



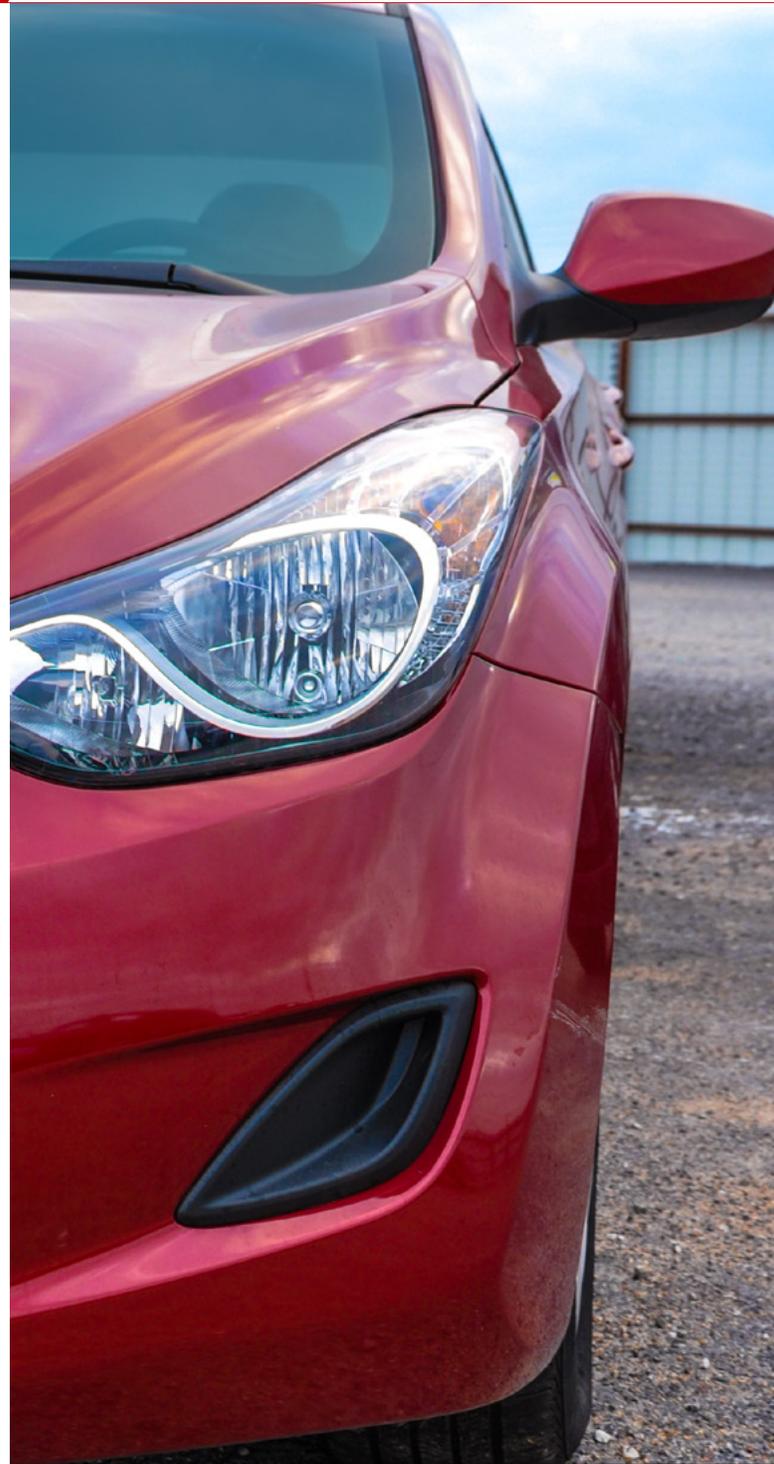
Remarketing Quarterly Report

QUARTER 3 2016

The Remarketing Division of Insurance Auto Auctions, Inc. (IAA) focuses on 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 sold through the Remarketing Division 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 vehicles in the Remarketing Division 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.

An explanation of the methodology used to develop this report can be found on [page 11](#).



U.S.
Dollar
Index ↓

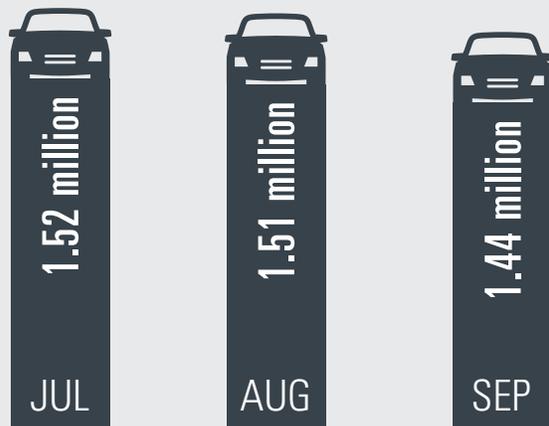
Auto-Loan
Default
Rate ↑

Overview Of The Automobile Industry

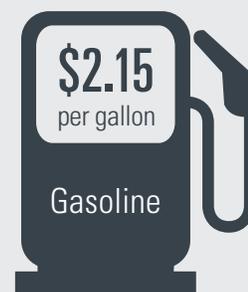
Auto sales have enjoyed a steady pace through the past few years, but lost some steam in the third quarter of 2016, with new-vehicle sales dropping 1.2% compared to last year. However, that steady pace culminated in 2015's record-breaking sales figures, so even this quarter's slight dip indicated that sales are historically strong. There's no need to worry about how much time Americans spend behind the wheel either, as a robust economy and low gas prices contributed to a 2% increase in total miles driven from the same quarter a year prior.

Cheap interest rates, longer loan terms and an increase in leasing kept customers coming to the lots.¹ To keep them coming, automakers placed a heavy emphasis on rebates and incentives, and relied heavily on their fleet customers like rental car companies, government agencies and commercial clients.² Sweetened incentives aren't forecast to lighten anytime soon – North American car and light-truck production reached an August record, and the potential supply glut may take a hit on new-vehicle prices. Additionally, automakers had to combat a growing supply of late-model used cars entering the market after their leases expired, as buyers could decide to forego purchasing a new vehicle in favor of paying less for a used vehicle in good condition.³

New-Vehicle Sales



Economic Drivers

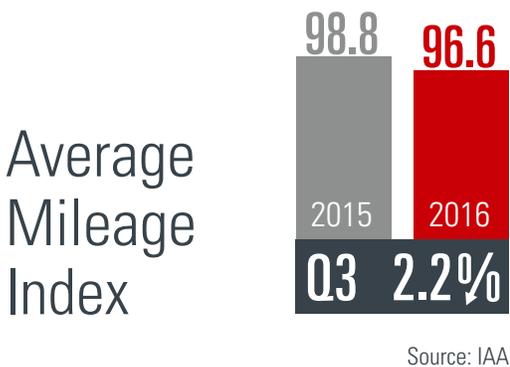
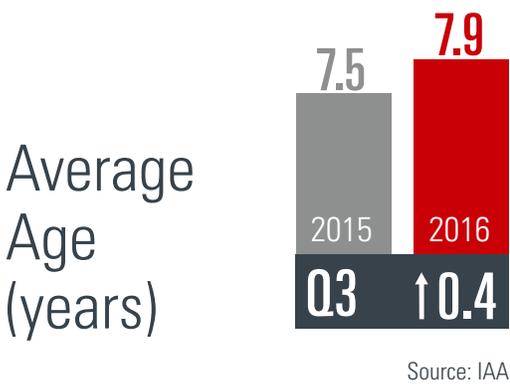
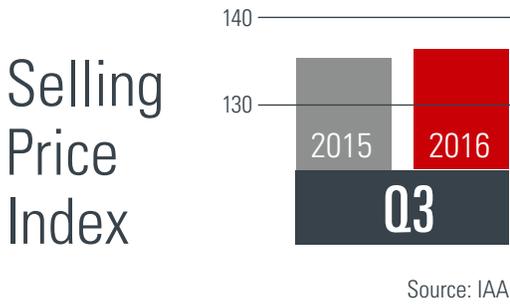


Top Movers



Remarketing Division Vehicles

The average selling price of Remarketing Division vehicles rose slightly year-over-year, with high-value and good-condition rental vehicles putting upward pressure on the overall average value of vehicles in this division. The average age of Remarketing Division vehicles did increase by 4.5% year-over-year, primarily driven by older dealer vehicles entering the mix. However, average mileage dropped 2.2% year-over-year as a reflection of those high-value rental vehicles.

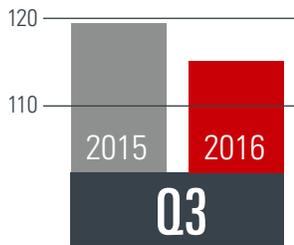


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Dealer Category

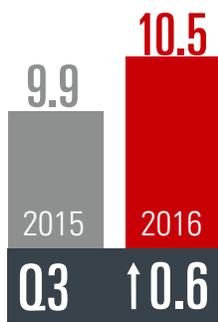
Average selling prices for dealer vehicles continued to be down, still feeling the pressure from abundant off-lease vehicles. This year, 3.1 million off-lease vehicles are expected to return to the market, growing to 3.4 million in 2017 and 3.8 million in 2018.⁴ The average age and average mileage of dealer vehicles both increased this quarter compared to last year, by 6.9% and 1.2% respectively.

Selling Price Index



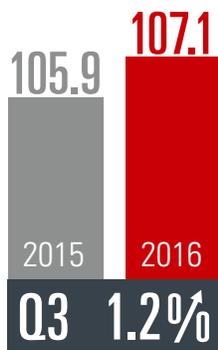
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

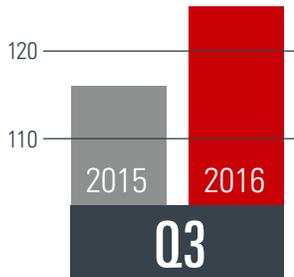


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Commercial Category

Aided by decreasing average age and mileage values, commercial vehicles saw an increase in prices year-over-year. But it's not without a battle – a year-over-year decline in the inventory mix of trucks and SUVs put downward pressure on overall commercial vehicle values. Luckily, a strong economic climate and low-interest rate environment won out, driving an increased number of consumers with auto loans.⁵

Selling Price Index



Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

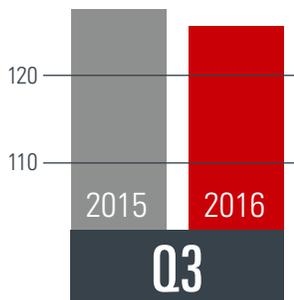


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Rental Category

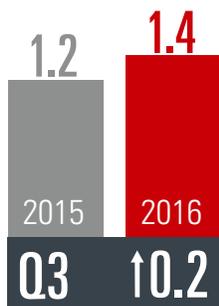
In the third quarter of 2016, the average price of rental vehicles dipped slightly when compared to the prior year. According to the National Automobile Dealers Association, the auction volume of late-model vehicles rose 10% year-over-year through August, and the influx of these vehicles continued to weigh on vehicle values in this segment.⁶ There was a considerable increase in the average age of rental vehicles this quarter, but a shift in rental volume toward higher-value SUVs helped to prop up prices. Average vehicle mileage was also down slightly year-over-year.

Selling Price Index



Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA



[VIEW THE FULL CHARTS](#)

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.⁷ 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.⁸



Source: ADESA Analytical Services

Auto-Loan Default Rate

Following seasonal trends, the auto-loan default rate raised an average of 6 basis points in the third quarter compared to the last quarter, but an increase of 10 basis points year-over-year signaled that the default rate started to pull away from the historic lows of 2015. Fitch Ratings reports that softening used-vehicle prices drove up subprime losses, contributing to a considerable year-over-year rise in both prime and subprime 60+ day delinquency rates in August.⁹ Additionally, Fitch Ratings believes that these loss and delinquency trends will continue for the rest of 2016 and spill over into 2017, as recovery values decline from the historic highs of the previous years.¹⁰

Year-Over-Year

↑ 0.10

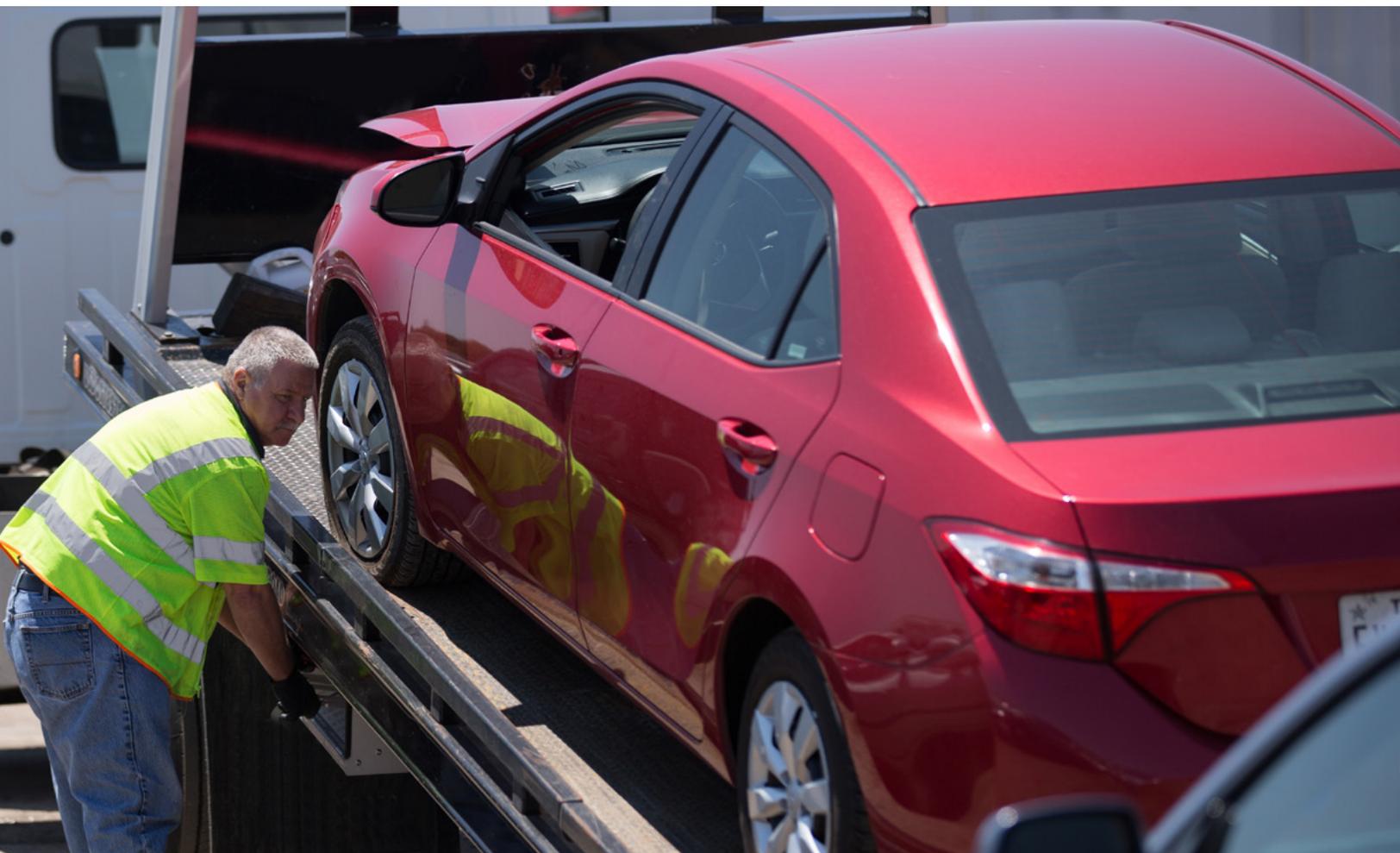
percentage points

Quarter-to-Quarter

↑ 0.06

percentage points

Sources: S&P Dow Jones Indices & Experian



U.S. Dollar

Will they, or won't they? 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

Year-Over-Year

1.7%

Quarter-to-Quarter

0.8%



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



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



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



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



Source: OANDA Corp.

Methodology

This report tracks performance over time for each of the Remarketing Division's seller categories using three monthly indicators. The base month for each of these indexes is January 2009 (index value of 100):

- Index of average sale price of vehicles sold through IAA.
- Index of average age of vehicles sold through IAA.
- Index of average mileage of vehicles sold through IAA.

The report also examines Remarketing Division categories in relation to these key economic indicators:

- **Used-Car Price Index** is a measure of the average price of a used car on the market. Because vehicles sold through the Remarketing Division tend to be in drivable condition, this index should be a good determinant of sale prices for each category. The index values are wholesale prices provided by ADESA Analytical Services.
- **Auto-loan default rate** measures the default rates across auto loans based on data from Experian's consumer credit database. This can provide insight to the number and sale price of units in the commercial category, which is a proxy for the level of vehicles repossessed by financial companies. This rate is jointly developed by S&P Dow Jones Indices LLC and Experian.

Note: Vehicles from recently signed providers are not included in this analysis, an intentional omission used to demonstrate how different economic factors affect the performance of vehicles regardless of the addition of new provider accounts.

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Overview of IAA

Insurance Auto Auctions, Inc. (IAA) is the leading live and live-online salvage vehicle auction company and a business unit of KAR Auction Services (NYSE: KAR). With 170+ auction facilities — the largest footprint in North America — IAA provides registered buyers from more than 110 countries the opportunity to bid on and purchase vehicles from a comprehensive group of sellers, including insurance companies, fleet and rental companies, financing companies, charitable organizations and the general public. Through its weekly auctions, IAA has sold millions of vehicles, offering towing, financing and titling services. IAA leverages its business model to assist charitable organizations in the U.S. through its One Car One Difference® program. To date, IAA has provided millions of dollars in additional funding to charities by assisting in the processing of donated vehicles. Learn more about the program by visiting 1Car1Difference.com. With a talented team of more than 2,700 employees, IAA is committed to technological innovation and providing its customers the highest level of service in the salvage auto industry. To learn more, visit IAA-Auctions.com, and follow IAA on [Facebook](#), [Twitter](#) and [LinkedIn](#).



About the Author

Robert Guerrero is vice president of remarketing sales at Insurance Auto Auctions, Inc. Since joining IAA in 2005, Mr. Guerrero has led the growth of the organization's Remarketing Division, creating the auction solution of choice for dealers, fleet lease companies, rental companies, financial institutions and more. Today, Remarketing Division vehicles are available to bidders at IAA facilities throughout North America and online to customers in more than 110 countries. Previously, Mr. Guerrero worked for Manheim, where he held several positions within the auto auction industry, including roles in marketing, dealer sales and fleet lease sales.

The auto remarketing industry as discussed in this document refers to the industry as experienced by IAA. IAA does not possess data on the performance of other remarketing 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.

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