



Specialty Quarterly Report

QUARTER 3 2016

The Specialty Division of Insurance Auto Auctions, Inc. (IAA) consists of five segments: truck, trailer, equipment, boat and motorhome. This report will provide a performance overview of each of the specialty segments, followed by an examination of the metals market.

Scrap-metal prices have proven to be reliable indicators of the base-price direction for these large pieces of salvage, leading to the following factors being discussed:

- Whole Crushed Auto-Body Prices
- Aluminum
- Platinum
- Stainless Steel



Whole Crushed
Auto-Body Prices



U.S. Dollar
Index



Aluminum



Platinum



Stainless
Steel



Specialty Division Segments

All price changes represented below are relative to seasonally adjusted average sale prices.

Truck

Truck prices keep on trucking. The weakness in the retail and wholesale truck market during the third quarter of 2016, as reported by FTR, did not manifest in the IAA auction lanes.¹ The truck segment saw a 1.2% increase from the last quarter and a 0.7% increase year-over-year. The American Truck Associations reported a slump in trucking tonnage in July, which quickly rebounded 5.6% year-over-year in August, the largest gain since May.² According to the NADA, commercial truck volume at auction dropped in August,³ but increased moderately by the time September rolled around. The increase in volume had a mild impact and kept price depreciation at bay.⁴ Orders for Class 8 trucks performed well in August to best a dismal July by 36.0%, but experienced the weakest September since 2009.⁵

Year-Over-Year

0.7% 

Quarter-to-Quarter

1.2% 

Source: IAA

Trailer

Trailer prices jumped 4.7% compared to the last quarter, but fell 2.0% year-over-year. Strong trailer orders in August were offset by an unexpectedly weak July and September.^{6,7} September is historically the month where trailer orders increase significantly, and last year's strength contributed to this expectation, but this year's trailer orders stumbled to one-third of 2015 levels. ACT Research speculated that this lower order activity may be due to the caution surrounding fleet and equipment investment. Taking a closer look at the segment, it's likely that a slumped energy sector weighed heavy on some trailer types, with a strong van trailer market being the driving force behind positive values.⁸

Year-Over-Year

2.0% 

Quarter-to-Quarter

4.7% 

Source: IAA

Equipment

The equipment sale price index rebounded this quarter with an increase of 12.6% compared to the last quarter. Nonetheless, prices for this segment are still down 34.3% from last year due to a crowded global market and the arrival of a secondhand equipment supply glut. A strong U.S. dollar also put downward pressure on prices, as developing countries reduced purchases in U.S. dollar-denominated assets. Construction firms and other equipment users are also turning toward longer-term leases to replenish their fleets while dealers are keeping their inventories small, both of which contribute to sluggish equipment prices.⁹

Year-Over-Year

34.3% 

Quarter-to-Quarter

12.6% 

Source: IAA

Boat

Boat prices saw a marginal increase of 0.4% on a quarterly basis, but jumped 17.0% compared to the same quarter in 2015. Industry boat sales had a slight hiccup in July, but quickly gained steam again in August with an 11.8% gain year-over-year.¹⁰ A rising tide lifted sales for all boat types, showcasing broad-based strength across each of the segments. The National Marine Manufacturers Association predicted the industry will continue to grow for another two or three years, and Wells Fargo chimed in to add that "it would take a major external shock to derail the U.S. boating industry trajectory."¹¹

Year-Over-Year

17.0%

Quarter-to-Quarter

0.4%

Source: IAA

Motorhome

After a disappointing end to the second quarter, industry motorhome sales surged 24.2% in July compared to the same period the year prior.¹² Consumers are feeling adventurous, and felt confident enough in the economy this quarter to splurge on recreational vehicles that are typically considered luxury items. Low gas prices and unemployment rates also contributed to a 4.7% year-over-year increase in motorhome prices.¹³ According to Black Book, motorized motorhome unit prices were up 0.7% in September compared to August, while towable units dropped slightly with a 2.4% decrease in prices. Volume for both is expected to stabilize, and then taper off as we head into the colder months.¹⁴

Year-Over-Year

4.7%

Quarter-to-Quarter

8.0%

Source: IAA



Scrap Metal: Whole Crushed Auto-Body Prices

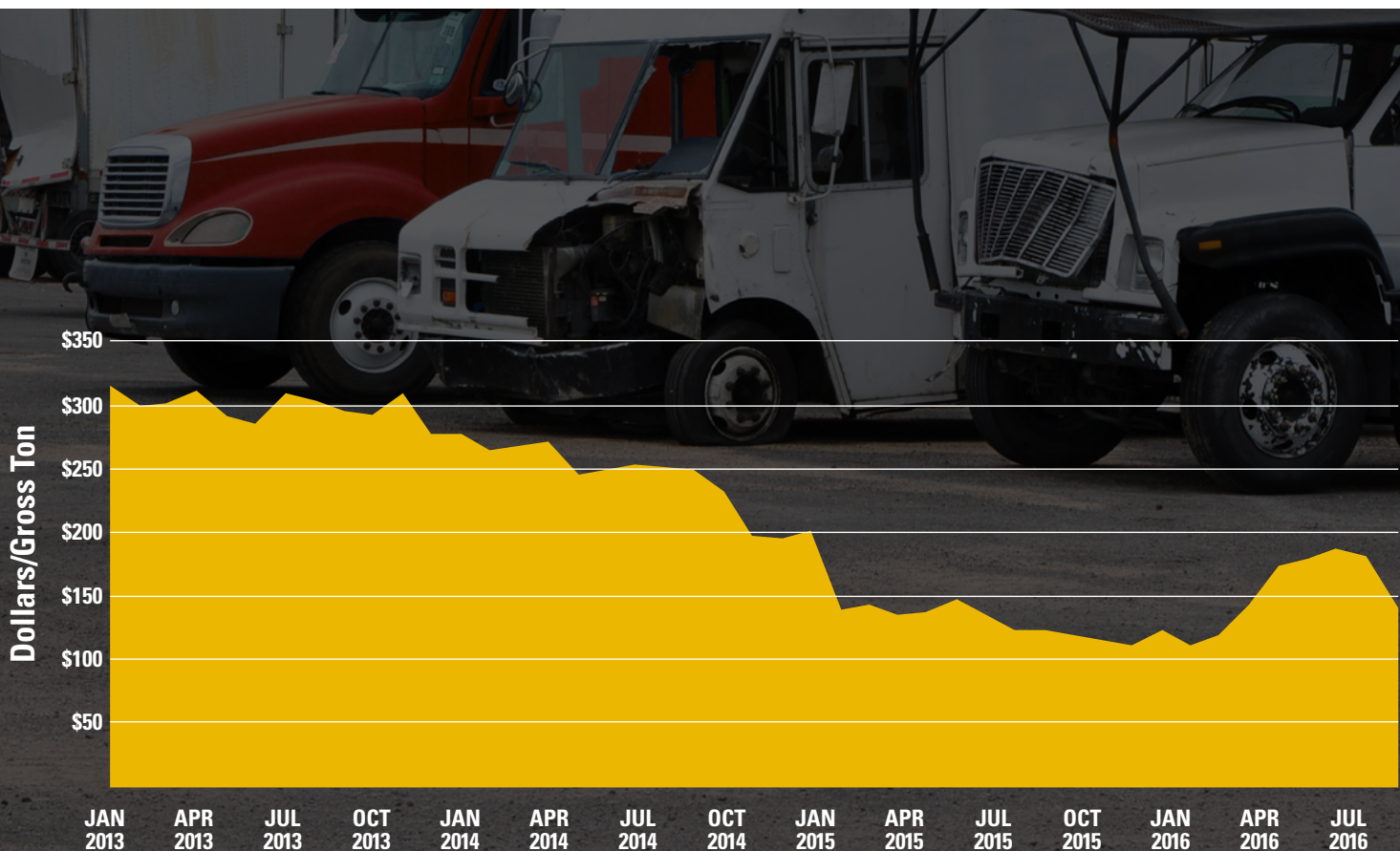
Despite a rally in whole crushed auto-body prices in the first half of the year, the momentum was halted by the third quarter of 2016. On a monthly basis, average prices fell 2.5% in August and then 22.4% in September. China continued to flood the international marketplace with cheap steel, as an increase in output and lackluster demand contributed to fallen prices.¹⁵ 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.

Year-Over-Year

33.6%

Quarter-to-Quarter

3.1%



Source: American Recycler

Metals

Aluminum

There were predictions that China would ramp up aluminum production in the second half of the year. Well, it hasn't happened yet. In fact, Chinese aluminum saw lower-than-expected production that contributed upward pressure to prices.¹⁶ 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.¹⁷

Year-Over-Year

1.7% 

Quarter-to-Quarter

3.1% 

Source: World Bank

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.¹⁸ Enter platinum, which saw quite the 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 miners' strike that could lead to reduced production also pushed up platinum prices.¹⁹ 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.²⁰

Year-Over-Year

10.2% 

Quarter-to-Quarter

8.1% 

Source: Johnson Matthey

Stainless Steel

Limited global nickel supply alongside a recovery in stainless steel demand and a reduction in scrap supply helped lift the value of stainless steel 6.4% compared to the last quarter.²¹ Despite this, stainless steel values posted a decrease of 6.3% year-over-year. In September, stainless steel prices pulled back significantly, likely due to a fall in nickel prices. Regardless of a continued demand for stainless steel, values could face headwinds if nickel prices continue to decline.²²

Year-Over-Year

6.3% 

Quarter-to-Quarter

6.4% 

Source: Johnson Matthey

U.S. Dollar

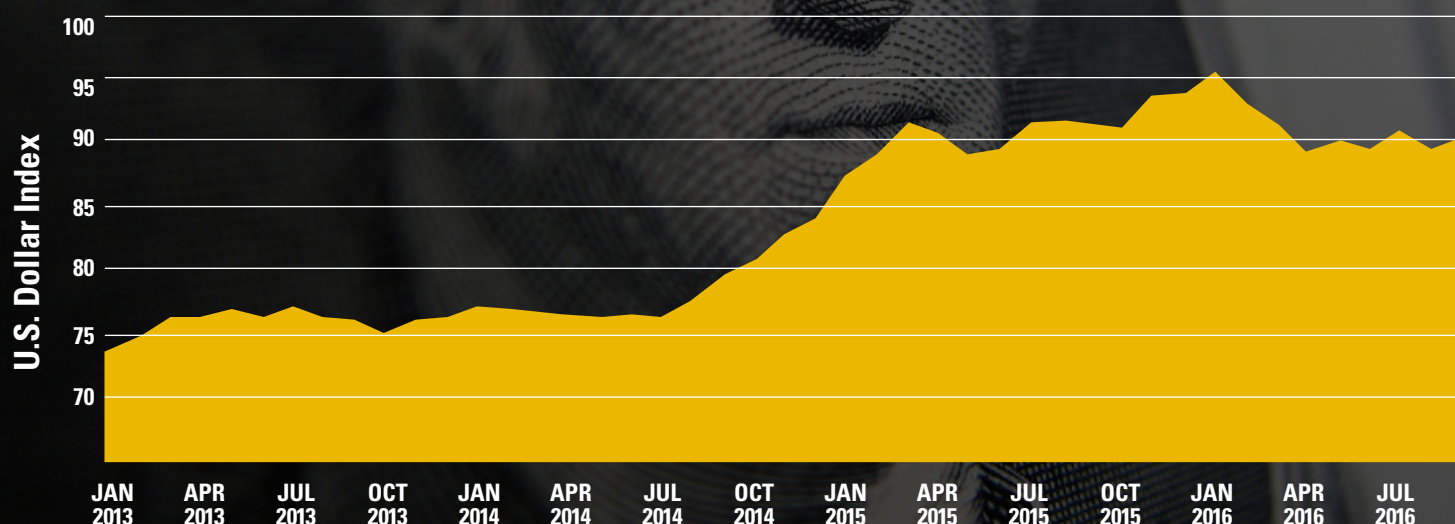
Will they, or won't they? Making the comparison on a quarterly basis, the U.S. dollar rode a slight increase on the backs of investor belief that the Federal Reserve would increase short-term rates at the September Federal Open Market Committee meeting.²³ Since higher rates make dollar-denominated assets 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.²⁴

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.²⁵ Additionally, low interest rates in Europe and quantitative easing has made U.S. dollar-denominated assets more attractive, further decreasing demand for the euro.²⁶

Year-Over-Year
0.3% 

Quarter-to-Quarter
1.2% 

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.²⁷ 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.²⁸

Year-Over-Year
0.2% 

Quarter-to-Quarter
1.2% 

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.²⁹

Year-Over-Year
14.2% 

Quarter-to-Quarter
3.6% 

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.³⁰

Year-Over-Year
16.2% 

Quarter-to-Quarter
5.2% 

Source: OANDA Corp.

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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

Mike Cole is executive director of Specialty Division Services at Insurance Auto Auctions, Inc. (IAA). A 15-year IAA veteran, Mr. Cole has played a pivotal role in growing the organization's Specialty Division into an industry-leading resource for the sale of heavy equipment, trucks, boats, RVs, and a host of other large or unique salvage items. Under his guidance, the Specialty Division has become a thriving marketplace with weekly online-only auctions hosted from a dedicated facility in Schaumburg, IL. Mr. Cole is a certified ASE Master Technician, SIU investigator and I-CAR Gold professional with more than 15 years of insurance claims experience, making him uniquely qualified to lead IAA's efforts in the specialty salvage segment.

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.

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