



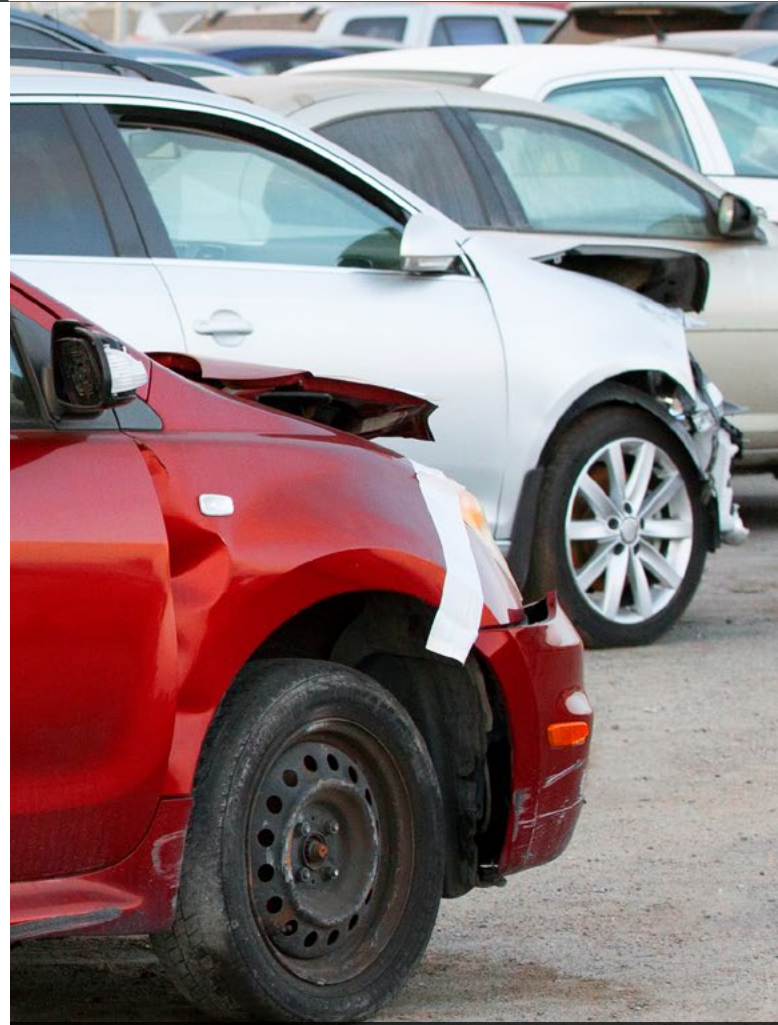
Insurance Quarterly Report

QUARTER 3 2017

Insurance Auto Auctions, Inc. (IAA) helps insurance carriers dispose of total loss vehicles via a dual live and live-online auction format. Insurance vehicles sold through IAA's auctions display a range of loss types, including collision, storm or flood damage, theft recovery and more. These vehicles are purchased by public and professional buyers for a variety of purposes, including dismantling/recycling, resale, exporting and personal use.

The Insurance Quarterly Report provides an analysis of auction results for vehicles in this category, as well as an overview of economic and industry factors that influence auction returns. These include:

- Whole Crushed Auto-Body Prices
- Used-Car Price Index
- Vehicle Parts and Equipment Consumer Price Index
- Metals Prices
- New-Vehicle Sales and Total Miles Driven
- Fuel Prices
- Canada



Whole Crushed
Auto-Body Prices



Aluminum



Parts Prices



Palladium



Total Miles
Driven



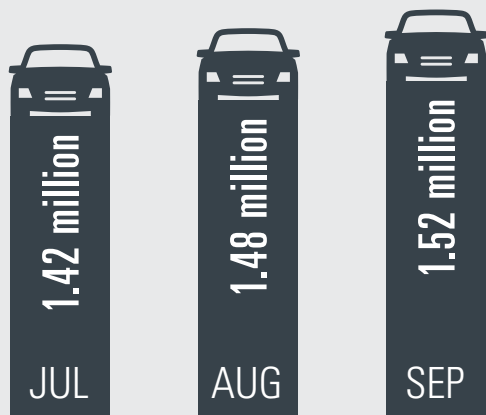
Platinum



Overview Of The Automobile Industry

Total new-vehicle sales continued its downward trend in the beginning of the quarter, but a 15.3% gain in September helped the index finish above last quarter's result. Yearly, seasonally adjusted new-vehicle sales were down 2.3%, averaging just above 17 million for the quarter. Record buyer incentives, which averaged \$4,048 in September, and a sharp demand shift to replace damaged vehicles from Hurricane Harvey and Irma helped stabilize sales after a poor performance in the first half of the year.¹ Average gas prices rose 5 cents over the quarter, boosted in large part from hurricane aftereffects. Key economic drivers, like unemployment, down to 4.2%, and high consumer sentiment, likely offset any downward pressure put on prices from rising fuel costs.

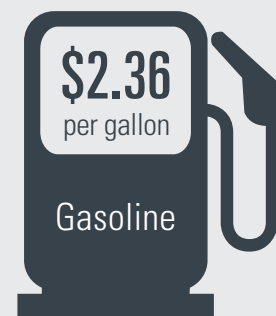
New-Vehicle Sales



Total Miles Driven



Economic Drivers



Insurance Carrier Vehicles

Average vehicle age decreased on a yearly basis by 1.9%, or 0.1 years. Likewise, average mileage fell 2.4% and 3.2% quarter-to-quarter and year-over-year, respectively. However, average mileage increased slightly in June after three straight months of negative growth. Average actual cash value (ACV), a representation of a vehicle's estimated value in an undamaged state, serves as a benchmark for the general quality of insurance vehicles that make their way to auction. Average ACV saw a 0.6% gain quarter-to-quarter, and was slightly down from last year.

Average
ACV

Year-Over-Year

0.4% 

Quarter-to-Quarter

0.6% 

Average
Age

Q3 2016

9.4
YEARS

Q3 2017

9.0
YEARS

Average
Mileage

Year-Over-Year

3.2% 

Quarter-to-Quarter

2.4% 

Source: IAA

Whole Crushed Auto-Body Prices

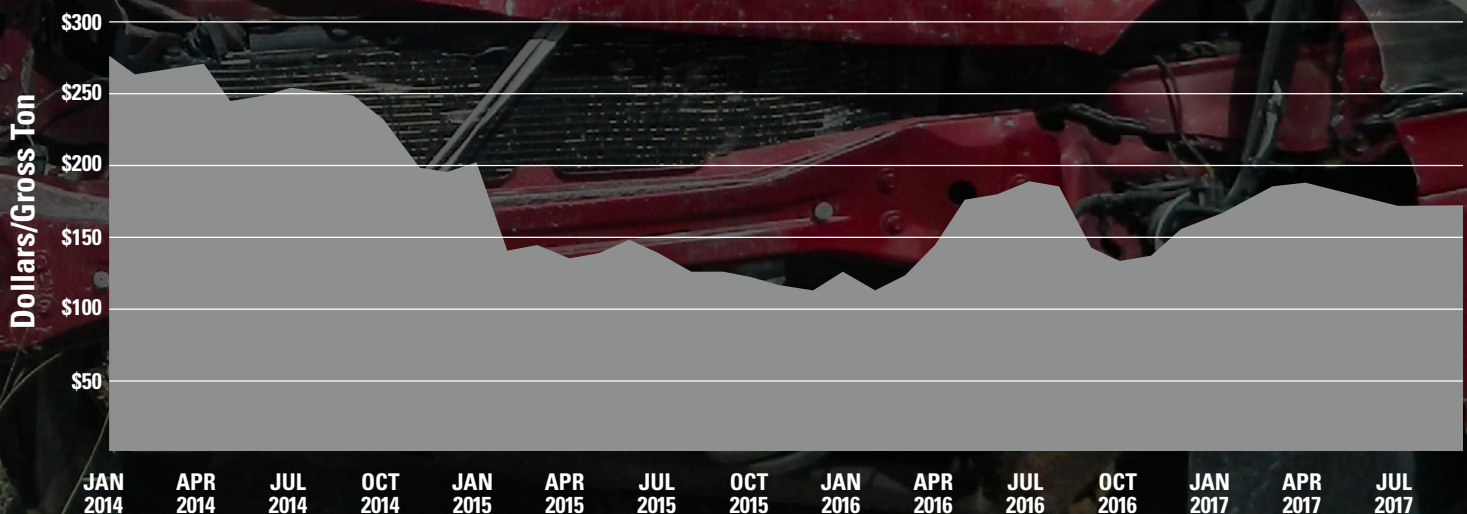
Whole crushed auto-body prices started off the quarter by dropping 3.7% in July, extending the downturn seen in the last two months of the second quarter. Despite China's continued efforts to reduce steel production,² output still remained high. Brazil and Mexico also saw increased production, with excess supply likely putting downward pressure on whole crushed auto-body prices.³ Prices didn't budge in August, but did tick up slightly in September. Joe Pickard of the Institute of Scrap Recycling Industries, Inc., has warned that logistical issues stemming from Hurricane Harvey could have buoyed short-term scrap metal prices. This may have canceled out any downward pressure on prices due to a steel supply glut.⁴ Overall, whole crushed auto-body prices retreated 6.3% compared to the second quarter of 2017, but finished up 0.7% year-over-year.

Year-Over-Year

0.7%

Quarter-to-Quarter

6.3%



Source: American Recycler

Used-Car Price Index

Average used-car prices remained higher on an annual basis for the third quarter, dropping sequentially in July and making modest gains through August and September.⁵ The overall year-over-year quarterly outcome was largely a result of Hurricanes Harvey and Irma, which contributed to a short-term supply dip and strengthened demand in effected areas.^{6,7} Consistent with last quarter, truck prices have also pushed wholesale prices up. Additionally, stop-sale of manufacturer units involved in recalls stunted supply-side growth in September, putting upward pressure on used-car prices. Despite these gains, Tom Kontos, chief economist at KAR Auction Services, Inc., suggested that price softening, typically seen after controlling for certain vehicle characteristics, will likely resume once the catastrophe areas fully recover.

July

Year-Over-Year

1.3% 

Month-to-Month

1.0% 

August

Year-Over-Year

1.9% 

Month-to-Month

0.6% 

September

Year-Over-Year

2.9% 

Month-to-Month

0.9% 

Source: ADESA Analytical Services

Vehicle Parts And Equipment Consumer Price Index


Another quarter of relatively little price movement for vehicle parts and equipment pushed the index to increase just 0.6% compared to the second quarter of 2017. A slowdown in U.S. auto demand kept prices relatively stagnant, but American consumers' continued preference for larger vehicles likely assisted in the slight price gain seen in the index for the quarter.⁸ A spike in raw material prices also raised costs for vehicle part manufacturers, which led to marked up prices. Overall, the index finished up 1.7% compared to the September 2016 result.⁹

July

Year-Over-Year

0.7% 

Month-to-Month

0.4% 

August

Year-Over-Year

0.7% 

Month-to-Month


0.5% 

September

Year-Over-Year

1.7% 

Month-to-Month

0.4% 

Source: Bureau of Labor Statistics

Fuel

In July, strong seasonal demand and OPEC's attempts at tightening production helped prices stay positive year-over-year.¹⁰ In the remainder of the quarter, Hurricane Harvey forced oil production to stall as some refineries temporarily closed and flooding slowed gasoline pipeline flow, taking 22.0% of U.S. refining capacity offline.¹¹ This supply-side shift along with investor expectations of future supply deficits led the commodity to a mammoth 18.9% year-over-year price gain in September.¹²

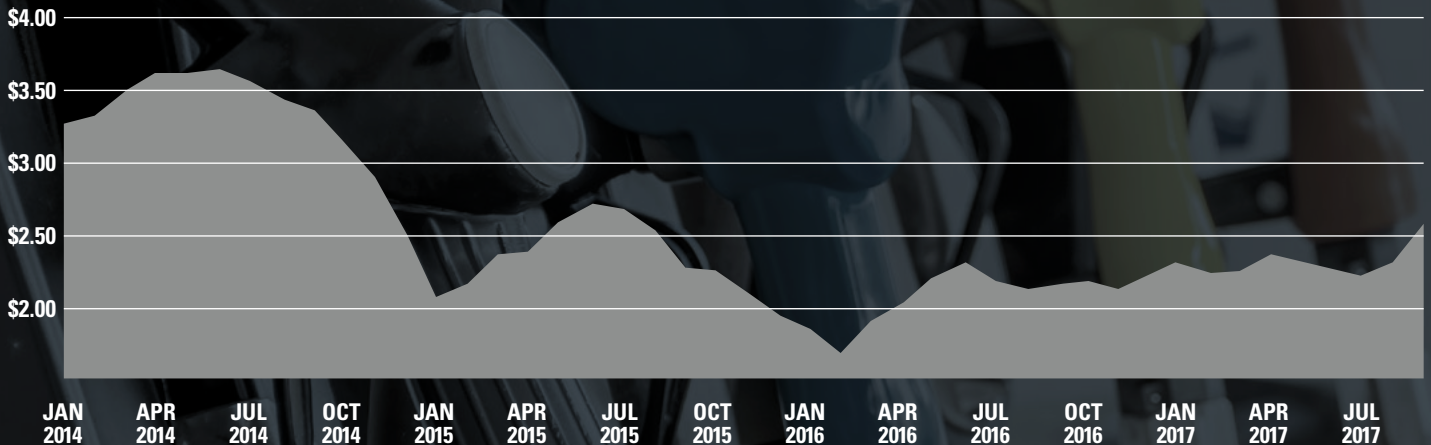
Year-Over-Year

10.4% 

Quarter-to-Quarter

2.6% 

U.S. Dollars per Gallon



Source: Energy Information Administration

Metals

Aluminum

Aluminum prices surged for the seventh quarter in a row, with strong sequential gains in each month. Tightened pollution policy and increased demand from the Chinese automobile and aerospace industries contributed to a 5.4% quarter-to-quarter gain.¹³ Additionally, the combination of a weaker U.S. dollar and robust global growth made commodities cheaper and more appealing to foreign investors. These factors helped the value of aluminum increase 24.0% year-over-year.¹⁴

Year-Over-Year

24.0% 

Quarter-to-Quarter

5.4% 

Source: World Bank

Platinum

Platinum saw its price drop to \$921.92 per troy ounce in July, the lowest monthly average this year. However, the metal rebounded in August and September to finish the quarter up 1.2% from last quarter. Expectations of increased emission standards and lingering effects from the Volkswagen fuel efficiency scandal seemed to have carried into this quarter, with the resulting lower automotive demand for diesel-fueled vehicles putting further downward pressure on platinum prices. Between two to seven grams of platinum are used in standard catalytic converters, making its value closely tied the vehicle market.¹⁵ This helps to explain the poor year-over-year comparison, which was down 12.2%.¹⁶ Excess supply in the second quarter due to a slowdown in demand from the automotive, jewelry and industrial industries likely spilled over into Q3, also contributing to the disappointing year-over-year result.¹⁷

Year-Over-Year

12.2% 

Quarter-to-Quarter

1.2% 

Source: Johnson Matthey

Palladium

After a 0.8% month-to-month drop in July, palladium prices shot to monthly records in August and September, continuing the upward trend to finish on its highest quarterly average ever. As a result, quarter-to-quarter and year-over-year comparisons were up 10.2% and 33.5%, respectively. Investor expectations of a further crack-down on emissions standards continued to put upward pressure on prices. Stricter emissions standards may lead to greater demand for petrol-powered vehicles, which rely heavier on palladium to build their catalytic converters than diesel engines. This boost in automotive demand is likely a key factor in pushing prices higher.^{18,19} The resultant reduced supply has contributed to the metal's strong quarterly performance. For the first time since 2001, palladium's prices rose above platinum in September.²⁰

Year-Over-Year

33.5% 

Quarter-to-Quarter

10.2% 

Source: Johnson Matthey

U.S. Dollar

The U.S. dollar depreciated sequentially each month of the quarter to finish down 5.3% on a quarterly basis. September's result marked the ninth consecutive month of depreciation, and pushed the dollar to a negative year-over-year comparison for the first time in 2017. The dollar's largest monthly depreciation took place in July, likely partially due to the European Central Bank stating that it wasn't concerned with the euro's recent increase in value. This convinced traders that the ECB's plans to roll back its current expansionary policies were still on track, a move that would make the U.S. dollar a relatively lower-yielding currency.²¹ Additionally, sluggish inflation in combination with a "weaker-than-expected" August jobs report lowered expectations that the Federal Reserve will raise interest rates for the third time later this year – driving investors away from the U.S. dollar.²² While the dollar fell quarterly and yearly, the currency's value remains historically strong.

Year-Over-Year

2.2%

Quarter-to-Quarter

5.3%



Source: Federal Reserve Bank of St. Louis



Euro

Coming off a strong second quarter performance, the euro continued to see strong month-to-month movement. Analysts have attributed the euro's increase in value to strong economic growth. Joe Pickard of BMO Global Asset Management noted, "The reality is that the growth outlook in Europe has changed dramatically – the economy is growing strongly – so some currency strength is only to be expected." Additionally, the ECB's relatively unconcerned remarks on the currency's appreciation has maintained expectations of reducing the central bank's stimulus package in 2018, which would lead to higher interest rates.²³ Maintaining these expectations helped further boost the euro's value. The euro's strength against the U.S. dollar may also be a result of political uncertainty in the United States, pushing investors toward "safer" currencies.²⁴

Year-Over-Year

5.0%

Quarter-to-Quarter

6.4%

Source: OANDA Corp.



Canadian Dollar

The Canadian dollar rebounded from its depreciative results in 2017 and saw sequential monthly appreciations throughout the third quarter, mirroring performances seen in the euro and Mexican peso. The Bank of Canada also raised their interest rates for the first time since 2010, going from 50 to 75 basis points in July,²⁵ and again in September to 1 percent. These decisions helped narrow the interest rate gap between the U.S. and Canada, boosting the loonie's September value to its highest mark since June 2015.²⁶ High oil prices were also a factor in the Canadian dollar's increase in value.²⁷

Year-Over-Year

3.6%

Quarter-to-Quarter

6.6%

Source: OANDA Corp.



Mexican Peso

The value of the Mexican peso continued to increase against the U.S. dollar in the third quarter, reaching its best quarter-to-quarter mark since late 2015. However, signs of an end to currency's rally began to show as slower month-to-month growth in August led to a slight 0.16% depreciation in September. Banxico, Mexico's central bank, did not raise policy interest rates at all for the first quarter since the fall of 2015 and kept rates at 7.0%. Since this was in line with expectations, it did little to affect the peso. However, a statement in September saying the Federal Reserve would commit to increasing the federal funds rate moving forward put downward pressure on the peso. Additionally, a severe earthquake that hit Mexico City in early September added to investors' expectations of struggling economic growth for the country.²⁸

Year-Over-Year

5.0%

Quarter-to-Quarter

4.0%

Source: OANDA Corp.



Japanese Yen

Despite an impressive performance against the dollar, the Japanese currency received some downward pressure from heightened concerns with North Korea.²⁹ Political uncertainty and tax reforms in the United States applied modest upward pressure on the yen,³⁰ but it remains historically weak against the U.S. dollar. Most analysts attribute this to the Bank of Japan's continued commitment to loose monetary policy.³¹

Year-Over-Year

8.4%

Quarter-to-Quarter

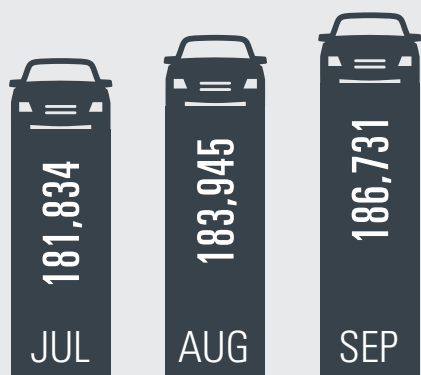
0.2%

Source: OANDA Corp.

Overview Of The Canadian Automobile Industry

New-vehicle sales in the third quarter of 2017 continued to grow with 4.9%, 6.9%, and 7.7% year-over-year gains for July, August and September, respectively. Each of these months' marks were good enough to top the two million seasonally-adjusted annualized sales rate (SAAR), a calendar-year result Canadian vehicle sales are increasingly likely to beat for the first time ever.³² For the quarter, new-vehicle sales were up 6.5% on a yearly basis. The strong performance continues to be led by record-breaking light truck sales, as passenger car vehicle values have remained low.³³ Additionally, the ADESA Canada Used Vehicle Price Index was down month-to-month in July, but recovered in August and September and ended near June's levels.³⁴ Gas prices finished above last quarter's relatively low prices.³⁵ Finally, the unemployment rate shrank from 6.5% to 6.2% on a quarterly basis, which likely contributed to this impressive quarterly result.³⁶

New-Vehicle Sales



Economic Drivers



Used-Car Price Index

July

Month-to-Month

0.8% ↓

August

Month-to-Month

0.1% ↑

September

Month-to-Month

0.5% ↑

Source: ADESA Analytical Services

Insurance Carrier Vehicles

The average vehicle age of Canadian insurance vehicles increased on a yearly basis by 1.0%, or 0.1 years. Average mileage dropped 1.8% and 0.5% relative to the past quarter and year-over-year, respectively. Average ACV saw a strong gain quarter-to-quarter and was up a respectable 6.1% over last year's third quarter numbers.

Average
ACV

Year-Over-Year

6.1% 

Quarter-to-Quarter

3.1% 

Average
Age

Q3 2016

9.7
YEARS

Q3 2017

9.8
YEARS

Average
Mileage

Year-Over-Year

0.5% 

Quarter-to-Quarter

1.8% 

Source: IAA

Canadian Dollar Effective Exchange Rate Index

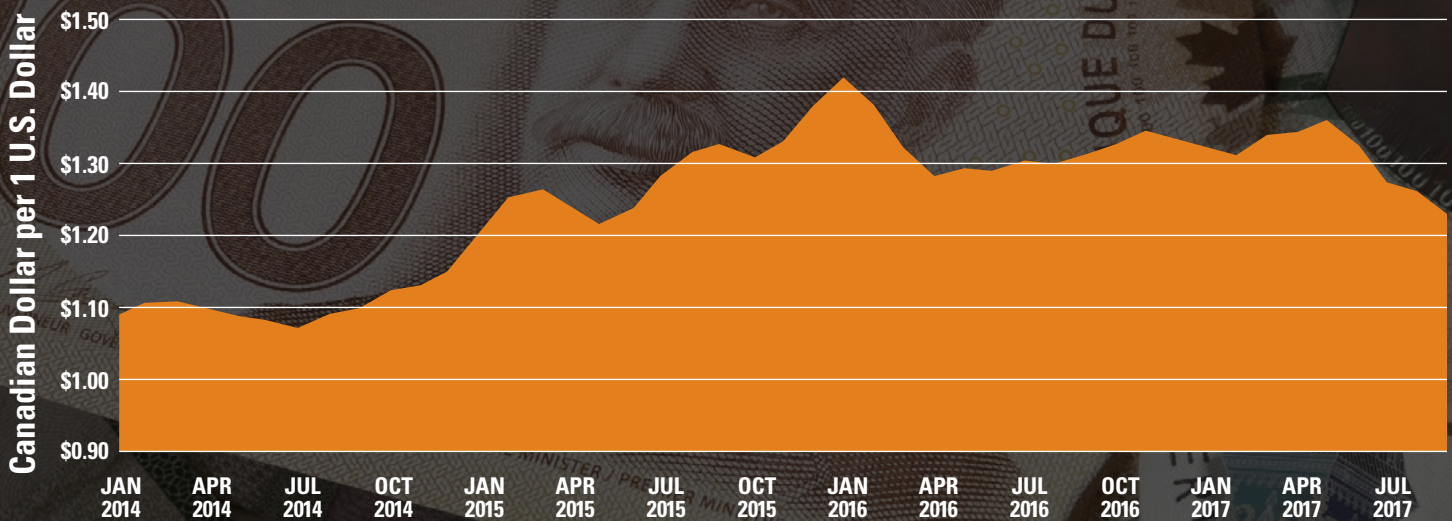
The Canadian Dollar Effective Exchange Rate Index (CERI), which is tracked by the Bank of Canada, appreciated on a quarterly and yearly basis at 6.3% and 3.9%, respectively. Two rate hikes in the third quarter, the second of which was a surprise to investors, pushed the loonie to its highest quarterly average since 2015. The Bank of Canada also cited “geopolitical risks and international trade tensions [that] had weakened the U.S. dollar,” as a contributor to the index’s appreciation.³⁷ The tensions and narrowing interest rate spread between the U.S. and Canada put upward pressure on the Canadian dollar’s value.

Year-Over-Year

3.9%

Quarter-to-Quarter

6.3%



Source: OANDA Corp.

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About Insurance Auto Auctions, Inc.

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 multiplatform 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 IAA-Auctions.com to learn more, and follow IAA on [Facebook](https://www.facebook.com/IAA) and [Twitter](https://twitter.com/IAA).



About the Author

Meggan O'Malley is the Director of Business Analytics at Insurance Auto Auctions, Inc. (IAA). Mrs. O'Malley leads the organization's efforts in monitoring and reporting on customer performance and analyzing industry trends. Mrs. O'Malley joined IAA in 2007 and held several positions before assuming her current responsibilities. Prior to joining IAA she served as a financial analyst at Grant Thornton, one of the world's leading organizations of independent audit, tax and advisory firms. Mrs. O'Malley holds bachelor's degrees in finance and marketing from Marquette University, and an MBA with a concentration in management from Argosy University.

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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