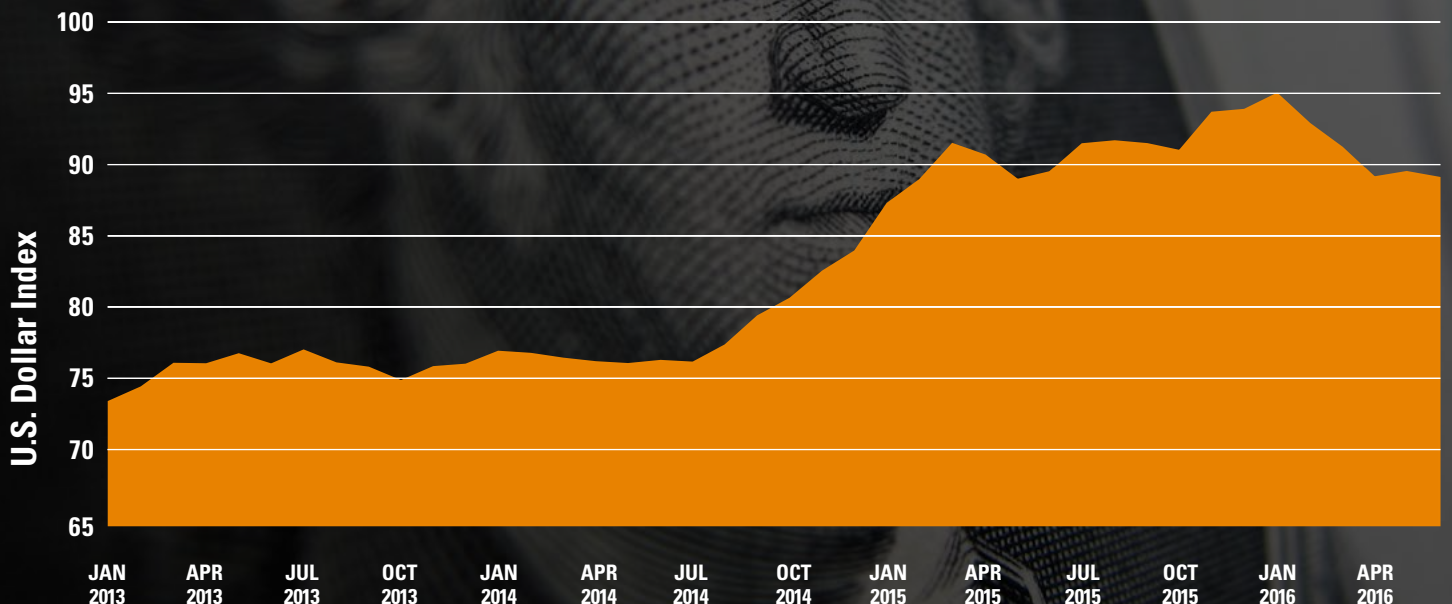
Year-Over-Year

0.5%

Quarter-to-Quarter

4.1%

Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

€ Euro

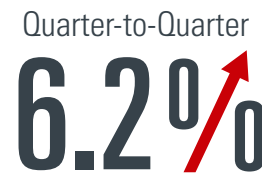
The euro started the quarter off strong as data showed economic growth in the euro zone for the first time in three months.¹⁵ Falling euro zone consumer prices and an unchanged stimulus package from the European Central Bank created a weaker euro in May.¹⁶ In June, the average value of the euro remained soft as uncertainty surrounding the Brexit vote kept investors cautious. The day after the vote, the euro's value declined 4.7% before rallying.¹⁷ Since then, the euro's value has steadily recovered and is above pre-Brexit vote levels.



Source: OANDA Corp.

\$ Canadian Dollar

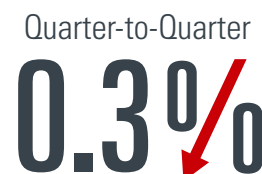
The loonie depreciated relative to the U.S. dollar on an annual basis once again, but appreciated on a sequential basis for the first time in four quarters. Canada's economy is still struggling in the face of lower energy prices.¹⁸ However, a weaker U.S. dollar and positive economic news in April allowed for relatively strong sequential appreciation for the Canadian dollar for the second quarter.¹⁹



Source: OANDA Corp.

\$ Mexican Peso

The Mexican peso continued to struggle in the second quarter of 2016. The prospect of the Fed increasing interest rates, increasing the value of the dollar, the uncertainty surrounding the Brexit and the uncertainty surrounding the U.S. presidential election worked in concert to put extended downward pressure on the average value of the peso in the second quarter.²⁰



Source: OANDA Corp.

¥ Japanese Yen

The Fed's decision not to raise interest rates coupled with the Bank of Japan's decision to not introduce new monetary easing early in the second quarter put upward pressure on the value of the yen.²¹ The Brexit vote sent investors to safe-haven assets, which extended the upward pressure felt by the yen through the end of the quarter.²²



Source: OANDA Corp.

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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.

Overview of IAA

For more than three decades, Insurance Auto Auctions, Inc. (IAA) has been a respected leader in the vehicle auction industry. With headquarters in Westchester, Ill., and more than 170 locations across North America — the most auction facilities on the continent — IAA offers convenience nobody else can, providing its global buyer base the opportunity to bid on and purchase vehicles through its live and live-online auctions. IAA’s talented team of more than 2,700 employees is committed to providing customers with the highest level of service in the industry. Since 1982, IAA has been the trusted partner of insurance companies, fleet and rental firms, financing companies, auto dealers and the general public. Additionally, hundreds of the most well-known charities from across the country count on IAA to provide complete processing services for their vehicle donation program and increase awareness through the One Car One Difference® campaign (1Car1Difference.com). Through these efforts, IAA has helped raise millions of dollars in funding for these organizations. To learn more about all of IAA’s services, visit IAA-Auctions.com, and follow IAA on [Facebook](#) and [Twitter](#).

Donation Division

IAA’s Donation Division 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 Division 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.

IAA-Auctions.com/charity