

2021 IAA TCFD Report



TCFD Disclosures



Governance: *Disclose the company's governance around climate-related risks and opportunities..*

Key Area	Disclosure
Describe the board's oversight of climate-related risks and opportunities.	<p>IAA, Inc.'s ("IAA" or the "Company") Board of Directors (the "Board") oversees and monitors IAA's progress on environmental, social and governance matters, including those related to climate-related risks and opportunities. The Board has delegated direct oversight of management's activities on these issues to the Risk & Sustainability Committee (the "Risk Committee"). The Risk Committee advises the Company on stockholder proposals and other significant stakeholder concerns relating to environmental, social and sustainability matters.</p> <p>The Risk Committee meets at least annually and receives regular updates on the implementation of and progress against sustainability and climate-related initiatives from other directors and IAA's Chief Legal Officer. The Board of Directors receives regular updates from the Risk Committee on the company's progress against its sustainability goals, and implementation of projects and related activities, which includes climate change impacts, as appropriate.</p>
Describe management's role in assessing and managing climate-related risks and opportunities.	<p>The Chief Legal Officer (the "CLO") oversees the Company's environmental and sustainability efforts, including climate-related issues, and reports to the Risk Committee and the full Board on climate-related matters.</p> <p>At the direction of the CLO, the Director of Sustainability & Equity (the "Director") worked with an external consultant and managed a climate risk assessment to identify what climate-related risks and opportunities are relevant to IAA. The Director provided the assessment findings to the CLO and senior management to assist the Executive Management Team in developing short, mid, and long-term goals and strengthening the Company's policies around climate change.</p>

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Strategy: *Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.*

Key Area	Disclosure		
Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term.	<p>In 2021, IAA conducted a climate-risk assessment to evaluate the company's climate-related physical and transition risks, as well as corresponding opportunities. This assessment was conducted by Anthesis, a global sustainability consulting leader, to help us better understand our risk exposure, create a roadmap for scenario analysis and resiliency planning, develop strategies for leveraging opportunities, and meet our reporting and disclosure commitments.</p> <p>The climate-risk assessment included holding workshops consisting of leaders from across every aspect of our organization, to examine the following risks across short (5 years), medium (10 years), and long term (30+ years) horizons:</p>		
	Risk Category	Description	Time Frame
	Acute Physical	Increasing frequency and severity of extreme weather events (e.g., hurricanes, tornadoes, hailstorms, heavy rain and flooding, etc.)	Medium to Long
	Chronic Physical	Rising mean temperatures and increased temperature variability (e.g., extreme heat and cold conditions).	Medium to Long
	Chronic Physical	Rising sea levels impacts on IAA coastal infrastructure.	Medium to Long
	Chronic Physical	Changes in precipitation patterns (e.g., excessive droughts in certain parts of the country and excessive rainfall and snowfall in other parts of the country)	Medium to Long
	Transitional - Technology	Cost of the technological innovations and/or implementations which support the energy transition to a low carbon economy. More specifically, this risk relates to shifts to low carbon fuel sources.	Short to Medium
	Transitional – Reputation	Changing customer perceptions of IAA's contribution to or detracting from the transition to a lower-carbon economy.	Short to Medium

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Risk Category	Description	Time Frame
Transitional – Legal & Policy	Policies which act to constrain adverse effects of climate change or promote adaptation to climate change which could impact how we operate.	Short to Medium
Transitional – Market	Shifts in supply and demand for key materials and increased demand for low carbon digital solutions o. The increased demand for low emission or zero emission vehicles is of particular importance to IAA.	Short to Medium

One-third of IAA's workforce is outdoors managing the Company's inventory and providing critical operational functions. IAA views the health and safety of those employees as the most important factor to protect in a changing climate which is why this risk was prioritized. Rising mean temperatures, as well as extreme spikes or drops in temperatures, could potentially impact the health, safety and productivity of our outdoor workforce.

Scenario analysis modeling against the Representative Concentration Pathways (RCP) low 4.5, high 4.5, and 8.5 to evaluate the various climate impacts in 2030 and 2050 "future worlds" was completed. RCPs are used to model climate change and build scenarios around those impacts. These scenarios can also be used to structure adaptation and mitigation strategies to prepare for the future. This quantitative analysis determined the operational and financial risk to IAA's business and outdoor employees.

Scenario Analysis Methodology

Ozone is a gas comprised of three atoms of oxygen. Ozone occurs both on the upper atmosphere and at ground level of our planet. Higher levels of GHG emissions from vehicles, power plants, and other human-made sources are contributing to warming, which can increase ozone exposure. Exposure to this pollutant can potentially aggravate asthma, cause heart attacks, and exacerbate other respiratory and cardiovascular conditions to our employees.

To quantify this impact, extreme heat and ozone implications were modeled. As baseline temperatures rise it could be challenging to both retain and attract an outdoor workforce from these expanding unfavorable working conditions and declining air quality causing added health implications.¹ In order to address these compounding risks, IAA modeled these two risks 1) extreme heat and 2) ozone implications for key locations. Extreme heat models encompassed both the impacts on employee safety and productivity, as well as extreme heat impacting power outages.

¹ [Frontiers | Ozone Pollution: A Major Health Hazard Worldwide | Immunology \(frontiersin.org\)](https://www.frontiersin.org/journal/10.3389/fimmu.2021.700001)

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Understanding how changing conditions could impact our outdoor employees in the future changing climate builds a more resilient and inclusive understanding of where to focus on strengthening our employee health and safety strategies. The impact of these events in RCP low 4.5, high 4.5, and 8.5 was determined via financial implications calculation of extreme heat impacts on our workforce productivity which included our largest and thus highest revenue locations. Based on this modeling, we understand where our employees are at the highest future risk, and where we should adapt our policies and practices for those conditions.

Extreme Heat – Employee Safety and Productivity: With rising temperatures, the safety and health hazards from extreme heat will be amplified. Outdoor workers are among the vulnerable population, as they spend a considerable amount of time in these extreme conditions. Furthermore, productivity loss due to extreme heat has a direct impact on operations. Through capturing changing extreme heat index conditions, IAA can identify locations that experienced greatest average annual hours over productivity temperature thresholds. These productivity thresholds were regionally specific (the United Kingdom vs. North America) to account for the fact that a worker in a warmer location will have higher temperature limits.

Extreme Heat - Power Outages: In addition to capturing heat index conditions, extreme heat informs IAA on expected grid unreliability leading to power outages indoors due to increased demand thus sustained stress on grid infrastructure. Extreme heat can drive up energy demands, which can overload the electrical grid infrastructure causing rolling blackouts and/or brownouts. Concurrently, rising extreme temperatures can impact the effectiveness of power plants, impacting power line capacity and making failures more likely in transformers.²³

Ozone Implications: Deteriorating ozone conditions impact air quality, and present a risk to everyone, especially outdoor workers.⁴ There is a clear correlation between strong ozone conditions and warmer days. As mean temperatures rise, ozone conditions will as well, and both metrics can be used to understand which IAA sites will experience the most extreme conditions.

² [Recent heat waves show the US power grid is not ready for climate change - Vox](#)

³ [A New, Deadly Risk for Cities in Summer: Power Failures During Heat Waves - The New York Times \(nytimes.com\)](#)

⁴ [Health Effects of Ozone Pollution | US EPA](#)

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Key Area	Disclosure
<p>Describe the impact of climate-related risks and opportunities on the company's businesses, strategy, and financial planning.</p>	<p>IAA exists to sustain the value of a vehicle over its life for the benefit of industries and people around the world. To enhance efforts, IAA is working to better understand our own carbon footprint and how we may contribute to global greenhouse gas emissions. This will help us strengthen IAA's innovations that drive efficiencies and deliver shareholder value. With each day we simply aim to "Be Better".</p> <p>Operations IAA has a global portfolio and many of our locations are experiencing the impacts of changing climate conditions. We have learned to adapt as a company as we experience these disasters. Management plans are in place at sites to be effectively prepared for disasters. IAA relies on our outdoor employees to work the yards where vehicles are housed and to generate the images of new inventory as it comes into the yards. As changing weather patterns increase average outdoor temperatures and the frequency of heat waves, it is essential for IAA to adapt and mitigate the impacts of this on our outdoor employees. Our scenario analysis of extreme heat in RCP low 4.5, high 4.5, and 8.5 evaluated what the implications could be for employee productivity in our largest and thus highest revenue sites.</p> <p>Products & Services In the transition to a low carbon economy, a key opportunity for IAA is to work to integrate electric vehicles into our product portfolio. This will allow IAA to continue our efforts to sustain the value of vehicles for the benefit of industries and people around the world.</p> <p>Financial Planning Employees' productivity is directly correlated with IAA revenue. Through conducting a scenario analysis quantification of extreme heat's financial implications for employee productivity, we are building an understanding of the impact of a changing climate on operating costs, revenues, access to capital and capital expenditures.</p>
<p>Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>Through scenario analysis, we gathered the quantitative information necessary to assess the adaptive capacity of our most at-risk facilities and resources to climate risks and further invest in opportunities to enhance resilience within our operations.</p> <p>IAA has examined three future climate models - the Representative Concentration Pathways (RCP) low 4.5, high 4.5, and 8.5 – to evaluate the various climate impacts in both short-medium term (2030) and long term (2050) horizons. Examining three future climate world models accounts for model uncertainty. This also has allowed IAA to test the agility and resilience of our management methods and strategy in the face of climate risk.</p> <p>It was found through this exercise that our sites in already warmer regions will experience the higher and longer-lived extreme heat conditions to a degree that has not been felt in the past. Our existing employee trainings and employee health and safety policies are the building blocks to work to further improve our resilience to these extreme heat conditions.</p>

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Additionally, learning to integrate and respond to the low carbon transition is a strategic opportunity for IAA as integrating electric vehicles into our inventory will both create new business for IAA as well as sustain the value of electric vehicles.

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Risk Management: *Disclose how the company identifies, assesses, and manages climate-related risks.*

Key Area	Disclosure
Describe the company’s processes for identifying and assessing climate-related risks.	<p>The Company undertakes an annual enterprise risk assessment (“ERM”) to identify the most significant risks facing the company. The company conducted its first climate-related risk assessment in 2021 and is looking to incorporate this effort into its ongoing ERM assessments, either annually or at some other frequency the Company believes is appropriate.</p> <p>To understand the unique impact which climate risks could have for IAA, as part of the 2021 assessment, potentially relevant risks were identified by functional leaders across our organization and rated based upon their likelihood, significance, and scope of impact across the business. Each risk identified was given a low, medium, or high rating and were calibrated based on potential impacts to EBITDA, transportation, and logistics, and/or reputational impacts.</p> <p>These metrics align with metrics used in the ERM and serve as the basis for determining which risks warranted immediate monitoring and mitigation in relation to other risks.</p>

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Risk Management: *Disclose how the company identifies, assesses, and manages climate-related risks.*

Key Area	Disclosure
Describe the company's processes for managing climate-related risks.	<p>Climate-related risks are prioritized via our climate-risk assessment and scenario analyses. Management determinations are made after modeling via scenario analysis and understanding the financial implications of priority risks.</p> <p>Once a risk has been identified, and deemed significant enough to be mitigated, we do the following:</p> <ul style="list-style-type: none">• Identify and assign a risk owner(s)• Establish controls, processes, and procedures to monitor and potentially reduce the likelihood and impact of the risk. <p>The risk owner(s) has/have a responsibility to track and execute controls to manage the risk.</p>
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management.	<p>The Company undertakes an annual enterprise risk assessment ("ERM") to identify the most significant risks facing the company. The company conducted its first climate-related risk assessment in 2021 and is looking to incorporate this effort into its ongoing ERM assessments, either annually or at some other frequency the Company believes is appropriate.</p> <p>IAA acknowledges that the unique characteristics of climate risks which include longer time horizons changing magnitudes, and nonlinear dynamics, may require different assessment and management strategies for climate risks.</p>

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Metrics & Targets: *Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.*

Key Area	Disclosure
<p>Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>	<p>IAA uses different metrics to help us understand our exposure to physical and transition climate-related risks and opportunities. Transition risk metrics include our low carbon vehicles in our inventory and energy consumption as well as our greenhouse gas (GHG) emissions. Physical risk metrics focus on our resource consumption at branches, and the financial risk to our assets which climate risks pose.</p>
<p>Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>	<p>2020 IAA Emissions: Scope 1: 23,291 tCO₂e Scope 2 (market-based): 19,994 tCO₂e Scope 3 Fuel and Energy Related Activities: 8,084 tCO₂e</p> <p>2021 IAA Emissions: Scope 1: 22,355 tCO₂e Scope 2 (market-based): 14,240 tCO₂e Scope 3 Fuel and Energy Related Activities: 6,794 tCO₂e</p> <p>IAA is working to calculate our emissions in line with the Greenhouse Gas Protocol which will inherently reduce our risk exposure to increasing expectations from stakeholders (e.g., employees, customers, and investors) for emissions disclosure and regulation of corporate climate disclosure. Risks associated to our footprint in the transition to a low carbon economy include the risk of policies which drive carbon pricing and regulation of corporate climate reductions.</p>
<p>Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.</p>	<p>As IAA continues to assess climate related risks and opportunities and their potential impacts on our business and operations, we will continue work with our Board and management towards establishing targets to manage those risks and opportunities against the targets.</p>

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