



# Q1 REMARKETING REPORT

Looking Back at an Eventful Quarter

Quarter 1 | 2019

# INTRODUCTION

This report from IAA, Inc. focuses on remarketing vehicles that have high mileage or light damage, have been repossessed, are in arbitration or are otherwise not sold in whole-car auctions. Vehicle sellers include fleet companies, rental-car companies, financial institutions and retail and wholesale dealers. Vehicles considered to be remarketing vehicles tend to be in drivable or near-drivable condition, and many fall among the High Grade segment (top 20% of sale price) of IAA's auctions. The providers of remarketing vehicles fall into three distinct categories:

**Dealer Category** — Retail and wholesale automobile dealers disposing of inventory not sold through normal retail channels.

**Commercial Category** — Financial companies disposing of their fleets or off-lease and repossessed financed vehicles.

**Rental Category** — Rental-car companies disposing of aging inventory.

Year-Over-Year:

**U.S. DOLLAR INDEX**

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**AUTO-LOAN  
DEFAULT RATE**

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# INDUSTRY OVERVIEW: AN ACTION PACKED START TO 2019

It was a volatile start to 2019 as increased competition in the used vehicle market coupled with the government shutdown and extreme weather incidents slowed new-vehicle sales.<sup>1</sup> Nonetheless, by March, seasonally adjusted annual sales had rebounded to the tune of 17.48 million total units. All in, new-vehicle sale volumes were down .09% year-over-year.<sup>2</sup> Light truck and passenger car sales went in opposite directions, as the former registered a 0.6% year-over-year increase while the latter dipped by 8.6%.<sup>3</sup>

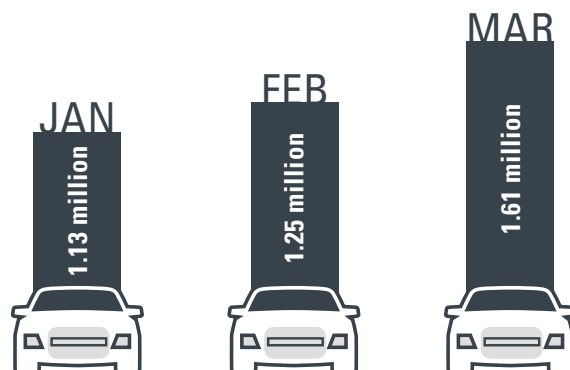
Overall, both used and new vehicle prices increased over the quarter on a yearly basis – Q1 featured a 2.6% rise for new vehicles and 3.3% for used.<sup>4</sup> It appears that growing new-vehicle prices and interest rates coupled with off-lease vehicle availability are continuing to push some buyers to the used market.<sup>5</sup>

Fuel prices trended upwards as well, as gas and diesel increased to \$2.27/month and \$3.02/month, respectively. Finally, the U.S. economy continued its strong finish to 2018, with monthly unemployment no higher than 4%<sup>6</sup> and GDP growth up to 3.2%.<sup>7</sup>

## Quarter-to-Quarter:



## NEW-VEHICLE SALES





# REMARKETING VEHICLES REBOUND

2018 may have ended a bit weak, but the remarketing vehicle average selling price quickly rebounded in 2019. The year kicked off with Q1 increases of 1.1% quarterly and 1.7% year-over-year.

A rise in the average age and mileage of vehicles in this category didn't stop growth, which was influenced by rising commercial and rental-vehicle prices offsetting decreasing dealer-vehicle prices.



## SELLING PRICE INDEX



Q1  
2018:

**143.1**

Q1  
2019:

**145.6**

↑ **1.7%**

## AVERAGE AGE (YEARS)



Q1  
2018:

**8.1**

Q1  
2019:

**8.5**

↑ **4.9%**

## AVERAGE MILEAGE INDEX



Q1  
2018:

**94.5**

Q1  
2019:

**100.1**

↑ **5.6%**

# THE DOWNWARD TREND CONTINUES FOR DEALER VEHICLE PRICES

The record dealer-vehicle price highs of Q4 2017 and Q1 2018 appear to be behind us. Consecutive quarterly decreases that began in Q2 of 2018 continued through this quarter with downturns of 2.2% quarter-to-quarter and 7.5% year-over-year. Dealers have made a noticeable shift in their approach to wholesaling which has limited the growth of the market. The combination of rising interest rates and higher new-vehicle prices has led to slower new-vehicle growth. Because of this, dealers are retailing vehicles directly and wholesaling much less frequently.<sup>8</sup> A compounding factor contributing to the sliding price trend is the 5.4% increase in average age and 8.3% increase in average mileage of dealer vehicles.



## SELLING PRICE INDEX

Q1  
2018: **138.5**

Q1  
2019: **128.1**

↓ **7.5%**



## AVERAGE AGE (YEARS)

Q1  
2018: **10.3**

Q1  
2019: **10.9**

↑ **5.4%**



## AVERAGE MILEAGE INDEX

Q1  
2018: **102.4**

Q1  
2019: **110.9**

↑ **8.3%**



## SELLING PRICE INDEX



Q1  
2018: **122.4**

Q1  
2019: **135.1**

↑ **10.3%**

## AVERAGE AGE (YEARS)



Q1  
2018: **7.81**

Q1  
2019: **7.84**

↑ **0.4%**

## AVERAGE MILEAGE INDEX



Q1  
2018: **98.8**

Q1  
2019: **100.1**

↑ **1.3%**



# THE COMMERCIAL CATEGORY SEESAW

It's been a story of ups and downs for the commercial selling price index, as a weak Q4 in 2018 was followed up by a 5.0% quarterly boost and 10.3% year-over-year increase in Q1 of this year. While average age and mileage did increase, putting downward pressure on the category, spring tax season along with rising car and truck/SUV/CUV sales prices aided the category's price uptick.

A deeper dive into the data reveals that despite the overall upward trend, the quarter's numbers are a bit more segmented than they might appear. According to Tom Kontos of ADESA, when controlling for age and mileage across similar model types, prices for midsize cars have increased while midsize SUV/CUV have decreased. This is likely the result of the strong new vehicle sales in the SUV/CUV category in recent years that has led to the recent increase in supply in the secondary market.<sup>9</sup>





### SELLING PRICE INDEX

Q1  
2018: **128.8**

Q1  
2019: **138.0**

↑ **7.1%**



### AVERAGE AGE (YEARS)

Q1  
2018: **2.00**

Q1  
2019: **2.00**

↓ **1.0%**



### AVERAGE MILEAGE INDEX

Q1  
2018: **142.8**

Q1  
2019: **153.1**

↑ **7.2%**

## RENTAL CATEGORY PRICES KEEP RISING

Similar to the commercial vehicle category, rental vehicles saw a sizable year-to-year average price increase of around 7.1%, marking six consecutive quarters of growth. This number, likely reflective of a modestly younger average vehicle age, could perhaps have been even higher were it not for the 7.2% increase in average mileage.

# USED-CAR PRICE INDEX SEES A STRONG SPRING

After month-to-month ebbs and flows, average wholesale used vehicle prices ultimately increased on a quarter-to-quarter basis by 1.1%, as expected during spring tax season. Year-over-year was a steadier story with just a moderate increase of 0.3%. Tom Kontos, Chief Economist at KAR Auction Services Inc. noted that prices for car segments are beginning to hold up better while crossover and SUV truck segments may be starting to have a tougher go. Prices were up significantly on a year-over-year basis for midsize cars, but down substantially for midsize SUVs and crossovers.<sup>10</sup>

Overall, it was a strong spring for the market with CPO sales coming in at a record high in March and all seller types registering monthly and yearly average price increases.

## USED-CAR PRICE INDEX

### JANUARY

Month-to-Month:

**↑1.3%**

Year-Over-Year:

**↓2.0%**

### FEBRUARY

Month-to-Month:

**↑0.1%**

Year-Over-Year:

**↑0.6%**

### MARCH

Month-to-Month:

**↑3.0%**

Year-Over-Year:

**↑2.5%**





# CONCERNS DISSOLVE FOR AUTO-LOAN DEFAULT

Don't let Q1's modest 0.01 percentage-point quarter-to-quarter increase deceive you; we've now seen three straight months of flat or falling auto-loan default rates, and a year-to-year mark that's down 0.10 percentage points. This trend dampens the late-2018 concern that auto-loan delinquencies would convert to auto-loan defaults.<sup>11</sup> So what have been the major factors of this recent trend? According to David Blitzer of the S&P Dow Jones, it is the combination of moderate growth in the U.S. economy and increased consumer spending. Blitzer also noted that minimal consumer credit risks, due to low unemployment and higher wage growth, played a part.<sup>12</sup>

Quarter-to-Quarter:

↑ **0.01**

Percentage Points

Year-Over-Year:

↓ **0.10**

Percentage Points





## U.S. DOLLAR

Quarter-to-Quarter:

**0.1%**

Depreciated

Year-Over-Year:

**6.2%**

Appreciated

## USD KEEPS PACE

Despite a minor Q1 depreciation of 0.1%, the strong American economy – which has been magnified by the slowing economies of Europe, Great Britain and China – continued to influence the value of the USD. The currency has appreciated 6.2% since Q1 of 2018, with consecutive increases in each recorded month this year. A strong currency value is typically seen with higher interest rates, but for the U.S., the opposite has been the case as relatively low U.S. interest rates are still higher than many other developed countries.<sup>13</sup> Meanwhile, the economy may also get a boost from the Federal Reserve, who raised its benchmark interest rate another 25 basis points to 2.25-2.50.<sup>14</sup>

## CURRENCIES

PESO

Quarterly:

**↓3.1%**

Yearly:

**↑12.6%**

EURO

Quarterly:

**↑10.5%**

Yearly:

**↑18.2%**

YEN

Quarterly:

**↓2.3%**

Yearly:

**↑1.7%**

CD

Quarterly:

**↑10.6%**

Yearly:

**↑15.1%**



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# ABOUT IAA, INC.

IAA, Inc. (NYSE: IAA) is a leading global marketplace connecting vehicle buyers and sellers. Leveraging leading-edge technology and focusing on innovation, IAA's unique multi-channel platform processes more than 2.5 million vehicles annually. Headquartered near Chicago, IL, IAA has over 3,600 talented employees and over 190 facilities throughout the US, Canada and the United Kingdom. IAA provides a broad range of services to insurers, fleet and rental companies, rebuilders, charity organizations and financing companies that reduce the cycle time of selling a vehicle with a focus on delivering the highest economic returns. Buyers have access to the industry's most-innovative vehicle evaluation and bidding tools, enhancing the overall purchasing experience. Go to [IAA-Auctions.com](http://IAA-Auctions.com) to learn more, and follow IAA on [Facebook](#), [Twitter](#), [LinkedIn](#), [YouTube](#) and [Instagram](#).

## ABOUT THE AUTHOR



Sebastian Gancarczyk is the Vice President of Finance at IAA, Inc. Mr. Gancarczyk manages the organization's financial planning and budget management functions. Additionally, he leads efforts in monitoring and reporting on customer performance with emphasis on analyzing industry trends. He's been with IAA since 2004, and held several positions at the company before assuming his current role. Prior to joining IAA, Mr. Gancarczyk served as a Financial Analyst for GE Capital and Heller Financial. He is a Certified Public Accountant (CPA) and holds a bachelor's degree in accounting from National Louis 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 based on management's current expectations, are not guarantees of future performance and 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. These risk and uncertainties include those identified in our filings with the Securities and Exchange Commission (the "SEC"), including under "Risk Factors" in our information statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC on June 13, 2019. Additional information regarding risks and uncertainties will also be contained in subsequent quarterly and annual reports we file with the SEC. The forward-looking statements included in this report are made as of the date of this report, and we undertake no obligation to publicly update or revise any forward-looking statement to reflect new information or events, except as required by law.