



Charity

QUARTERLY
REPORT
Q3 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 (The World Bank).

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** ↑

ALUMINUM ↑

PLATINUM ↓

PALLADIUM ↑

U.S. DOLLAR INDEX ↓

donated vehicles

► **The average actual cash value (ACV)** of donated vehicles was up 2.3% but down 3.3% compared to the previous quarter and last year's third quarter average, respectively. Average ACV picked up slightly in July before it shot up in August, but then regressed to the Q2 average in September.

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. Although the average age and mileage of donated vehicles rose 0.3 years and 1.0%, respectively, Hurricane Harvey likely outweighed these measures to help the average ACV's quarterly positive result.¹

AVERAGE ACV QUARTER-TO-QUARTER

↑ 2.3%

Source: IAA

YEAR-OVER-YEAR

↓ 3.3%

Source: IAA

AVERAGE AGE YEAR-OVER-YEAR

↑ 0.3 YEARS

Source: IAA

AVERAGE MILEAGE YEAR-OVER-YEAR

↑ 1.0%

Source: IAA

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

► **Whole crushed auto-body prices** started off this 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.

QUARTER-TO-QUARTER

↓ **6.3%**

YEAR-OVER-YEAR

↑ **0.7%**

JULY
MONTH-TO-MONTH

↓ **3.7%**

— Source: American Recyclers —

YEAR-OVER-YEAR

↓ **8.3%**

— Source: American Recyclers —

AUGUST
MONTH-TO-MONTH

NO CHANGE
0.0%

— Source: American Recyclers —

YEAR-OVER-YEAR

↓ **6.0%**

— Source: American Recyclers —

SEPTEMBER
MONTH-TO-MONTH

↑ **0.1%**

— Source: American Recyclers —

YEAR-OVER-YEAR

↑ **21.3%**

— Source: American Recyclers —

...USED CAR PRICE... INDEX

JULY

MONTH-TO-MONTH

↓ 1.0%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑ 1.3%

Source: ADESA Analytical Services

AUGUST

MONTH-TO-MONTH

↑ 0.6%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑ 1.9%

Source: ADESA Analytical Services

SEPTEMBER

MONTH-TO-MONTH

↑ 0.9%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑ 2.9%

Source: ADESA Analytical Services

► **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.

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.⁸ 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.⁹

QUARTER-TO-QUARTER

↑ 5.4%

Source: International Monetary Fund

YEAR-OVER-YEAR

↑ 24.0%

Source: International Monetary Fund

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 to the vehicle market.¹⁰ This helps to explain the poor year-over-year comparison, which was down 12.2%.¹¹ 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.¹²

QUARTER-TO-QUARTER

↑ 1.2%

Source: Johnson Matthey

YEAR-OVER-YEAR

↓ 12.2%

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.^{13,14} 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.¹⁵

QUARTER-TO-QUARTER

↑ 10.2%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑ 33.5%

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.¹⁶ 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.¹⁷ While the dollar fell quarterly and yearly, the currency's value remains historically strong.

QUARTER-TO-QUARTER

DEPRECIATED
↓ 5.3%

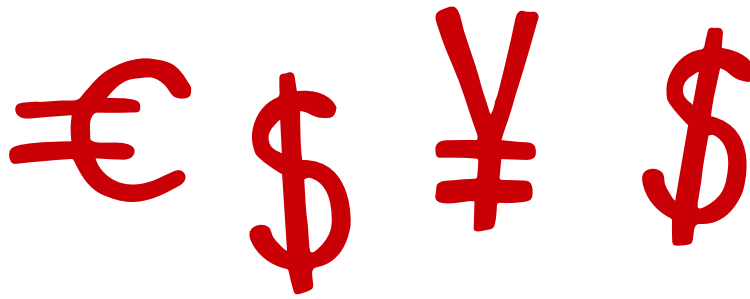
Source: Federal Reserve Bank of St. Louis

YEAR-OVER-YEAR

DEPRECIATED
↓ 2.2%

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.¹⁸ 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.¹⁹

QUARTER-TO-QUARTER
APPRECIATED **↑6.4%**

Source: OANDA Corp.

YEAR-OVER-YEAR
APPRECIATED **↑5.0%**

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 its policy interest rate at all for the first quarter since the fall of 2015 and kept rate 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 forward did 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.²³

QUARTER-TO-QUARTER
APPRECIATED **↑4.0%**

Source: OANDA Corp.

YEAR-OVER-YEAR
APPRECIATED **↑5.0%**

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,²⁰ 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 2015.²¹ High oil prices were also a factor in the Canadian dollar's increase in value.²²

QUARTER-TO-QUARTER
APPRECIATED **↑6.6%**

Source: OANDA Corp.

YEAR-OVER-YEAR
APPRECIATED **↑3.6%**

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.²³ Political uncertainty and tax reforms in the United States applied modest appreciative pressure on the yen,²⁵ but the currency remains historically weak against the U.S. dollar. Most analysts attribute this to the Bank of Japan's continued commitment to loose monetary policy.²⁶

QUARTER-TO-QUARTER
APPRECIATED **↑0.2%**

Source: OANDA Corp.

YEAR-OVER-YEAR
DEPRECIATED **↓8.4%**

Source: OANDA Corp.

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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 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.