



Charity

QUARTERLY
REPORT

Q2 2018



INTRODUCTION

► **It was an eventful quarter**, highlighted by important political activity and interesting movements in the marketplace. Although seasonally adjusted purchases were down 0.1% on a quarterly basis, year-over-year sales grew by 2.2%. Demand for light trucks remained high – June pickup and SUV sales increased 14.7% over the same month last year, and 10.5% year-to-date (YTD). Sales for passenger cars, on the other hand, decreased both in June and year-to-date.¹

Average loan-term lengths have increased and typically this would bring monthly payments down.² However, this was not the case in Q2, as rising car-loan rates (5.05 for 48-month and 4.99 for 60-month in May)³ helped push average loan payments to a new high.

Fuel prices continued their upward trend, with 2.1% and 5.1% quarter-to-quarter growth for gasoline and diesel prices, respectively. While typically a large influence, these increases were not enough to outweigh the U.S.' continued stretch of strong economic growth. Unemployment averaged below 4.0%, the labor market continued to add around 200,000 jobs per month and GDP growth hit 4.1%, thanks to strong consumer spending and modest wage increases. The result: vehicle sales maintained a near-record pace.⁴

QUARTER-TO-QUARTER

**WHOLE CRUSHED
AUTO-BODY PRICES**



U.S. DOLLAR INDEX



PLATINUM



PALLADIUM



APRIL SHOWERS BRING QUALITY VEHICLES

► **Donated vehicle average actual cash value (ACV)** was able to make a springtime comeback. With spikes of 18.3% year-over-year and 5.3% quarter-to-quarter, the charity segment saw strong growth in Q2 2018. The month of April proved especially successful, with donated vehicle ACV keeping its momentum through June. Despite an increase of high-mileage vehicles entering the inventory mix, a surplus of newer units was enough to offset the depreciative effects of heavy-use vehicles.

AVERAGE ACV

QUARTER-TO-QUARTER

↑5.3%

YEAR-OVER-YEAR

↑18.3%

AVERAGE AGE

YEAR-OVER-YEAR

↓0.6 YEARS

AVERAGE MILEAGE

YEAR-OVER-YEAR

↑3.6%

TARIFFS MAINTAIN WHOLE ...-CRUSHED-... PRICE MOMENTUM

WHOLE CRUSHED AUTO-BODY PRICES

QUARTER-TO-QUARTER

↑5.3%

YEAR-OVER-YEAR

↑15.0%

► **According to most industry professionals**, an increase in raw metal costs was due to lingering effects of steel and aluminum tariffs, along with retaliatory tariffs on metals, which led to rising whole crushed auto-body prices.⁵ The 5.3% quarterly and 15.0% yearly price increase was actually a deceleration from Q1's 20.6% quarterly gain. The segment finished at its highest average prices since the summer of 2014.

UPS & DOWNS IN USED-CAR MARKET

► **Q2 brought with it ebbs and flows** in the used-car market. Average wholesale used vehicle prices increased in April, but fell in May and June. For the quarter, prices were up 1.9% from Q1 and down 0.7% from last year. The yearly drop is partly due to an influx of younger, off-lease vehicles which temporarily inflated prices when they hit the used-car market in 2017. Meanwhile, light truck price gains slowed as the category surpassed cars in supply growth. According to Tom Kontos, Chief Economist at KAR Auction Services, Inc., average off-lease and fleet prices increased sizably after controlling model-year age and mileage for both midsize cars and midsize SUV/UVs. Most likely, this was the result of attractive up-stream equity positions leading to a plateau of physical auction off-lease volumes. In the dealer-consigned and manufacturer-remarketed vehicle segment, monthly prices declined in June, but were mixed year-over-year. June also marked a yearly CPO sales increase of 8.75% remaining up 3.3% year-to-date.⁶

USED-CAR PRICE INDEX

APRIL

MONTH-TO-MONTH

↑2.7%

YEAR-OVER-YEAR

↓0.2%

MAY

MONTH-TO-MONTH

0.0%

YEAR-OVER-YEAR

↓0.2%

JUNE

MONTH-TO-MONTH

↓2.0%

YEAR-OVER-YEAR

↓1.4%

SPRINGTIME SWOON FOR PLATINUM & PALLADIUM

► **It was a tough three months for Platinum and Palladium.** The metals saw quarter-to-quarter price decreases of 7.3% and 5.3%, respectively.

Platinum's struggle remains the same: its use in vehicles with diesel engines continues to be popular, but demand for diesel-powered vehicles is low. As a result, inventories are piling up. So much so, in fact, that Metals Focus, a leading precious metal consultancy, reported in its most recently available data that platinum supplies have exceeded a year's worth of global demand for each of the last two years.⁷ As producers aimed to shed these inventories, the metal finished down 3.8% year-over-year.

Palladium, on the other hand, fell in April but rebounded slightly in May and June. As its industrial application trend continued, the premium over platinum exceeded \$100 per troy oz. in June and year-over-year prices were up 19.7%.

PLATINUM

QUARTER-TO-QUARTER

↓ 7.3%

YEAR-OVER-YEAR

↓ 3.8%

PALLADIUM

QUARTER-TO-QUARTER

↓ 5.3%

YEAR-OVER-YEAR

↑ 19.7%

U.S. DOLLAR TURNING THE CORNER

► **The momentum of the American economy** has begun to influence the value of the USD. Although it has depreciated 5.1% on a yearly basis, the dollar saw its first quarter of appreciation since December 2016, up 2.5%. May and June's were the largest of three straight months with price increases. Shifting investor expectations after seeing months of positive U.S. economic growth indicators and a more optimistic Federal Reserve were the main factors reversing the trend of quarterly depreciation.⁸

In June, the Federal Reserve continued its recent pattern and raised its benchmark interest rate another 25 basis points to 1.75 – 2.00. Shortly after this was announced, the European Central Bank backtracked from another rate hike, which is now expected to come closer to summer of 2019. The interest rate differential widened more than expected as a result, and the dollar appreciated thereafter.⁹

QUARTER-TO-QUARTER

APPRECIATED **↑2.5%**

YEAR-OVER-YEAR

DEPRECIATED **↓5.1%**

references

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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](#), [Twitter](#), and [LinkedIn](#).

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.

DONATION EXPERTS

IAA 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.



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.