



# Q1 **SPECIALTY REPORT**

The Facts and Figures Behind  
Your Auction Returns



Quarter 1 | 2019

# WELCOME TO THE **QUARTERLY REPORT**

The specialty classification at IAA, Inc. 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 and the U.S. Dollar.





# INDUSTRY OVERVIEW: 2019 OFF TO AN EVENTFUL START

2019 started slow for new vehicle sales due to the government shutdown and poor weather conditions, adding uncertainty to a category already contending with increased competition from the used-vehicle market.<sup>1</sup> However, as the weather began to improve, so did new-vehicles sales, with March sales reaching 17.48 million units sold on a seasonally adjusted, annual rate basis. The March surge led to Q1 2019 new vehicle sales only dropping 0.9% compared to the same time last year.<sup>2</sup> The trend of buyers preferring light trucks continued, averaging a year-over-year sales volume increase of 0.6%, while passenger car sales took a large dip, averaging an 8.7% drop in sales volume, year-over-year.<sup>3</sup>

NADA's average dealership profile indicates that average new- and used-vehicles prices are ticking up, showing year-over-year Q1 increases of 2.6% and 3.3%, respectively.<sup>4</sup> Due to these prices gains, rising interest rates and growing off-lease vehicle availability, some buyers are veering towards the used car market.<sup>5</sup>

Fuel prices trended up, with gas prices averaging \$2.27/month and diesel prices averaging \$3.02/month Q1 was a strong quarter for the economy, with unemployment at or below 4.0%<sup>6</sup> and GDP growth at 3.2%.<sup>7</sup>

Quarter-to-Quarter:



**WHOLE CRUSHED  
AUTO-BODY  
PRICES**



**STAINLESS STEEL**



**TOTAL MILES  
DRIVEN**

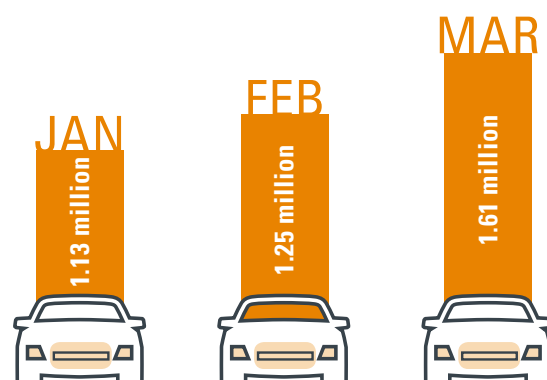


**PALLADIUM**



**PLATINUM**

## NEW-VEHICLE SALES





# MOVEMENT IN ALL DIRECTIONS **IN THE TRUCK MARKET**

Over the last three quarters, commercial truck prices have held steady, showing a moderate quarter-to-quarter decrease of 3.2% in Q1. Year-over-year was a different story, showing an increase of 8.6%. At auction, prices have increased 3.5% in March, with less volume seen in this particular channel compared to 2018. In addition, the average age of auctioned trucks rose 11.5% while mileage fell by 4.8%. This indicates that older trucks with less mileage are being sold at auction more frequently. In other resale channels, the average age of commercial trucks has dropped more than 20% since 2018.<sup>8</sup>

## TRUCK

Quarter-to-Quarter:

↓ **3.2%**

Year-Over-Year:

↑ **8.6%**



# TRAILER MARKET FALTERS

Trailer prices fell on a quarterly and yearly basis at 2.5% and 6.0%, respectively. Following suit, trailer orders are hitting all-time lows – with March registering the fewest orders since 2008. This mark represents a decline in both the month-to-month and year-over-year comparison, with net orders dropping 35% from February and 48% from 2018. The results put total trailer orders for the last year at around 371,000 units, with only 13,500 orders taking place in March. Given that the backlog on trailers has not changed and there is still demand moving forward, the low level of orders is likely due to a lack of available production.<sup>9</sup>



## TRAILER

Quarter-to-Quarter:

↓ **2.5%**

Year-Over-Year:

↓ **6.0%**



# EQUIPMENT PRICES **ON THE RISE**

With month-to-month equipment prices showing high levels of volatility, it was a surprise to see only a modest quarter-to-quarter increase of 7.0% and a yearly increase of 5.6% in Q1. The most likely drivers of the rising price trend are the tariffs that were imposed on steel and aluminum. Conversely, growth in farm bankruptcies has shifted supply outward – acting as a counterweight to price increases seen over the last quarter.<sup>10</sup>

## **EQUIPMENT**

Quarter-to-Quarter:

**↑7.0%**

Year-Over-Year:

**↑5.6%**





# A BUSTLING **BOAT MARKET**

According to suppliers, steady price increases over the last four quarters and a significant increase in boat prices this quarter are reflective of new technology and increased marketing via boat shows and other events. While higher prices seem to be keeping some consumers at bay, demand has stayed strong enough to push prices to a 9.4% quarter-to-quarter and 13.4% year-over-year increase. The sales uptick that over half of all dealers reported could be temporary, as consumers look for technology in newer boats.<sup>11</sup>

## BOAT

Quarter-to-Quarter:

↑ **9.4%**

Year-Over-Year:

↑ **13.4%**



# MOTORHOME PRICES KEEP CLIMBING

With a small quarterly increase of 0.4%, this is the fourth quarter in a row that motorhome prices have trended upwards, coming in at historic highs.

The quarter also showed an increase over last year's average – to the tune of 8.5%. Class B RV sales led the way, as their Q1 volume shot up by 9.3%. Winnebago was the sales leader in Q1, with a total market share of 41.7%.<sup>12</sup>

## MOTORHOMES

Quarter-to-Quarter:

↑0.4%

Year-Over-Year:

↑8.5%





# AN ACTION PACKED QUARTER **FOR STEEL**

The first half of 2018 marked a three-year high in steel prices, which was followed by a year-over-year decline of 23.1% for the first quarter of 2019. Stainless and other alloy steel scrap quarterly prices also fell by 1.1%. However, this modest fall in quarterly growth fails to tell the whole story, as the downward prices in January and February were followed by a 10.1% increase in March. These late quarter gains were fueled by an increase in the price of Nickel, a major component of stainless steel manufacturing. Surging from lows seen at the beginning of Q1 2019 and the end of Q4 2018, Nickel prices finished Q1 at comparable levels to last year's numbers.<sup>13</sup>

## STAINLESS STEEL

Quarter-to-Quarter:

↓ **1.1%**

Year-Over-Year:

↓ **23.1%**



## WHOLE CRUSHED AUTO-BODY PRICES

Quarter-to-Quarter:

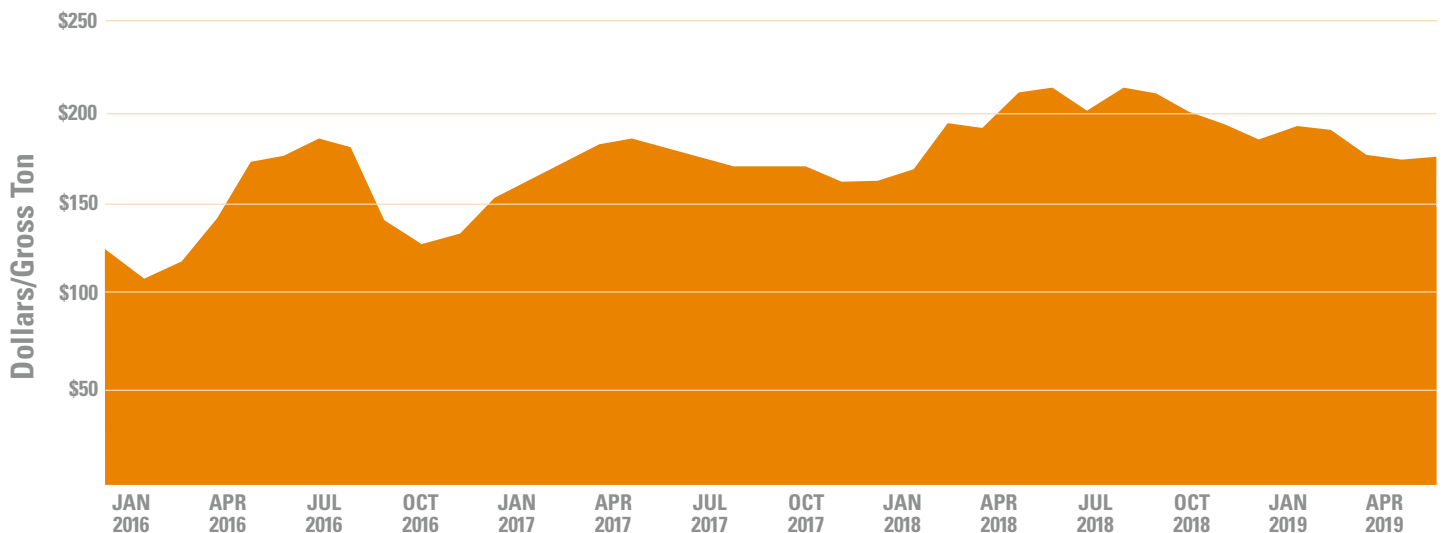
↓ **7.0%**

Year-Over-Year:

↓ **11.4%**

# TARIFFS FACTOR IN WHOLE-CRUSHED **AUTO-BODY MARKET**

Whole crushed auto-body prices have seen better days. Prices averaged their lowest mark since Q4 of 2017 and had a quarter-to-quarter decrease for the third consecutive quarter. Quarter-to-quarter prices decreased by 7.0%, with an 11.4% year-over-year decline. The strength of the dollar against the euro appears to have increased demand leading to higher prices for scrapped cars in Europe at the expense of American scrapped cars. Yet, despite these gains, international markets have slowed recently, depressing whole crushed auto-body prices further.<sup>14</sup> Recent trade tensions with China have put further downward pressure on prices. The import ban that went into effect at the beginning of 2019 included scraps of stainless steel and other metals, leading to a reduction in demand and lower prices.<sup>15</sup>



Source: American Recycler



# THREE METALS. THREE OUTCOMES.

Platinum, palladium and aluminum travelled on very different paths in Q1. Let's begin with platinum, which reached its lowest price in over a decade with a 0.2% quarter-to-quarter drop. The result was influenced by labor disputes with unions in South Africa – the largest exporter of the metal in the world – which threatened short-term mining productivity and price stability.<sup>16</sup>

Palladium went in the opposite direction, as its price hit a record-high thanks to a blockbuster quarter-to-quarter increase of 24.0%. This mark is likely to be topped again, with analysts predicting that the market will continue its upward trend while the possibility of shortages persists.<sup>17</sup>

Finally, it's steady as she goes in the aluminum market, which stabilized this quarter after a stretch of consistent price decline dating back to June of 2018. Despite the decreasing production of the metal in every other country, increased production in China led to a more abundant supply worldwide – a development that played a part in the 4.9% quarter-to-quarter downward price movement.<sup>18</sup>

## PLATINUM

Quarter-to-Quarter:

↓0.2%

Year-Over-Year:

↓15.9%

## PALLADIUM

Quarter-to-Quarter:

↑24.0%

Year-Over-Year:

↑38.6%

## ALUMINUM

Quarter-to-Quarter:

↓4.9%

Year-Over-Year:

↓13.3%

# DESPITE A DIP, USD CONTINUES TO STRENGTHEN

Despite a minor Q1 depreciation of 0.1%, the strong American economy – which has been magnified by the slowing economies of Europe, Great Britain and China – continued to influence the value of the USD. The currency has appreciated 6.2% since Q1 of 2018, with consecutive increases in each recorded month this year.

A strong currency value is typically seen with higher interest rates, but for the U.S., the opposite has been the case as relatively low U.S. interest rates are still higher than many other developed countries.<sup>19</sup> Meanwhile, the economy may also get a boost from the Federal Reserve, who raised its benchmark interest rate another 25 basis points to 2.25-2.50.<sup>20</sup>

## U.S. DOLLAR

Quarter-to-Quarter:

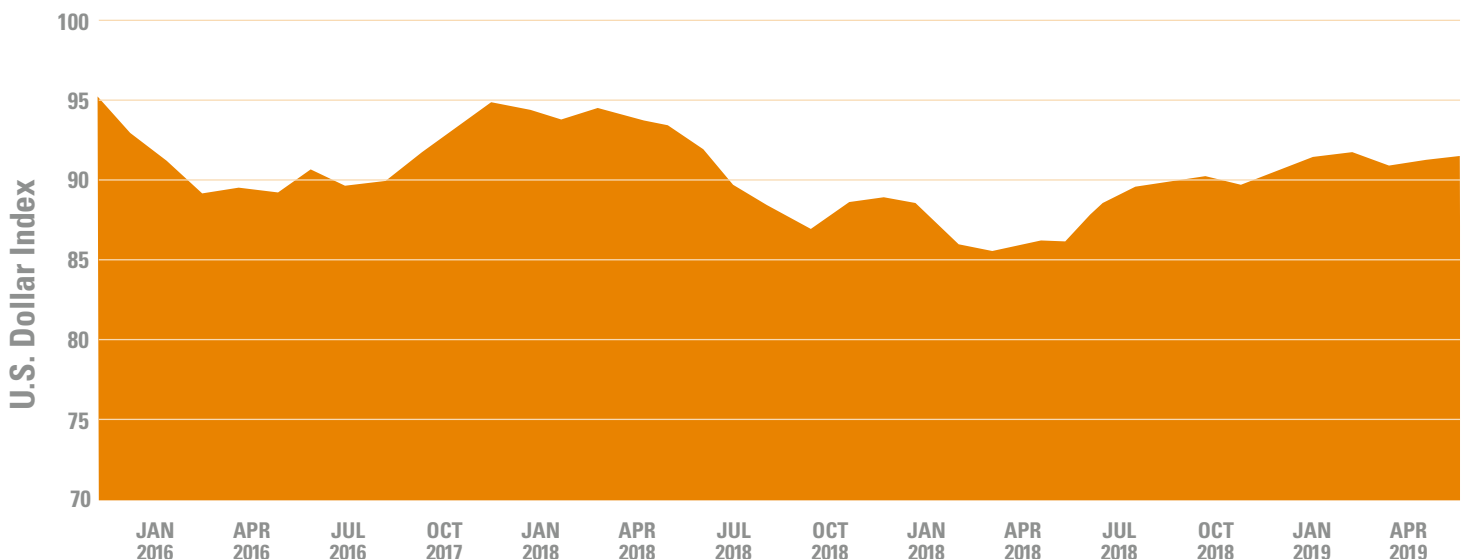
**0.1%**

Appreciated

Year-Over-Year:

**6.2%**

Depreciated



Source: Federal Reserve Bank of St. Louis



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# ABOUT IAA, INC.

IAA, Inc. (NYSE: IAA) is a leading global marketplace connecting vehicle buyers and sellers. Leveraging leading-edge technology and focusing on innovation, IAA's unique multi-channel platform processes more than 2.5 million vehicles annually. Headquartered near Chicago, IL, IAA has over 3,600 talented employees and over 190 facilities throughout the US, Canada and the United Kingdom.

IAA provides a broad range of services to insurers, fleet and rental companies, rebuilders, charity organizations and financing companies that reduce the cycle time of selling a vehicle with a focus on delivering the highest economic returns. Buyers have access to the industry's most-innovative vehicle evaluation and bidding tools, enhancing the overall purchasing experience. Go to [IAA-Auctions.com](https://www.iaa-auctions.com) to learn more, and follow IAA on [Facebook](#), [Twitter](#), [LinkedIn](#), [YouTube](#) and [Instagram](#).



## ABOUT THE AUTHOR

Sebastian Gancarczyk is the Vice President of Finance at IAA, Inc. 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 based on management's current expectations, are not guarantees of future performance and 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. These risk and uncertainties include those identified in our filings with the Securities and Exchange Commission (the "SEC"), including under "Risk Factors" in our information statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC on June 13, 2019. Additional information regarding risks and uncertainties will also be contained in subsequent quarterly and annual reports we file with the SEC. The forward-looking statements included in this report are made as of the date of this report, and we undertake no obligation to publicly update or revise any forward-looking statement to reflect new information or events, except as required by law.