



# Charity

QUARTERLY  
REPORT  
Q4 2016





# 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 donated 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*, 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 four major currencies: the euro, Canadian dollar, Japanese yen and Mexican peso.

## **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 continued to fall in the fourth quarter of 2016, with a decline of 5.3% quarterly and 13.6% compared to the same period last year. Average 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. The average age of donated vehicles rose 0.4 years and the average mileage increased 1.8%, and both of these factors contributed to the lower quality and value of these vehicles.

**AVERAGE ACV  
QUARTER-TO-QUARTER**

**↓ 5.3%**

Source: IAA

**YEAR-OVER-YEAR**

**↓ 13.6%**

Source: IAA

**AVERAGE AGE  
YEAR-OVER-YEAR**

**↑ 0.4 YEARS**

Source: IAA

**AVERAGE MILEAGE  
YEAR-OVER-YEAR**

**↑ 1.8%**

Source: IAA

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

► In the fourth quarter of 2016, whole crushed auto-body prices remained extremely low compared to historical levels. Because of Chinese investors' hopes that demand for scrap metal would increase after the U.S. election, whole crushed auto-body prices did see a brief rally at the end of the quarter—first with an increase of 4.0% in November, then 14.4% in December—but overall, prices still finished down 17.6% from the last quarter.

QUARTER-TO-QUARTER

↓ 17.6%

YEAR-OVER-YEAR

↑ 21.9%

OCTOBER  
MONTH-TO-MONTH

↓ 7.9%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑ 9.4%

— Source: American Recyclers —

NOVEMBER  
MONTH-TO-MONTH

↑ 4.0%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑ 18.3%

— Source: American Recyclers —

DECEMBER  
MONTH-TO-MONTH

↓ 14.4%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑ 38.9%

— Source: American Recyclers —





# ...USED-CAR PRICE... INDEX

► **Average used-car prices remained higher** on an annual basis in the fourth quarter, falling sequentially in October, rising in November and ending the quarter on a slight downturn. According to Tom Kontos, chief economist at KAR Auction Services, Inc., strong truck prices continued to be the driving factor behind the 3.1% year-over-year increase.<sup>1</sup> However, truck prices broke the trend in December and fell on a month-to-month basis, potentially a result of rising gasoline prices. Higher fleet sales and incentives helped 2016 reach a fresh record in new-vehicle sales, placing downward pressure on wholesale values. Certified pre-owned used-vehicle sales also reached a new high, consuming some of the used-vehicle supply growth that has negatively affected wholesale prices.<sup>2</sup>

## OCTOBER MONTH-TO-MONTH

↓ **1.9%**

Source: ADESA Analytical Services

## YEAR-OVER-YEAR

↑ **3.3%**

Source: ADESA Analytical Services

## NOVEMBER MONTH-TO-MONTH

↑ **1.4%**

Source: ADESA Analytical Services

## YEAR-OVER-YEAR

↑ **2.2%**

Source: ADESA Analytical Services

## DECEMBER MONTH-TO-MONTH

↓ **0.3%**

Source: ADESA Analytical Services

## YEAR-OVER-YEAR

↑ **3.9%**

Source: ADESA Analytical Services

# METALS

## Aluminum

**New weight limitations on Chinese trucks** led to delayed aluminum deliveries this quarter, and the resultant supply shortage pushed up prices for the metal.<sup>3</sup> The metal also saw the domino effect in its price increase, where further regulations in China that restrict coal mining and additional coal supply disruptions in Australia contributed to a rise in seaborne coal prices, which then increased unit production costs for alumina—a starting material for the smelting of aluminum metal—which then gave a natural boost to aluminum prices.<sup>4</sup> Also brewing is the revelation that 91% of Mexico's aluminum extrusion exports this year were delivered to Vietnam – including an enormous Chinese-produced aluminum stockpile weighing approximately 1.7 million tons. It's speculated that this trade route—rarely used until recently—is being used by Chinese companies in an attempt to avoid high tariffs. These shipments are worrisome to experts who are concerned about what it means for global markets and aluminum prices.<sup>5</sup>

QUARTER-TO-QUARTER

↑5.6%

Source: International Monetary Fund

YEAR-OVER-YEAR

↑14.5%

Source: International Monetary Fund

## Platinum

**Platinum's upward momentum fizzled out** as it headed into the end of the year, depreciating 13.0% from the last quarter. After Federal Reserve officials announced that they expected three interest rate rises in 2017, investors turned from precious metals like platinum toward alternative yield-bearing assets.<sup>6</sup> In December, South African miner Sibanye Gold Ltd. announced it will buy U.S. palladium and platinum miner Saltwater Mining Co. for \$2.2 billion in an effort to diversify beyond gold mining. It's a move that displays Sibanye Gold's confidence in the palladium and platinum markets and could affect future precious metal prices.<sup>7</sup>

QUARTER-TO-QUARTER

↓13.0%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑4.0%

Source: Johnson Matthey

## Palladium

**In November, palladium prices rose** to its highest levels in 17 months. The transition to a new U.S. presidential administration left investors hopeful that the expected infrastructure spending and tax cuts would lead to economic growth and consequent vehicle sales, since the metal sees an industrial use in catalytic converters, which makes it an attractive option for investors willing to bet on the strength of the economy.<sup>8</sup> Palladium also got a boost from China's stimulus efforts, which also sparked car sales.<sup>9</sup>

QUARTER-TO-QUARTER

↑1.2%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑12.7%

Source: Johnson Matthey



# U.S. DOLLAR

- **The value of the U.S. dollar** has been making its move since the election, and it ended 2016 on a high note. High expectations for future economic growth spurred the Federal Reserve to raise interest rates in December, sending the U.S. dollar soaring to its highest levels against other global currencies in 14 years.<sup>10</sup> Will the Fed keep up with the expected pace of U.S. economic growth next year? It remains to be seen, but many analysts expect the value of the U.S. dollar will continue to strengthen – which would then put further pressure on other global currencies and the value of U.S. dollar-denominated commodities, like oil and metals.<sup>11</sup>

## QUARTER-TO-QUARTER

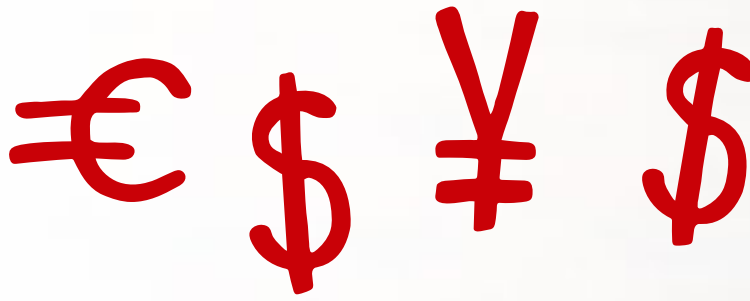
APPRECIATED  
**↑3.7%**

Source: Federal Reserve Bank of St. Louis

## YEAR-OVER-YEAR

APPRECIATED  
**↑10.5%**

Source: Federal Reserve Bank of St. Louis



## Euro

**The euro continues to fall**, fueled by higher-than-expected U.S. economic growth and interest rates, particularly after the U.S. presidential election.<sup>12</sup> In December, the European Central Bank announced plans of extending its quantitative easing program. Combined with high expectations that the Federal Reserve will raise interest rates in 2017, these developments sent the euro tumbling even further against the dollar in the fourth quarter of 2016. Investors believe the euro will reach parity with the U.S. dollar within the first six months of 2017.<sup>13</sup>

QUARTER-TO-QUARTER  
DEPRECIATED ↓ **3.6%**  
Source: OANDA Corp.

YEAR-OVER-YEAR  
DEPRECIATED ↓ **1.8%**  
Source: OANDA Corp.

## Canadian Dollar

**The Canadian dollar depreciated** against the U.S. dollar between October and November amidst plummeting oil prices and high expectations for U.S. economic growth, but bounced back at the very end of November as oil prices rocketed up 9.0% after the Organization of Petroleum Exporting Countries made the decision to reduce output.<sup>14</sup> The Canadian dollar is highly correlated with oil prices. In December, however, the Canadian dollar lost ground once again because of an unexpected decline in factory shipments, which was a huge setback for an economy heavily dependent on manufactured goods and represented the worst month-over-month performance in half a year.<sup>15</sup>

QUARTER-TO-QUARTER  
DEPRECIATED ↓ **2.4%**  
Source: OANDA Corp.

YEAR-OVER-YEAR  
APPRECIATED ↑ **0.2%**  
Source: OANDA Corp.

## Mexican Peso

**The Mexican peso experienced** its most volatile period since the 2008 recession, fueled by the U.S. presidential election and the recent conversations regarding a renegotiation of the North American Free Trade Agreement. The peso was the world's hardest-hit currency in the hours after the election, plunging 12% to an all-time low.<sup>16</sup>

QUARTER-TO-QUARTER  
DEPRECIATED ↓ **6.4%**  
Source: OANDA Corp.

YEAR-OVER-YEAR  
DEPRECIATED ↓ **18.7%**  
Source: OANDA Corp.

## Japanese Yen

**The Japanese yen saw a significant drop** in value as it fell to a 10-month low against the U.S. dollar after the U.S. presidential election. Since then, the Federal Reserve's moves to tighten monetary policy by increasing short-term interest rates puts further downward pressure on the yen since the Bank of Japan is still pursuing huge bond-buying programs. However, analysts have begun to be cautiously optimistic as Japan has started to move out of an economic lull.<sup>17</sup> ◀◀

QUARTER-TO-QUARTER  
DEPRECIATED ↓ **7.1%**  
Source: OANDA Corp.

YEAR-OVER-YEAR  
APPRECIATED ↑ **9.6%**  
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.

## 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](http://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.karauctionsservices.com](http://www.karauctionsservices.com).