

Q3

INSURANCE REPORT

The Facts and Figures Behind
Your Auction Returns



Quarter 3 | 2018





WELCOME TO THE **QUARTERLY REPORT**

Insurance Auto Auctions, Inc. (IAA) helps insurance carriers dispose of total loss vehicles via a multi-channel auction model supporting six unique buying and selling platforms. 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**



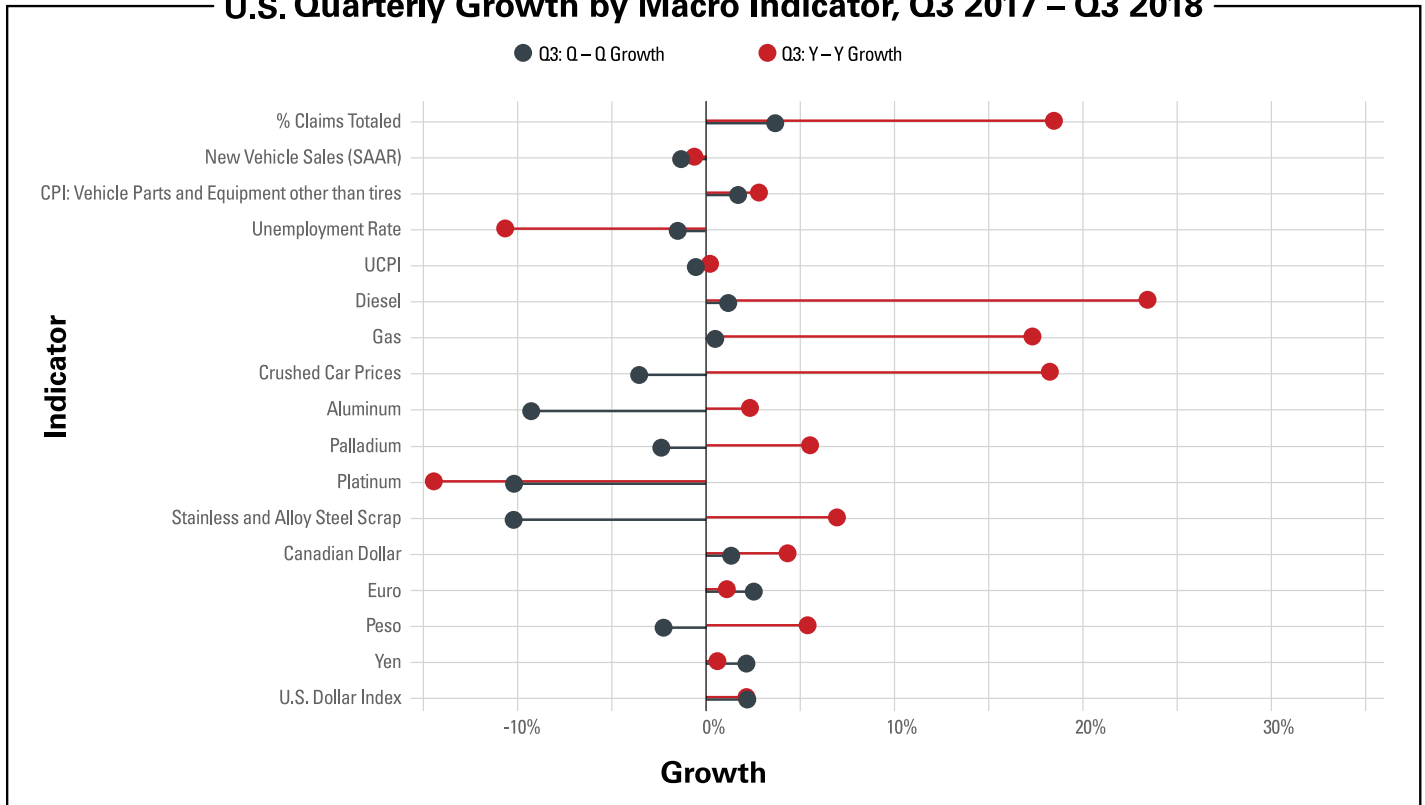
**TOTAL MILES
DRIVEN**



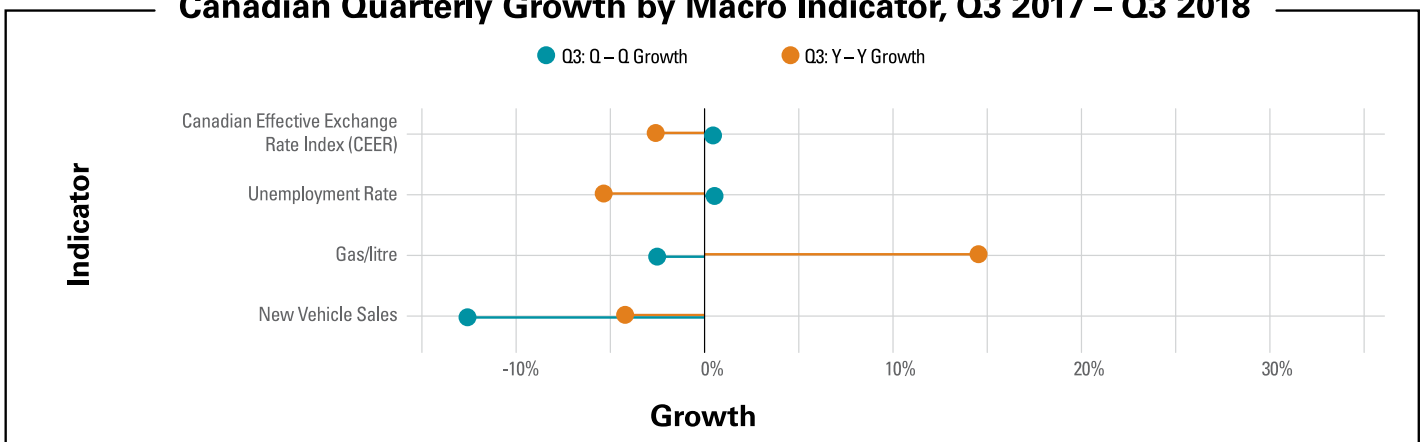
GASOLINE PRICES

AUTO TRENDS **AT A GLANCE**

U.S. Quarterly Growth by Macro Indicator, Q3 2017 – Q3 2018



Canadian Quarterly Growth by Macro Indicator, Q3 2017 – Q3 2018



EXPENSIVE NEW VEHICLES PUSH CONSUMERS TOWARD USED CARS

New-vehicle prices averaged \$724 more than 2017¹ and these rising costs put downward pressure on seasonally-adjusted new-vehicle sales, which fell for the first two months of Q3 2018. Light truck volume growth continues to be on top, averaging a 5.8% increase through the quarter, while passenger car sales, representing around a third of all new sales, dropped by 18.4%. However, a September comeback ultimately put the annual sales rate at 17.3 million units, increasing 0.5% year-to-date.² These rising new-vehicle costs provided positive pressure to the used-car market, lifting both used-car prices and sales volume for the quarter.³ Fuel cost growth stayed flat throughout the quarter, with gas prices steady at \$2.77/month and diesel prices at \$3.24/month. The U.S. economy remained in good standing, with modestly increased wages, continued low unemployment and steady GDP growth at 3.5%.

Quarter-to-Quarter:



WHOLE CRUSHED
AUTO-BODY
PRICES



TOTAL MILES
DRIVEN



PALLADIUM



PARTS PRICES

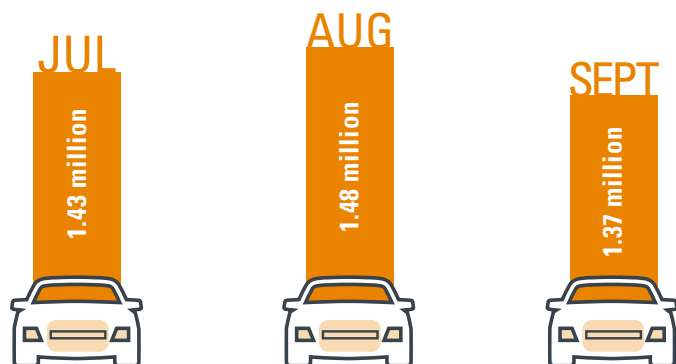


ALUMINUM



PLATINUM

NEW-VEHICLE SALES



GASOLINE

Quarter-to-Quarter:

↑ **0.6%**

Year-Over-Year:

↑ **17.4%**

DIESEL

Quarter-to-Quarter:

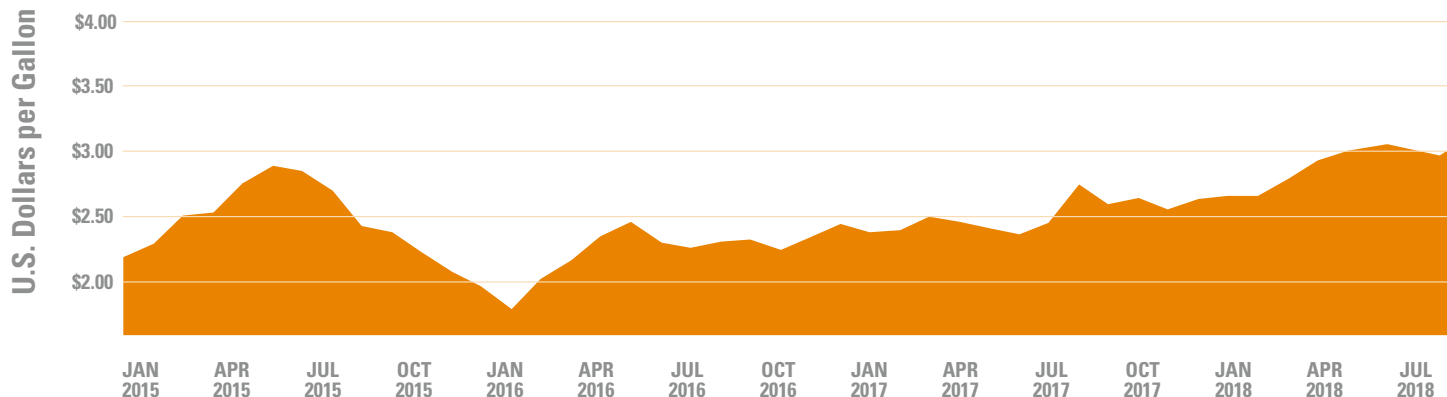
↑ **1.3%**

Year-Over-Year:

↑ **23.2%**

FUEL PRICES DOWN TO A SIMMER AFTER **SEASONAL SURGE**

Gas prices leveled out from recent highs in May and June, but stayed flat at \$2.77 through each month of the quarter, finishing 0.6% higher quarter-to-quarter and increasing an impressive 17.4% year-over-year. Diesel trended similarly, increasing 1.3% from last quarter and increasing 23.2% above Q3 2017. This followed seasonal trends, which typically see an increase in fuel usage during the summer driving months.⁴ Notwithstanding similar seasonal trends in oil prices, their flattening since May and June was also reflected in stagnant gasoline prices this quarter.



Source: Energy Information Administration

DESPITE SETBACKS, WHOLE CRUSHED AUTO-BODY PRICES STAY COMPETITIVE



WHOLE CRUSHED AUTO-BODY PRICES

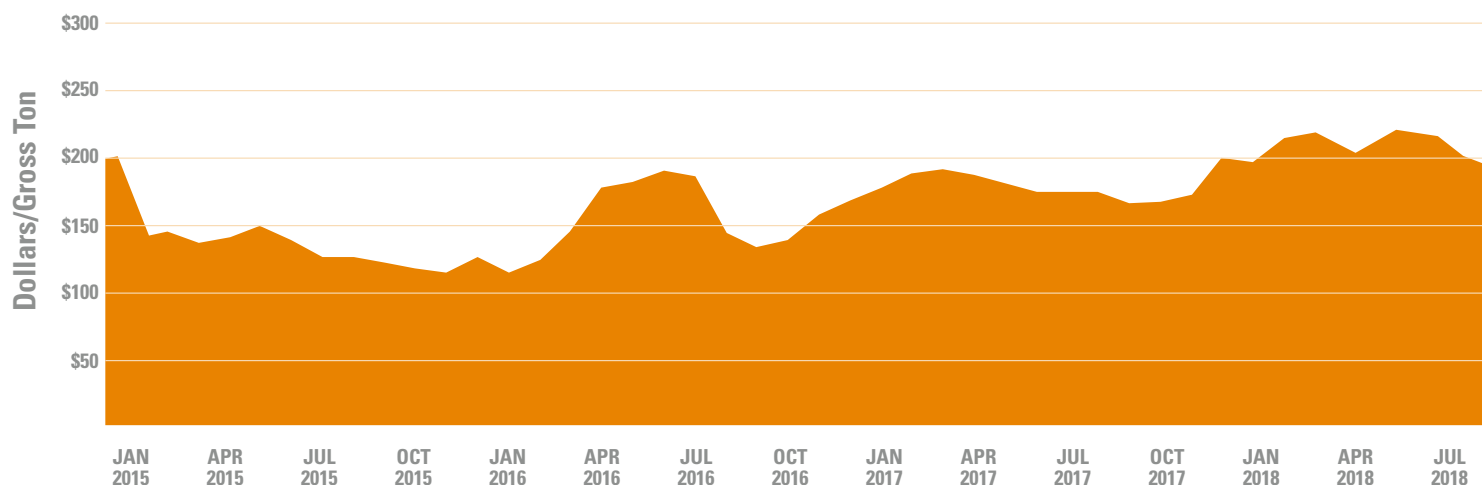
Quarter-to-Quarter:

↓ **3.7%**

Year-Over-Year:

↑ **18.2%**

Quarter-to-quarter, whole crushed auto-body prices dipped slightly, which was the index's first decrease since Q4 of 2017. Buyers may have been skittish about purchasing scrap metal because of trade tensions with Turkey, the world's largest scrap importer, thus putting downward pressure on prices. However, when compared year-over-year, its 18.2% growth remains close to the four-year high seen in Q2 2018.⁵ Most significantly for this segment, Canada and Mexico agreed upon a NAFTA revision that requires a higher share of auto components to be built in the U.S. and Canada. Jumping from the previous 62.5% to a 75.0% share, the agreement will likely impact crushed car prices and IAA will closely monitor the situation moving forward.⁶



Source: American Recycler

PALLADIUM PROSPECTS REMAIN POSITIVE; **ALUMINUM AND PLATINUM FALTER**

All three metals struggled in Q3 2018 compared to Q2, with aluminum experiencing a quarter-to-quarter drop for the first time in 2018. Back in April, sanctions from the U.S. on major aluminum producer United Company Rusal and consequent supply deficits shot aluminum prices to a seven-year high. The U.S. has softened its stance on the company since then, easing concerns about future supply shortages and pushing aluminum prices down 9.3% as a result.⁷

Platinum prices continue to slide as diesel engines fall out of style, falling below average prices seen in the same quarter in 2017, but there's still hope yet for palladium – despite prices falling from a January 2018 all-time high, supply deficits and strong gas vehicle demand worked to keep palladium prices positive year-over-year.⁸

PLATINUM

Quarter-to-Quarter:

↓**10.1%**

Year-Over-Year:

↓**14.6%**

PALLADIUM

Quarter-to-Quarter:

↓**2.6%**

Year-Over-Year:

↑**5.8%**

ALUMINUM

Quarter-to-Quarter:

↓**9.3%**

Year-Over-Year:

↑**2.1%**

WHOLESALE PRICES STAY STEADY

Average wholesale used vehicle prices remained flat on a monthly basis in July, rose 1.4% in August and fell 0.6% in September. For the quarter, prices ended down 0.6% from Q2 and down 0.1% from last year, respectively. Continued volume growth in the more expensive light trucks class and younger off-lease vehicles helped July sales stay on par with June values. According to Tom Kontos, Chief Economist at KAR Auction Services, Inc., midsize car prices rose higher on a year-over-year basis than did midsize sport utility (SUV) and crossover utility (CUV) vehicles for each month of the quarter, which is likely reflective of higher truck volumes at auction. Each class did see year-over-year price growth, which is likely a product of high upstream sales demand, preventing oversupply at physical auctions. Finally, wholesale prices dropped year-over-year in September as replacement demand from Hurricane Harvey and Irma last year pushed prices up higher than usual.⁹

USED-CAR PRICE INDEX

JULY	AUGUST	SEPTEMBER
Month-to-Month:	Month-to-Month:	Month-to-Month:
0.0%	↑1.4%	↓0.6%
Year-Over-Year:	Year-Over-Year:	Year-Over-Year:
0.0%	↑0.9%	↓0.6%

“ Each class did see year-over-year price growth, which is likely a product of high upstream sales demand, preventing oversupply at physical auctions. ”

YOUNGER AND NEWER INSURANCE VEHICLES DRIVE PRICES

Average vehicle age decreased on a yearly basis by 1.2%, or 0.12 years. Average mileage fell 0.5% and 1.6% relative to the past quarter and year, respectively. The younger and lower mileage vehicle mix was reflected in average actual cash value (ACV), which saw 1.4% gain quarter-to-quarter, and increased 3.2% from last year's Q3 mark. Average 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

Quarter-to-Quarter:

↑ **1.4%**

Year-Over-Year:

↑ **3.2%**



AVERAGE AGE

Q3 2017:

9.06

Years

Q3 2018:

8.94

Years



AVERAGE MILEAGE

Quarter-to-Quarter:

↓ **0.5%**

Year-Over-Year:

↓ **1.6%**



CANADA
QUARTER 3 | 2018

USED VEHICLE PRICE INDEX

July:

↑0.6%

August:

↑0.4%

September:

↑0.2%

CANADA'S AUTO INDUSTRY LEVELS OUT AFTER RECORD BREAKING 2017

Vehicle sales fell year-over-year for each month of the quarter, with September extending the streak to the seventh straight month of negative growth. On a year-to-date basis through September, however, sales volumes are only down 1.6% from last year's all-time high.^{10,11,12} David Adams of Global Automakers of Canada noted that higher interest rates have played a part in this recent downward sales trend. From a broader economic lens, gas prices fell 2.53% quarter-to-quarter, the unemployment rate was on a par with last quarter's mark of 5.9%, and the Canadian dollar appreciated 0.4%. The ADESA Canada Used Vehicle Price Index grew an average of 0.4% throughout the quarter, with July posting the strongest monthly result.

CANADIAN EFFECTIVE EXCHANGE RATE INDEX (CEER)

Quarter-to-Quarter:

0.4%

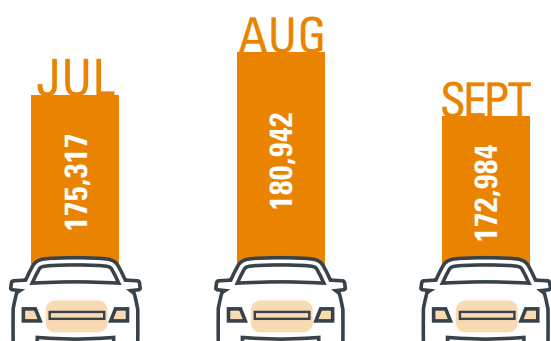
Appreciated

Year-Over-Year:

2.7%

Depreciated

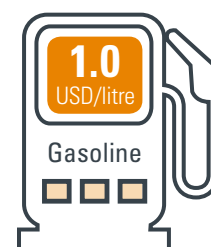
NEW-VEHICLE SALES



ECONOMIC DRIVERS



Q3 Growth



ACV GROWTH DESPITE OLDER VEHICLES

Slight increases in average vehicle mileage, growing 0.2% quarter-to-quarter and 1.3% year-over-year, and average vehicle age remained unchanged year-over-year. These factors were not reflected in average ACV, which grew 1.1% quarter-to-quarter and 4.7% year-over-year.



AVERAGE ACV

Quarter-to-Quarter:

↑1.1%

Year-Over-Year:

↑4.7%



AVERAGE AGE

Q3 2017:

9.8

Years

Q3 2018:

9.8

Years



AVERAGE MILEAGE

Quarter-to-Quarter:

↑0.2%

Year-Over-Year:

↑1.3%

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ABOUT 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 people 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 17,500 employees and more than 300 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](https://www.iaa-auctions.com) to learn more, and follow IAA on [Facebook](#), [Twitter](#), [LinkedIn](#) and [Instagram](#).



ABOUT THE AUTHOR

Sebastian Gancarczyk is the Vice President of Finance at Insurance Auto Auctions, Inc. (IAA). 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 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.