



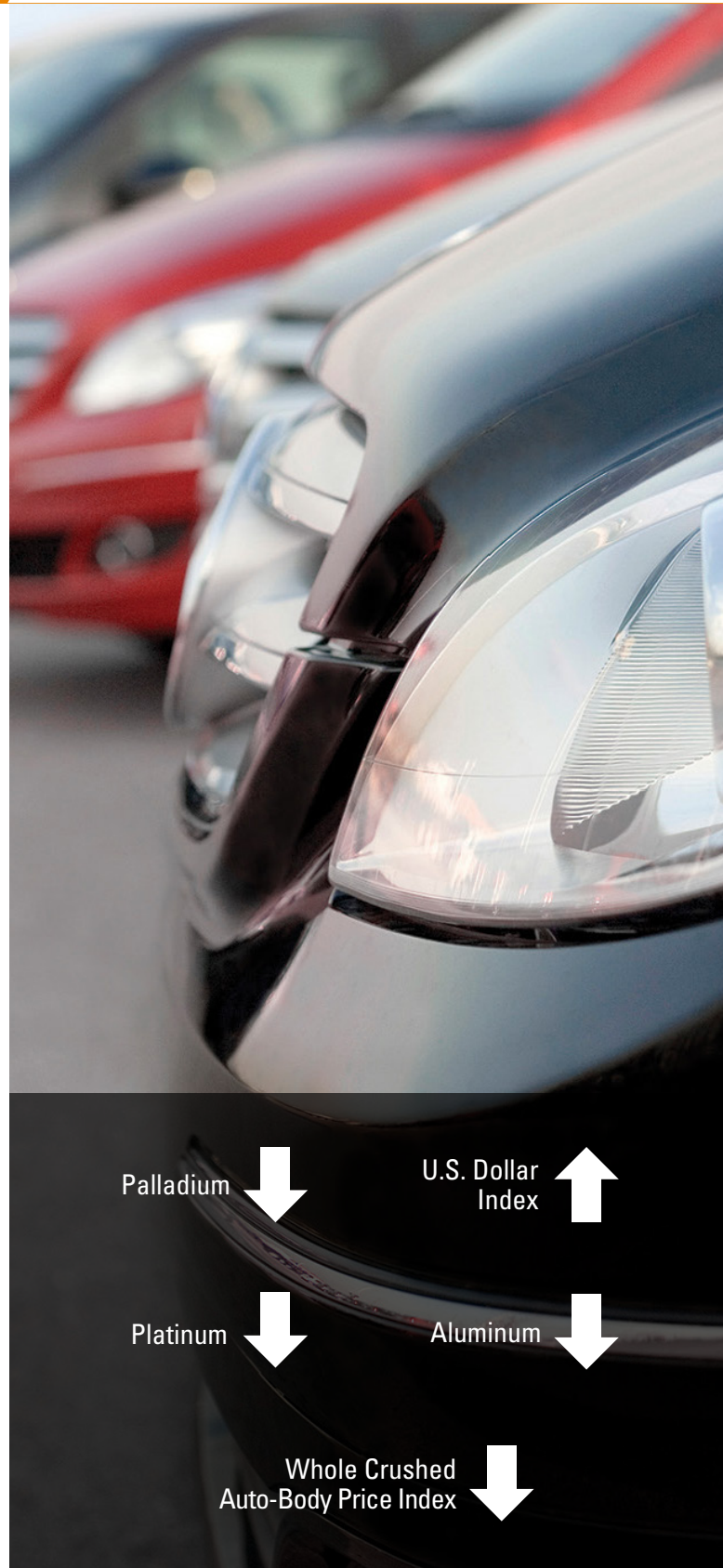
Charity Quarterly Report

QUARTER 1 2016

The Insurance Auto Auctions (IAA) Charity Quarterly Report focuses on economic indicators related to the market for vehicles sold through IAA's Donation Division. Included is a detailed analysis of external factors, followed by an overview of the vehicles sold through the Donation Division.

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 Recycler*, the 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**
An index from the Federal Reserve Bank of St. Louis that measures the value of the U.S. dollar against an index of seven major currencies: the euro, Canadian dollar, Japanese yen, British pound, Swiss franc, Australian dollar and Swedish krona.
- **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.



Donation Division Vehicles

The average actual cash value (ACV) of Donation Division vehicles decreased on both a quarterly and annual basis. ACV represents the estimated value of a vehicle in its undamaged state, and serves as a benchmark for the general quality of vehicles making their way to auction. This drop is not surprising when considering the average age and mileage of Donation Division vehicles, both of which increased during the first quarter.

Average
ACV

Year-Over-Year

12.5%

Quarter-to-Quarter

8.3%

Source: IAA

Average
Age

Year-Over-Year

0.3
YEARS

Quarter-to-Quarter

0.2
YEARS

Source: IAA

Average
Mileage

Year-Over-Year

1.1%

Quarter-to-Quarter

1.4%

Source: IAA



Whole Crushed Auto-Body Price Index

Whole crushed auto-body prices have endured a well-publicized decline over the past few years, but there are signs suggesting relief may be on the horizon. The first quarter saw prices decline by 26.0% year-over-year, but also brought about a 3.1% increase compared with Q4 2015 (Chart 1). January also marked the first month-to-month price increase since June of 2015, providing more welcome news to begin 2016. Performance cooled in February due in large part to falling demand from China and South Korea, the two largest importers of U.S. scrap steel,¹ but a March rally brought returned positive momentum.



USED-CAR PRICE INDEX

Used-car prices increased during the first quarter, rising 0.6% year-over-year. Weak performance in February which could have derailed the gain was overcome by strong results in January and March. The diverse economic forces that influence vehicle values were on display, as a tale of two categories emerged during the period. The truck market benefited from low gas prices and falling supply, but prices fell for every car and crossover segment as the much-maligned oversupply issues continued to take its toll.² Thanks to early tax refunds, consumers had money to spend in March, which led to a 1.7% and 6.0% gain year-over-year and month-to-month, respectively.

January

Year-Over-Year
0.6%

Month-to-Month
4.9%

Source: ADESA Analytical Services

February

Year-Over-Year
0.3%

Month-to-Month
0.5%

Source: ADESA Analytical Services

March

Year-Over-Year
1.7%

Month-to-Month
6.0%

Source: ADESA Analytical Services



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 to 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.³ Needless to say, a shortage of aluminum is not on the horizon.

Year-Over-Year

16.0% 

Quarter-to-Quarter

1.4% 

Source: International Monetary Fund

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 to 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

Palladium

The new year did not bring welcome news for palladium, which saw its value drop for a sixth consecutive quarter. The average price of the metal fell 13.7% compared with the previous quarter, and 33.5% year-over-year. The strength of the U.S. dollar had much to do with the decline, but it was by no means the only factor. Growth in Chinese new-vehicle sales has slowed 16% in 2013 to 7.3% in 2015, leading to additional pricing pressure.⁴ Still, analysts expect a weaker U.S. dollar, new-vehicle sales in North America and a potential shortage of the material to buoy prices later in the year.⁵

Year-Over-Year

33.5% 

Quarter-to-Quarter

13.7% 

Source: Johnson Matthey

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. Volatile global markets, 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.

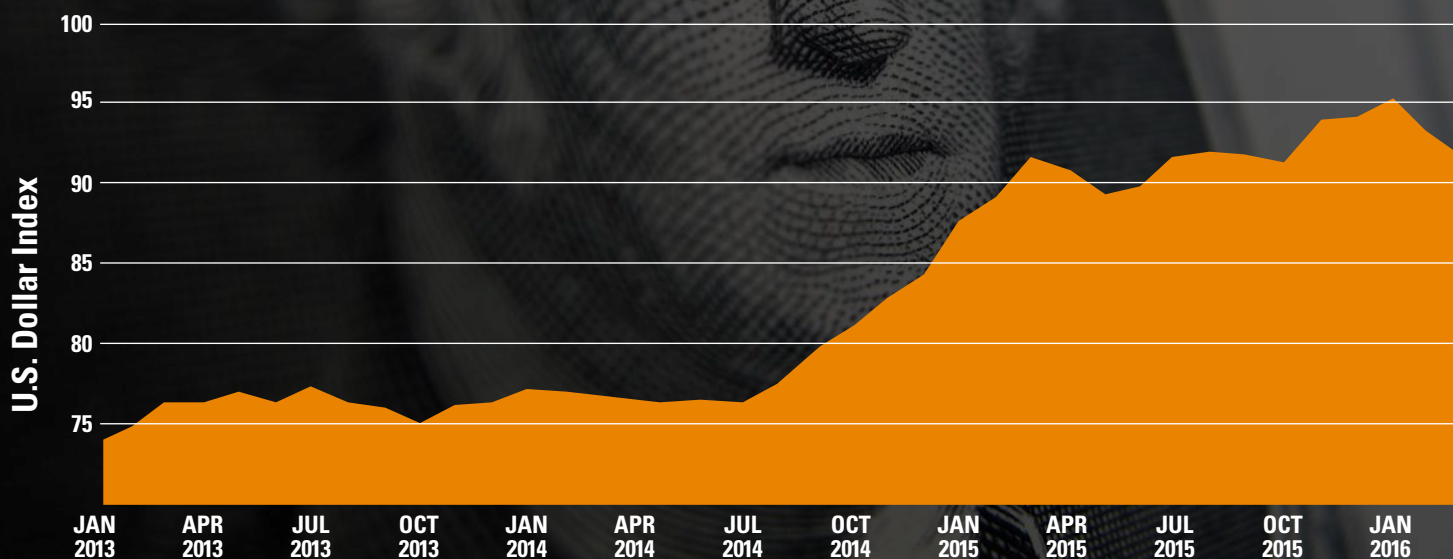
Year-Over-Year

4.3%

Quarter-to-Quarter

0.3%

Source: Federal Reserve Bank of St. Louis



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.⁶

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.⁷

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.

References

1. [Editorial Staff, "BIR Stainless Steel World Mirror February 2016," Recycling International, February 24, 2016.](#)
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4. [Rose Yu, "China Car Sales Growth Slows Further," The Wall Street Journal, Jan. 12, 2016.](#)
5. [Teresa Matich, "FocusEconomics: Palladium Prices to Pick Up By Year End," Investing News, Mar. 15, 2016.](#)
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Overview of IAA

For more than three decades, Insurance Auto Auctions, Inc. (IAA) has been a respected leader in the vehicle auction industry. With headquarters in Westchester, IL, and more than 170 locations across North America—the most auction facilities on the continent—IAA offers convenience nobody else can, providing its global buyer base the opportunity to bid on and purchase vehicles through its live and live-online auctions. IAA's talented team of more than 2,200 employees is committed to providing customers with the highest level of service in the industry. Since 1982, IAA has been the trusted partner of insurance companies, fleet and rental firms, financing companies, auto dealers and the general public. In addition, hundreds of the most well-known charities from across the country count on IAA to provide complete processing services for their vehicle donation program and increase awareness through the One Car One Difference® campaign (1Car1Difference.com). Through these efforts, IAA has helped raise millions of dollars in funding for these organizations. To learn more about all of IAA's services, visit IAA-Auctions.com, and follow IAA on Facebook and Twitter.

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 Division

IAA's Donation Division 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 Division 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.

IAA-Auctions.com/charity