



Charity

QUARTERLY
REPORT

INTRODUCTION

- **Our Charity Quarterly Report** focuses on economic indicators related to the donation market for vehicles sold through our auctions. Included with this report is a detailed analysis of external factors, followed by an overview of the vehicles sold through our auctions.

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*, it 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

This index from the Federal Reserve Bank of St. Louis 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 our 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** ↑

U.S. DOLLAR INDEX ↓

ALUMINUM ↑

PLATINUM ↑

PALLADIUM ↑

donated vehicles

► In the third quarter of 2016, the average actual cash value (ACV) of donated vehicles remained flat compared to the previous quarter, but declined 9.3% year-over-year. Average ACV, as a representation of a vehicle's estimated value in an undamaged state, is a good indicator of the quality of donated vehicles at auction. Additionally, the average age of donated vehicles rose 0.5 years compared to 2015, putting further downward pressure on vehicle values. Meanwhile, average mileage remained mostly unchanged, only falling 0.1% year-over-year.



AVERAGE ACV
QUARTER-TO-QUARTER
NO CHANGE

Source: IAA

YEAR-OVER-YEAR
↓9.3%

Source: IAA

AVERAGE AGE
QUARTER-TO-QUARTER

↓0.1 YEARS

Source: IAA

YEAR-OVER-YEAR
↑0.5 YEARS

Source: IAA

AVERAGE MILEAGE
QUARTER-TO-QUARTER

↓0.5%

Source: IAA

YEAR-OVER-YEAR
↓0.1%

Source: IAA

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

► **Despite a rally in whole crushed auto-body prices** in the first half of the year, the momentum was halted by the third quarter of 2016. On a monthly basis, average prices fell 2.5% in August and then 22.4% in September. China continued to flood the international marketplace with cheap steel, as an increase in output and lackluster demand contributed to fallen prices.¹ Average whole crushed auto-body prices did rise 33.6% from the same period in the year prior, but obscured the fact that whole crushed auto-bodies saw abnormally low prices in 2015. Even with this increase, average whole crushed auto-body prices remain near historic lows.

QUARTER-TO-QUARTER

↑ **3.1%**

YEAR-OVER-YEAR

↑ **33.6%**

JULY

MONTH-TO-MONTH

↑ **4.8%**

— Source: American Recycler —

YEAR-OVER-YEAR

↑ **37.9%**

— Source: American Recycler —

AUGUST

MONTH-TO-MONTH

↓ **2.5%**

— Source: American Recycler —

YEAR-OVER-YEAR

↑ **47.8%**

— Source: American Recycler —

SEPTEMBER

MONTH-TO-MONTH

↓ **22.4%**

— Source: American Recycler —

YEAR-OVER-YEAR

↑ **14.7%**

— Source: American Recycler —

...USED-CAR PRICE... INDEX

► **Average used-car prices remained higher** on an annual basis in the third quarter, rising sequentially in July, declining seasonally in August and leveling out in September. According to Tom Kontos of ADESA Analytical Services, the 5.7% year-over-year gain for the quarter came on the strength of truck pricing and an inventory mix that favored younger, lower-mileage, higher-priced off-lease supply.² Unlike trucks, the average price of cars was little changed year-over-year and actually declined in August. Retail used-vehicle sales remained strong during the quarter, providing demand-side support for wholesale values, though there was some tapering in retail demand in September.³

JULY

MONTH-TO-MONTH

↑2.2%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑7.4%

Source: ADESA Analytical Services

AUGUST

MONTH-TO-MONTH

↓0.6%

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑4.6%

Source: ADESA Analytical Services

SEPTEMBER

MONTH-TO-MONTH

NO CHANGE

Source: ADESA Analytical Services

YEAR-OVER-YEAR

↑5.1%

Source: ADESA Analytical Services



METALS

Aluminum

There were predictions that China would ramp up aluminum production in the second half of the year, but that hasn't happened yet. In fact, Chinese aluminum saw lower-than-expected production that contributed upward pressure to prices.⁴ This was further assisted by healthy Chinese demand for the metal, fueled by increased credit and construction. Additionally, thermal coal prices saw a 60% rise this year. Since this energy accounts for a significant cost for aluminum production, idled plants are unlikely to restart despite the boost in demand, which could lead to a sustained rally for this metal.⁵

QUARTER-TO-QUARTER

↑ 3.1%

Source: International Monetary Fund

YEAR-OVER-YEAR

↑ 1.7%

Source: International Monetary Fund

Palladium

Palladium soared 19.0% compared to the last quarter and 9.8% year-over-year to become the best-performing precious metal for the third quarter of 2016.⁹ Similar to platinum, palladium values rose amidst similar concerns about output production and worker strikes in Russia and South Africa. Palladium is also an option for investors looking for a safe-haven alternative to bonds and stocks. Chinese vehicle sales continue to be robust and are expected to grow as consumers take advantage of a soon-to-expire tax cut.¹⁰ All of these factors added to concerns about a reduction in palladium supply and consequently drove higher palladium prices.

QUARTER-TO-QUARTER

↑ 19.0%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑ 9.8%

Source: Johnson Matthey

Platinum

In the third quarter of 2016, industrialized nations experiencing lackluster growth saw investors eager to purchase assets like precious metals as an alternative to bonds and stocks.⁶ This led to platinum gaining quite a healthy start to the second half of the year with increases of 8.1% quarterly and 10.2% year-over-year. While demand surged, concerns about a potential mineworkers' strike that could lead to reduced production also pushed up platinum prices.⁷ Not to mention, the value of the South African rand is leading gains in emerging-market currencies and is another contributing factor to the rising value of platinum, as a stronger local currency makes the metal more expensive.⁸

QUARTER-TO-QUARTER

↑ 8.1%

Source: Johnson Matthey

YEAR-OVER-YEAR

↑ 10.2%

Source: Johnson Matthey

U.S. DOLLAR

► **Making the comparison** on a quarterly basis, the U.S. dollar rode a slight increase on the backs of investor belief that the Federal Reserve would increase short-term rates at the September Federal Open Market Committee meeting.¹¹ Since higher rates make dollar-denominated assets more attractive, bets on a stronger dollar were abundant. However, the U.S. dollar slipped 1.7% compared to last year. While the dollar did see a swift appreciation last year thanks to a quicker-than-expected economic recovery and loose monetary policy in Japan and the Eurozone, the current decrease signaled uncertainty surrounding the U.S. presidential election and reduced inflation expectations. With such little pressure of inflation, the Federal Reserve may actually decide to leave interest rates on hold.¹²

QUARTER-TO-QUARTER

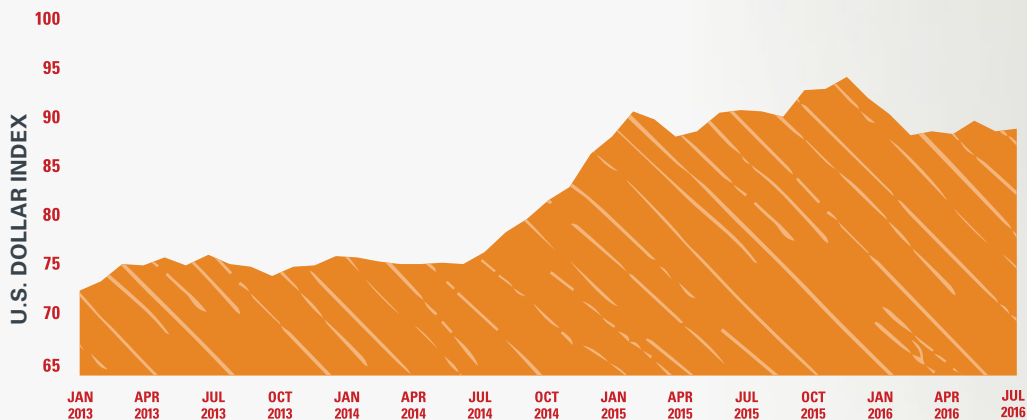
APPRECIATED
↑0.8%

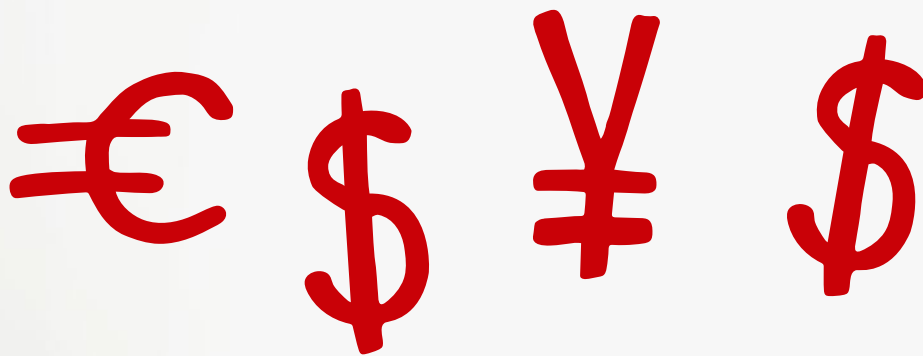
Source: Federal Reserve Bank of St. Louis

YEAR-OVER-YEAR

DEPRECIATED
↓1.7%

Source: Federal Reserve Bank of St. Louis





Euro

The value of the euro shrunk this quarter in comparison to a strong U.S. dollar, fighting against the steady performance of the U.S. labor market and economic outlook, as well as the probability of a rate increase in the coming months.¹³ Additionally, low interest rates in Europe and quantitative easing has made U.S. dollar-denominated assets more attractive, further decreasing demand for the euro.¹⁴

QUARTER-TO-QUARTER

DEPRECIATED ↓ **1.2%**

Source: OANDA Corp.

YEAR-OVER-YEAR

APPRECIATED ↑ **0.3%**

Source: OANDA Corp.

Canadian Dollar

Given that Canada is a significant oil-exporting country, the slide in crude oil values triggered a depreciation of the Canadian dollar against the U.S. dollar.¹⁵ What's more, uncertainty surrounding a break in or renegotiation of the North American Free Trade Agreement (NAFTA) as well as the Trans-Pacific Partnership weighed on the loonie, as these policies could significantly impact Canadian trade.¹⁶

QUARTER-TO-QUARTER

DEPRECIATED ↓ **1.2%**

Source: OANDA Corp.

YEAR-OVER-YEAR

APPRECIATED ↑ **0.2%**

Source: OANDA Corp.

Mexican Peso

The Mexican peso dropped 14.2% against the U.S. dollar, with indications that the U.S. presidential election had a significant impact on the value of Mexico's currency. Contributing to the depreciation of the peso is the concern surrounding a renegotiation or termination of NAFTA, which could significantly impact the Mexican economy. With a potential raise in tariffs on Mexican imports and a tax set on remittances, investors are wary about Mexico's economic future.¹⁷

QUARTER-TO-QUARTER

DEPRECIATED ↓ **3.6%**

Source: OANDA Corp.

YEAR-OVER-YEAR

DEPRECIATED ↓ **14.2%**

Source: OANDA Corp.

Japanese Yen

In early August, the yen benefited after Japan's government—in an effort to boost the economy—announced an additional 4.6 trillion yen (\$45 billion) in fiscal spending by the end of the year. Additionally, the yen appreciated against the dollar as a result of Japan's lower-than-expected ease of monetary policy and sustained economic growth.¹⁸ ◀◀

QUARTER-TO-QUARTER

APPRECIATED ↑ **5.2%**

Source: OANDA Corp.

YEAR-OVER-YEAR

APPRECIATED ↑ **16.2%**

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

For more than three decades, Insurance Auto Auctions, Inc. (IAA) has been a respected leader in the vehicle auction industry. With headquarters in Westchester, Ill., 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 2,700 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. Additionally, 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](#).