



# Charity

QUARTERLY  
REPORT  
Q2 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 down for the second quarter of 2017, with a quarterly decrease of 2.5%, and a 5.6% dip compared to the same period last year. After an uptick in ACV last quarter, the series returned to the downward trend seen in the nine previous quarters. 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 0.3 years, contributing to the lower quality and value of these vehicles relative to last year's quarterly ACV. The average mileage dropped 0.2%, likely helping to limit the drop.

**AVERAGE ACV  
QUARTER-TO-QUARTER**

**↓2.5%**

Source: IAA

**YEAR-OVER-YEAR**

**↓5.6%**

Source: IAA

**AVERAGE AGE  
YEAR-OVER-YEAR**

**↑0.3 YEARS**

Source: IAA

**AVERAGE MILEAGE  
YEAR-OVER-YEAR**

**↓0.2%**

Source: IAA



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

► **Whole crushed auto-body prices saw quarterly and yearly increases** of 4.9% and 10.8% respectively in the second quarter of 2017. However, the gain in prices did not match the sharp boost observed in Q1. Moreover, steel output in China reached an all-time high in April, causing prices to drop in May. BMI research stated this price drop is largely due to steel supply outpacing the end-user demand.<sup>1</sup> Additionally, steel exports out of China have decreased. The new trade policies between China and the European Union and the proposed "Section 232" bill in the U.S. can help explain the reduction, but it could also be a warning sign of reduced demand for the metal. Lower demand would aid the slight drop in whole crushed auto-body prices seen in May and June.<sup>2</sup>

QUARTER-TO-QUARTER

↑ 4.9%

YEAR-OVER-YEAR

↑ 10.8%



## APRIL

MONTH-TO-MONTH

↑ 1.6%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑ 31.7%

— Source: American Recyclers —

## MAY

MONTH-TO-MONTH

↓ 2.3%

— Source: American Recyclers —

YEAR-OVER-YEAR

↑ 5.0%

— Source: American Recyclers —

## JUNE

MONTH-TO-MONTH

↓ 2.9%

— Source: American Recyclers —

YEAR-OVER-YEAR

↓ 0.2%

— Source: American Recyclers —



# ...USED CAR PRICE... INDEX

## APRIL

MONTH-TO-MONTH

↑2.2%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑2.5%

Source: ADESA Analytical Services

## MAY

MONTH-TO-MONTH

NO CHANGE  
0.0%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑3.9%

Source: ADESA Analytical Services

## JUNE

MONTH-TO-MONTH

↓0.7%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑4.7%

Source: ADESA Analytical Services

► **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.<sup>4</sup> February, on the other hand, saw monthly declines in nearly all model classes as prices bucked typical seasonal trends.<sup>5</sup> 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.<sup>6</sup>





# METALS

## Aluminum

**Aluminum prices were strong in the second quarter of 2017**, hitting their highest quarterly average mark since 2013 and extending aluminum's positive performance in Q1. In April, the metal benefited from low inventory levels at multiple exchanges and anticipated aluminum reform in China.<sup>1</sup> However, aluminum exports out of China increased in May and June, and prices for aluminum's most important raw material, alumina, pushed the metal's prices down slightly for the last two months of the quarter.<sup>2</sup> Another factor for the short-term drop in aluminum prices was an increase in supply in May, made possible by lower prices for oil and coal and the subsequent greater margins they influenced for aluminum.<sup>3</sup> However, the downward price movements weren't enough to outpace aluminum's overall solid quarterly and yearly trends.

QUARTER-TO-QUARTER

↑3.0%

Source: International Monetary Fund

YEAR-OVER-YEAR

↑21.3%

Source: International Monetary Fund

## Platinum

**Platinum struggled to maintain its first-quarter gains** as prices diminished 3.9% in the second quarter of 2017 and returned to fourth-quarter levels of 2016. Year-over-year, platinum was down 6.2%. The downward pressure on prices is attributed to several factors, including continued aversion in Europe to diesel vehicles, which primarily use platinum in their catalytic converters.<sup>4</sup> Additionally, the World Platinum Investment Council pointed to a reduction in jewelry and investment demands as an influence on lower platinum prices.<sup>5</sup>

QUARTER-TO-QUARTER

↓3.9%

Source: Johnson Matthey

YEAR-OVER-YEAR

↓6.2%

Source: Johnson Matthey

## Palladium

**Palladium continued its upward trend in the second quarter of 2017** to hit its highest quarterly mark since the fall of 2014. The metal edged closer to parity with platinum and finished up 44.1% and 7.0% on a quarterly and yearly basis respectively. Additionally, prices were at a 16-year high at the end of this quarter in June. The high prices can be attributed to a short supply of the metal, but also an increased demand for cars and SUVs in China.<sup>3</sup> This performance is largely due to demand exceeding supply after long-term production deficits have used lasting stockpiles of the metal.<sup>4</sup>

QUARTER-TO-QUARTER

↑44.1%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑7.0%

Source: Johnson Matthey



# U.S. DOLLAR

► **The value of the U.S. dollar** remained elevated on a year-over-year basis in Q2 2017, rising 4.2% from Q2 2016, yet stuttered compared to Q1 2017, slipping 1.3%. The dollar began the quarter on a downturn as investors reacted to President Trump stating in early April that the dollar was “getting too strong.”<sup>6</sup> This, combined with uncertainty over upcoming French elections and a missile test by North Korea, gave investors reason to head to safer ground, applying downward pressure on the dollar.<sup>7</sup> Despite positive statements from the Federal Reserve in early May, relatively disappointing Q1 GDP and May job numbers – combined with turmoil in Washington – raised concerns over economic growth and tempered expectations of impending rate hikes.<sup>8,9,10</sup> Still, the dollar remained well above Q2 2016 values, as the slight downturn on a consecutive basis did little to dent its already elevated values.

## QUARTER-TO-QUARTER

DEPRECIATED ↓ **1.3%**

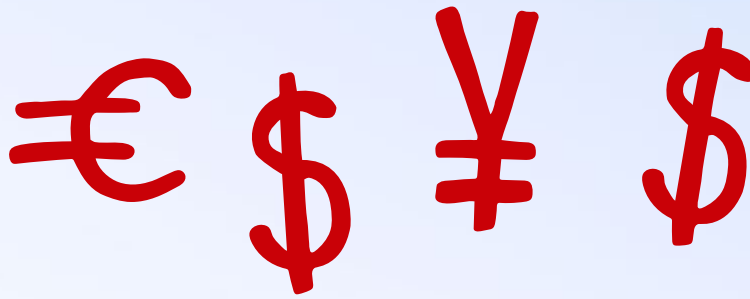
Source: Federal Reserve Bank of St. Louis

## YEAR-OVER-YEAR

APPRECIATED ↑ **4.2%**

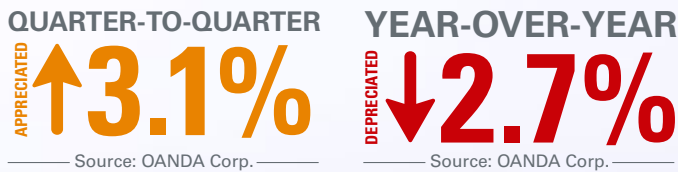
Source: Federal Reserve Bank of St. Louis





## Euro

**The euro saw strong month-to-month movement** in Q2, resulting in appreciation compared with Q1 2017 values. It was up 2.7% against the dollar, but was unable to surpass Q2 2016 values, falling 3.1%. European Central Bank (ECB) President Mario Draghi stated that there would need to be sufficient evidence of steady inflation to consider moving away from a loose monetary policy.<sup>11</sup> There were mixed results for the euro during the rest of the quarter as inflation rose, followed by cuts to the ECB's inflation forecast through 2019.<sup>12</sup> However, investors responded positively to Emmanuel Macron's victory in the French presidential election as well as the ECB's optimistic outlook throughout the quarter. These factors ultimately helped push the currency higher compared to the value in Q1 of 2017.<sup>13</sup>



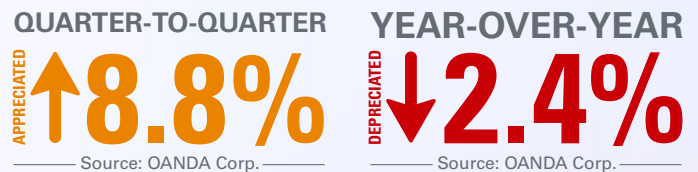
## Canadian Dollar

**The Canadian dollar continued the depreciation** trend that began at the end of Q1 as its value fell 1.5% on a quarter-to-quarter basis and was 4.2% lower compared to Q2 2016. Despite Canada's positive economic growth, the Canadian dollar depreciated due to lower oil prices that applied downward pressure on the currency.<sup>14</sup> Foreign affairs hurt the loonie as well. The results of the French presidential election gave investors reason to seek riskier assets, which applied further downward pressure on the Canadian dollar's value.<sup>15</sup> Despite all of this, the end of Q2 in June brought stronger economic numbers, a positive outlook from the Bank of Canada and improved oil prices. This bolstered the trend of the Canadian currency and gave it a better outlook as the quarter ended.<sup>16</sup>



## Mexican Peso

**Suggestions from Washington** that the dollar was becoming too strong positively impacted the peso's value in Q2 2017, as did the U.S. decision to retain NAFTA. Political influences only lasted so long, however, and commodity prices returned to the forefront of factors impacting the peso's value.<sup>18</sup> This became evident as industry metal and crude oil values applied downward pressure on the Mexican currency. In response, the Central Bank of Mexico boosted the peso's value by raising interest rates multiple times with the intention of making the currency more attractive to investors.<sup>19</sup>



## Japanese Yen

**Despite month-to-month fluctuations,** the yen ended up appreciating 2.2% during the second quarter. The currency remains weak compared with the same period last year. Political uncertainty in North Korea, Syria and France (prior to election results) played to the yen's favor early in the quarter as investors moved money to safe-haven currencies like the yen.<sup>20</sup> Eventually, the yen felt pressure again as these safe-haven investments became less appealing.<sup>21</sup> The situation only worsened for the yen as the quarter ended. In May and June, the gap between the United States and Japan's policy interest rates widened, and as a result, the yen depreciated.<sup>22</sup>





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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.karauctionservices.com](http://www.karauctionservices.com).