

Q2

INSURANCE REPORT

The Facts and Figures Behind
Your Auction Returns



Quarter 2 | 2018



WELCOME TO THE **QUARTERLY REPORT**

Insurance Auto Auctions, Inc. (IAA) helps insurance carriers dispose of total loss vehicles via a dual live and live-online auction format. These vehicles display a range of loss types, including collision, storm or flood damage, theft recovery and more. The inventory is purchased by public and professional buyers for a variety of purposes, including dismantling/recycling, resale, exporting and personal use.

The industry is constantly evolving, which is why IAA releases the Insurance Quarterly Report. It provides an analysis of auction results for salvage vehicles, as well as an overview of economic and industry factors that influence auction returns. These include:



GASOLINE PRICES



**WHOLE CRUSHED
AUTO-BODY PRICES**



METALS PRICES



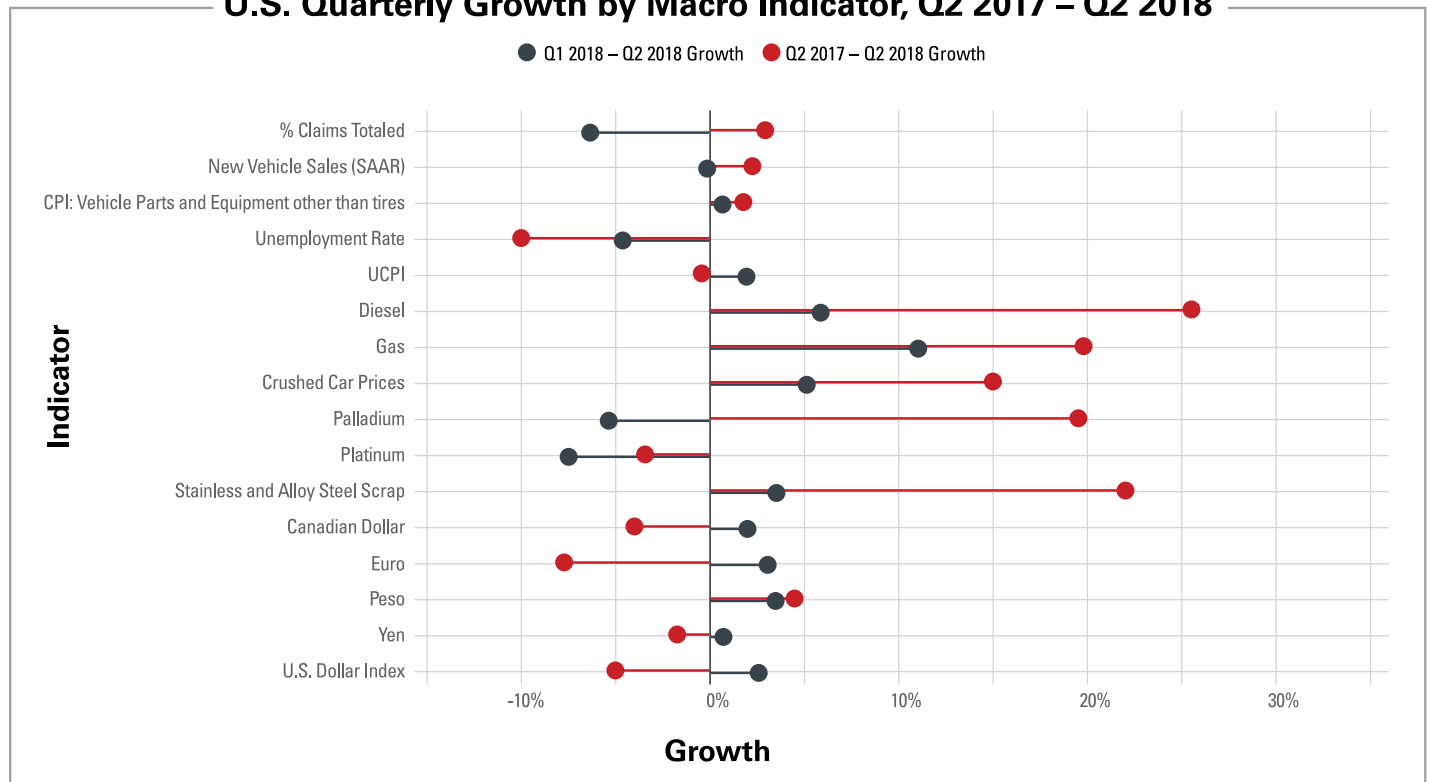
**U.S. DOLLAR
INDEX**



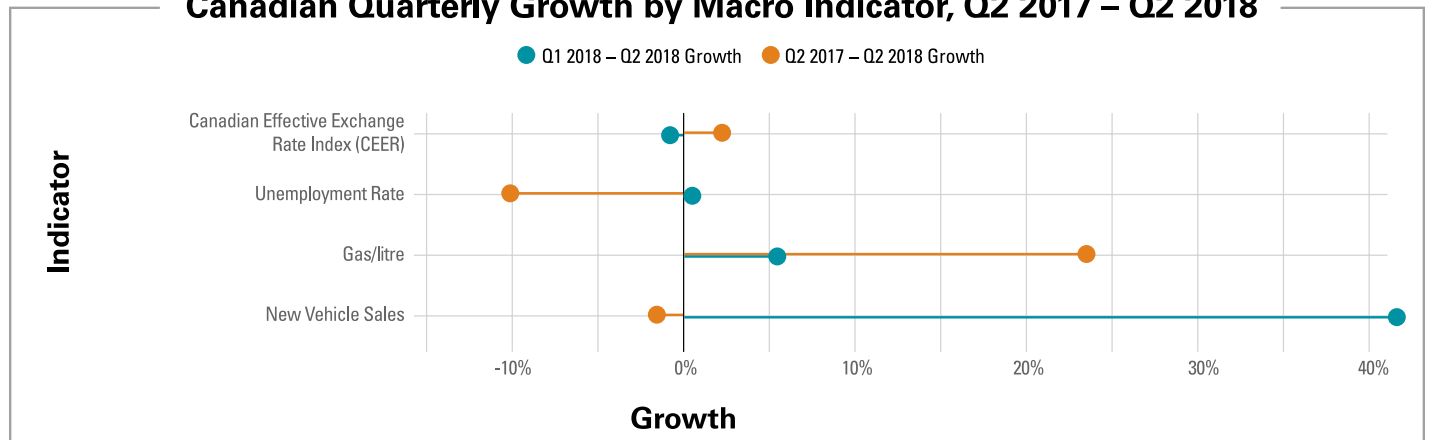
**USED-CAR PRICE
INDEX**

AUTO TRENDS **AT A GLANCE**

U.S. Quarterly Growth by Macro Indicator, Q2 2017 – Q2 2018



Canadian Quarterly Growth by Macro Indicator, Q2 2017 – Q2 2018



INDUSTRY OVERVIEW: A BUSY SPRING

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:



NEW-VEHICLE SALES



GASOLINE

Quarter-to-Quarter:

↑ **11.0%**

Year-Over-Year:

↑ **19.7%**

DIESEL

Quarter-to-Quarter:

↑ **6.0%**

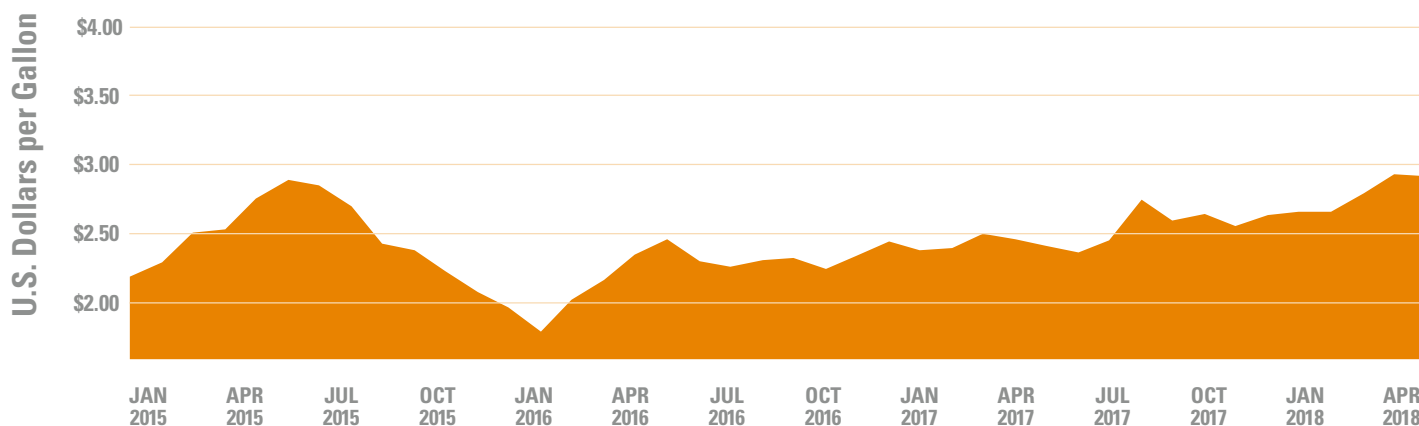
Year-Over-Year:

↑ **25.3%**

FUEL PRICES ON THE RISE, AGAIN

The more things change, the more they stay the same in the gasoline and diesel markets. Prices increased for the seventh straight quarter. In May, gasoline reached its highest average price in over three years. Price growth was due to higher oil prices – fueled by geopolitical concerns affecting oil production and stunted crude supply – a more expensive summer blend, strong summer driving demand and robust economic growth.^{5,6}

Overall, gasoline and diesel increased 19.7% and 25.3% year-over-year.



Source: Energy Information Administration

TARIFFS MAINTAIN WHOLE-CRUSHED PRICE MOMENTUM



WHOLE CRUSHED AUTO-BODY PRICES

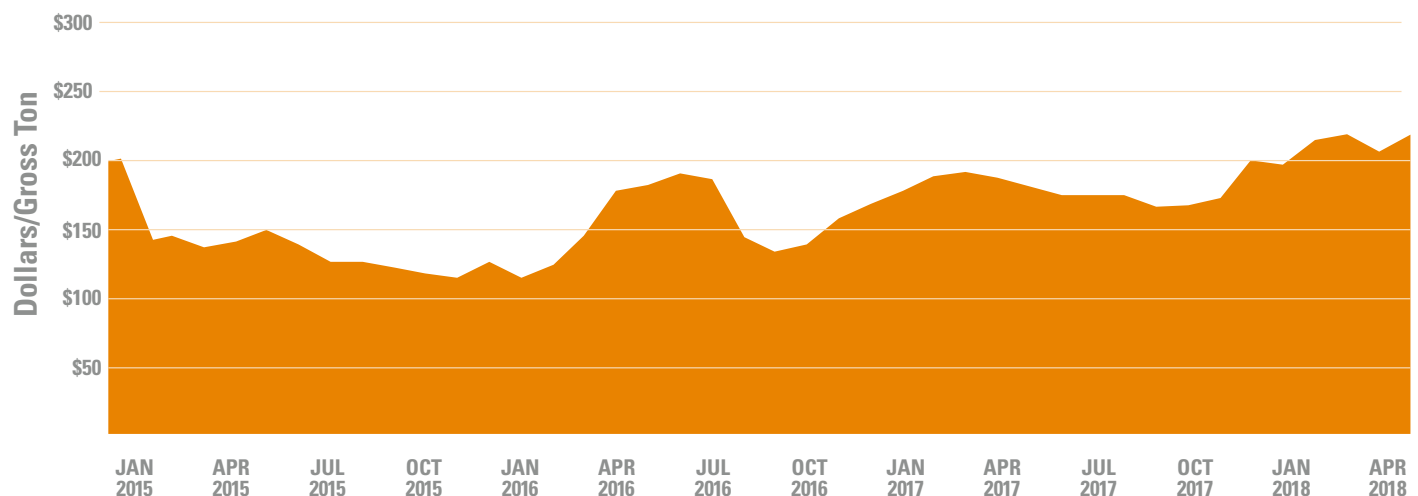
Quarter-to-Quarter:

↑ **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.⁷ 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.



Source: American Recycler

SPRINGTIME SWOON FOR PLATINUM AND 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.⁹ 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%**

“

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.

”



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.¹⁰

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.¹¹

U.S. DOLLAR

Quarter-to-Quarter:

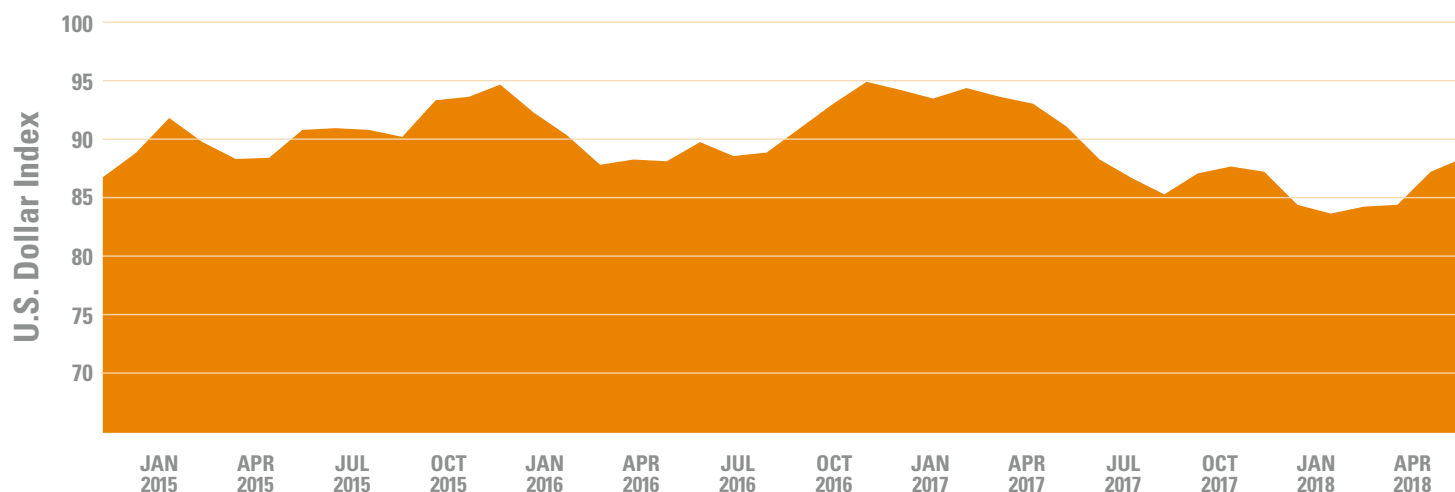
2.5%

Appreciated

Year-Over-Year:

5.1%

Depreciated



Source: Federal Reserve Bank of St. Louis

UPS AND 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/ CUVs. 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.¹²



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%**

INVENTORY UNDERGOES YOUTH MOVEMENT

Average vehicle age decreased on a yearly basis by 1.5%, or 0.1 year, while average mileage fell 2.3% and 2.4% relative to the past quarter and year, respectively. The younger and lower mileage vehicle mix affected average actual cash value (ACV), which is a representation of a vehicle's estimated value in an undamaged state. ACV serves as a benchmark for the general quality of insurance vehicles that make their way to auction. This quarter showed an increase of 3.1% quarter-to-quarter, and 3.0% growth from last year's Q2 ACV marks.



AVERAGE ACV

Quarter-to-Quarter:

↑ **3.1%**

Year-Over-Year:

↑ **3.0%**



AVERAGE AGE

Q2 2017:

9.3

Years

Q2 2018:

9.2

Years



AVERAGE MILEAGE

Quarter-to-Quarter:

↓ **2.3%**

Year-Over-Year:

↓ **2.4%**





CANADA
QUARTER 2 | 2018

USED VEHICLE PRICE INDEX

APRIL:

↑ **0.6%**

MAY:

↓ **0.2%**

JUNE:

↓ **0.3%**

A STEADY QUARTER

FOR THE CANADIAN AUTOMOBILE INDUSTRY

Overall it was a quarter marked by marginal changes and steady numbers, industry-wide. Q2 vehicle sales did all they could to keep pace with last year's impressive run, down just 0.2%. During that span, each month closed within 3% of their 2017 counterparts, with sales in June ending almost 9% higher than their 5-year average. Light truck demand maintained its popularity, representing about 70% of all vehicles sold for the quarter. Unemployment was largely unchanged, increasing less than 1 percentage point. Inflation, which was influenced by a 5% jump in oil prices, stayed put as well at a little over 2%, and the Canadian dollar depreciated just slightly quarter-to-quarter. These factors and concern over the impact of U.S. steel and aluminum tariffs likely kept Canada's sales growth slightly down for the quarter.^{13,14,15}

The ADESA Canada Used Vehicle Price had a moderate Q2 which included a 0.6% increase in April, followed by a minor drop-off in May and June. Quarter-to-quarter, the index finished up 0.3%.

CANADIAN EFFECTIVE EXCHANGE RATE INDEX (CEER)

Quarter-to-Quarter:

0.7%

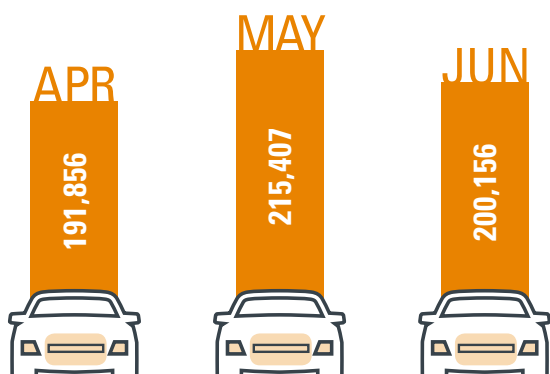
Appreciated

Year-Over-Year:

2.2%

Depreciated

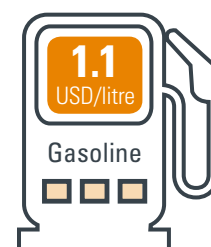
NEW-VEHICLE SALES



ECONOMIC DRIVERS



Q2 Growth



INSURANCE CARRIER VEHICLE VALUE ON THE RISE

Vehicle age dropped an average of 0.1 year from last year's 10.1 mark and average vehicle mileage followed suit, decreasing on a quarterly and yearly basis by 1.0% and 0.8%, respectively. On the other hand, average actual cash value (ACV), which is a representation of a vehicle's estimated value in an undamaged state and serves as a benchmark for the general quality of insurance vehicles that make their way to auction, grew 5.5% quarter-to-quarter. ACV finished a noteworthy 6.8% higher than last year's second quarter figures.



AVERAGE ACV

Quarter-to-Quarter:

↑**5.5%**

Year-Over-Year:

↑**6.8%**



AVERAGE AGE

Q2 2017:

10.1

Years

Q2 2018:

10.0

Years



AVERAGE MILEAGE

Quarter-to-Quarter:

↓**1.0%**

Year-Over-Year:

↓**0.8%**

REFERENCES

1. Marklines, "USA - Flash report, Sales volume, 2018," Marklines.com. July 2018. https://www.marklines.com/en/statistics/flash_sales/salesfig_usa_2018
2. Matt Tatham, "Sticker Shock Is Real: Car Payments Hit a Record High!" Experian.com. June 11, 2018. <https://www.experian.com/blogs/ask-experian/sticker-shock-is-real-car-payments-hit-a-record-high/>
3. The Federal Reserve, "Consumer Credit - G.19," Federalreserve.gov. July 9, 2018. <https://www.federalreserve.gov/releases/g19/current/>
4. Adrienne Roberts, "U.S. Auto Sales Remain Strong, but Tariffs Could Squash Momentum," Wsj.com. July, 3, 2018. <https://www.wsj.com/articles/u-s-car-sales-rose-in-june-1530630772>
5. U.S. Energy Information Administration, "EIA Expects 2018 Gasoline Prices Have Peaked," Eia.gov. June 27, 2018. <https://www.eia.gov/todayinenergy/detail.php?id=36572>
6. Benoit Faucon and Summer Said, "OPEC, Russia Promise More Oil, but Can They Pump Enough?" Wsj.com. June 20, 2018. https://www.wsj.com/articles/opec-russia-promise-more-oil-but-can-they-pump-enough-1529487001?mod=article_inline
7. John Lippert, "Trump Metal Tariffs to Make Cars Costlier, Automakers Say," Bloomberg.com. May 31, 2018. <https://www.bloomberg.com/news/articles/2018-05-31/trump-metal-tariffs-will-raise-vehicle-prices-automakers-say>
8. "ArcelorMittal Joins Small Group of Companies Who Love Trump's Tariffs," Bloomberg.com. July 17, 2018. <https://www.bloomberg.com/graphics/tariff-tracker/>
9. Rupert Rowling, "Platinum's Worst May Soon Be Over Despite Record Bearish Bet," Bloomberg.com. July 25, 2018. <https://www.bloomberg.com/news/articles/2018-07-26/platinum-s-worst-may-soon-be-over-even-with-record-bearish-bet>
10. Roger Blitz, "Dollar Index Returns to Positive Territory for 2018," FT.com. May 1, 2018. <https://www.ft.com/content/021a2552-4d49-11e8-8a8e-22951a2d8493>
11. Peter Wells, "US Dollar Racks up Best Quarterly Performance Since 2016," FT.com. June 29, 2018. <https://www.ft.com/content/6c0f36de-7bbe-11e8-8e67-1e1a0846c475>
12. Kontos Kommentary, "Current Used Vehicle Market Conditions and Outlook," Adesa.com. June 2018. <https://www.adesa.com/kontos-kommentary>
13. Global Automakers of Canada, "Canadian Auto Sales - April 2018," April 2018. http://www.globalautomakers.ca/files/2018_stats/april2018_release.pdf
14. Global Automakers of Canada, "Canadian Auto Sales - May 2018," May 2018. http://www.globalautomakers.ca/files/2018_stats/may2018_release.pdf
15. Global Automakers of Canada, "Canadian Auto Sales - June 2018," June 2018. http://www.globalautomakers.ca/files/2018_stats/june2018_release.pdf



ABOUT INSURANCE AUTO AUCTIONS, INC.

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 people 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 17,500 employees and more than 300 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 multiplatform 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 IAA-Auctions.com to learn more, and follow IAA on [Facebook](#), [Twitter](#) and [LinkedIn](#).



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.

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.