



# Specialty Quarterly Report

## QUARTER 1 2016

The Specialty Division of Insurance Auto Auctions, Inc. (IAA) consists of five segments: truck, trailer, equipment, boat and motorhome. This report will provide a performance overview of each of the specialty segments, followed by an examination of the metals market.

Scrap-metal prices have proven to be reliable indicators of the base-price direction for these large prices of salvage, leading to the following factors being discussed:

- Whole Crushed Auto-Body Prices
- Aluminum
- Platinum
- Stainless Steel



Whole  
Crushed  
Auto Bodies ↓

U.S.  
Dollar  
Index ↑

Aluminum ↓

Platinum ↓

Stainless  
Steel ↓

# Specialty Division Segments

All price changes represented below are relative to seasonally adjusted average sale prices.

## Truck

New-truck orders are down, affecting used-truck prices as inventory remains stagnant. Trucking tonnage soared in February, up 7.2% compared with the month prior as shippers worked to correct delays thanks to January's winter storms, but leveled out again in March.<sup>1</sup> Even as the improving economy and consumer spending helped to support tonnage, figures softened from low volumes of factory output.<sup>2</sup>

Year-Over-Year

**13.9%**

Quarter-to-Quarter

**6.3%**

Source: IAA

## Trailer

Overall, trailer sale prices appeared to dip sequentially and year-over-year as this segment continues to moderate from the record highs of 2015. While February reported high trailer net orders, up 21.0% from January and 2.0% year-over-year, the first quarter of 2016 posted figures that suggest a stabilizing market.<sup>3</sup> Robust backlogs, down only 6.0% year-over-year, indicated demand for new units is still strong enough to outpace production – a potentially good sign for the salvage market and buyers looking to replenish their inventory needs.<sup>4</sup>

Year-Over-Year

**12.2%**

Quarter-to-Quarter

**1.2%**

Source: IAA

## Equipment

Sequential trends in the equipment segment seem to be positive, but actually mask a generally weak quarter. Poor performance in equipment-heavy industries – mining, commodities and energy – weighed on sale prices, especially for farm and heavy equipment. The Equipment Leasing and Financing Association Monthly Leasing and Finance Index reported an increase of 2.0% from new business volume in February,<sup>5</sup> but annual comparisons and another dip in March suggest that U.S. businesses are still skittish about investing in this segment.<sup>6</sup>

Year-Over-Year

**35.6%**

Quarter-to-Quarter

**17.5%**

Source: IAA

## Boat

Recreational boat sales followed seasonal trends, starting sluggishly in January but climbing through the rest of the quarter on the back of strong new-boat orders, service department revenue and parts and accessories sales. Early spring weather buoyed sale numbers for the recreational boating industry, soaring 21.3% in the main segments and 19.9% industrywide, its best March in eight years.<sup>7</sup>

Year-Over-Year  
**0.9%**

Quarter-to-Quarter  
**1.5%**

Source: IAA

## Motorhome

While the motorhome sale-price index softened this quarter, this was largely due to the strength exhibited in the last quarter of 2015, which registered the highest quarterly average since IAA began tracking this metric. Sale-price growth followed the increase in new-order shipments, with February posting its highest tally in 39 years.<sup>8</sup> Sales are expected to stay strong, driven by an improving economy and the release of designs and features tailored to customer preferences.<sup>9</sup>

Year-Over-Year  
**5.1%**

Quarter-to-Quarter  
**19.4%**

Source: IAA



# Metals

## Aluminum

Average aluminum prices fell 16.0% year-over-year in the first quarter of 2016, with oversupply still weighing heavily on the metal. The depreciation of the dollar worked to offset continued weakness, with prices ticking up 1.4% compared with the last quarter. China is not the only one producing copious amounts of the metal – aluminum output in Asian countries outside of China ramped up 18.3% so far this year. Needless to say, a shortage of aluminum is not on the horizon.<sup>10</sup>

Year-Over-Year

16.0% 

Quarter-to-Quarter

1.4% 

Source: World Bank

## Platinum

With Federal Reserve Chairwoman Janet Yellen's announcement that an increase in interest rates will come later than expected, the value of the dollar began to slide through February and March, putting upward pressure on the metals market. Consequently, the average price of platinum saw its first quarterly gain since the second quarter of 2014, up 0.5% compared with the end of 2015. Despite this increase, average prices continue to decline on an annual basis.

Year-Over-Year

23.4% 

Quarter-to-Quarter

0.5% 

Source: Johnson Matthey

## Stainless Steel

Weak demand for finished metal continues to cause problems for this metal, as weak input prices push producers toward primary metal resources instead. Falling nickel prices are the main culprit, as it fell to its weakest levels in more than 12 years in January due to slowing demand and a glut of supply.<sup>11</sup> The end of the quarter brought cautious optimism, however, with output cuts, producers hiking up base prices and petitions against cheap Chinese imports working to pump the brakes on this decrease.<sup>12</sup>

Year-Over-Year

31.0% 

Quarter-to-Quarter

5.6% 

Source: Johnson Matthey



# Scrap Metal: Whole Crushed Auto-Body Prices

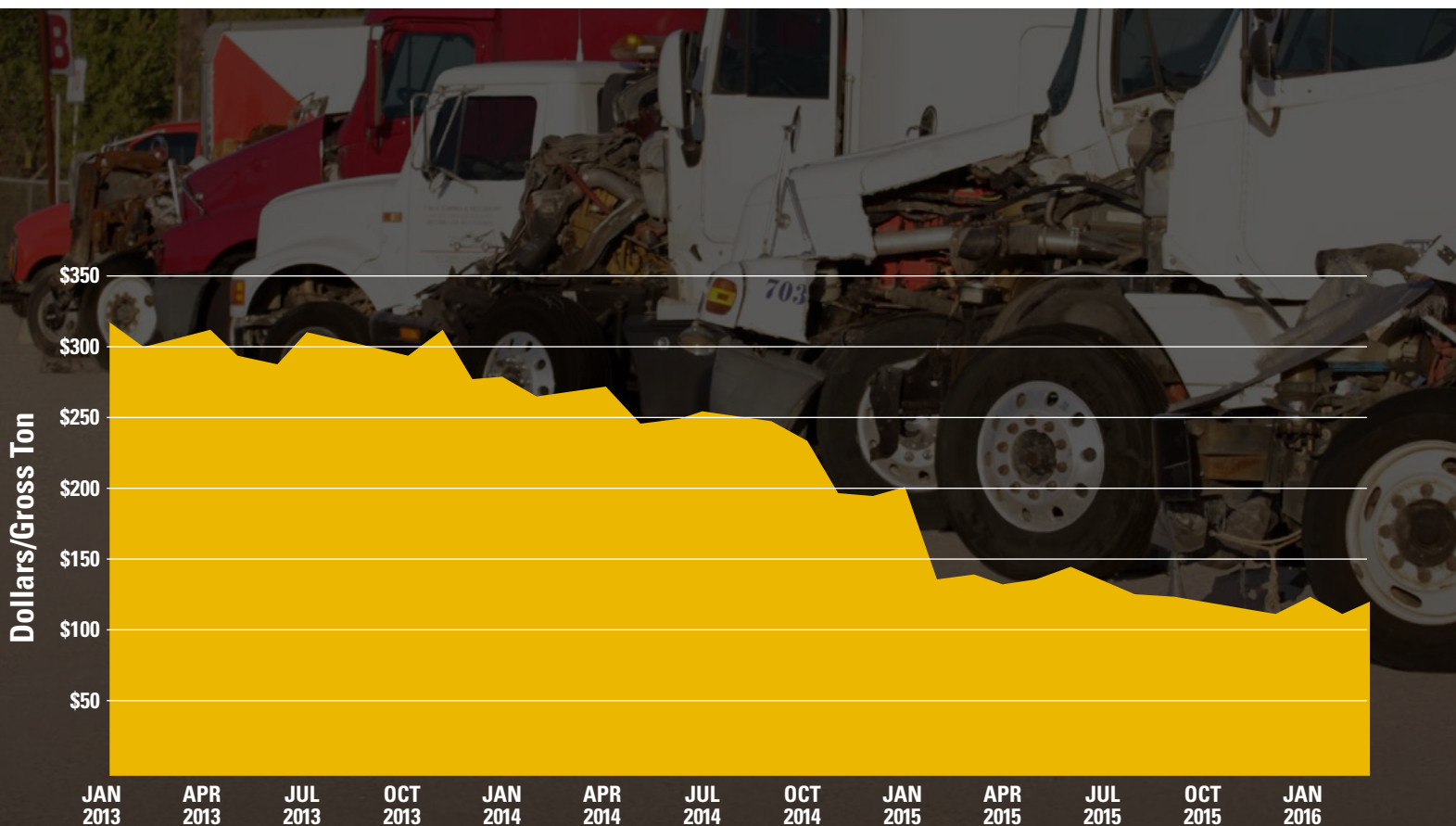
The first quarter brought welcome news as whole crushed auto-body prices increased 3.1% relative to the prior quarter. It's not time to break out the champagne and party hats just yet, however, as a 26.0% year-over-year decline during the same period illustrates the depths to which this category has sank in recent years. But there does appear to be some cause for cautious optimism. In January, the metric posted its first monthly gain since June of 2015, and while prices did soften in February, they recovered in March as buyers increased orders in anticipation of a potential April rally.<sup>13</sup>

Year-Over-Year

26.0%

Quarter-to-Quarter

3.1%



Source: American Recycler

# 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. Global 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 spilt 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>14</sup>

Year-Over-Year

2.2%

Quarter-to-Quarter

0.7%

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.

Year-Over-Year

10.9%

Quarter-to-Quarter

2.6%

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>15</sup>

Year-Over-Year

20.6%

Quarter-to-Quarter

7.4%

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.

Year-Over-Year

3.2%

Quarter-to-Quarter

4.9%

Source: OANDA Corp.

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# 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

Mike Cole is executive director of Specialty Division Services at Insurance Auto Auctions, Inc. (IAA). A 15-year IAA veteran, Mr. Cole has played a pivotal role in growing the organization's Specialty Division into an industry-leading resource for the sale of heavy equipment, trucks, boats, RVs, and a host of other large or unique salvage items. Under his guidance, the Specialty Division has become a thriving marketplace with weekly online-only auctions hosted from a dedicated facility in Schaumburg, IL. Mr. Cole is a certified ASE Master Technician, SIU investigator and I-CAR Gold professional with more than 15 years of insurance claims experience, making him uniquely qualified to lead IAA's efforts in the specialty salvage segment.

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.

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