



## Bearish Positioning in IAA with Weak Business Trends

Ticker/Price: IAA (\$38)

### Analysis:

**IAA Inc (IAA)** with 5,000 June \$30/\$20 put spreads bought this morning for \$1.50 and follows 1500 June \$30 puts bought on Friday around \$2, standout volume in a name that had only 933 options in open interest before Friday. Shares have rebounded from the March lows and back above its 50-MA this morning but running into a major volume shelf 2019 range around \$37.50. A move back under the 50% retracement and under the 8-EMA at \$34 key to watch for a short-term break in momentum. The \$4.8B company trades 21.2X earnings, 3.35X sales and 102X cash. They have some notable debt due to the spin-off structure from KAR Auction (KAR) and noted in March they expect their leverage ratio above 3X in 2020 with interest payments rising. IAA focuses on auto salvage solutions and auctions for total loss, damaged, and low-value vehicles in the US. They took down estimates for the FY recently, like many, but ongoing risks to their core business due to COVID-19. First, IAA relies on volume which comes from more total accidents and miles driven. The LA Times recently noted a 60% dip in overall auto traffic on their highways while areas like Michigan (67%), and NY (80%) also show the nationwide dip in miles traveled. This is likely compounded by the fact that IAA lost major share from customer Geico in October to Copart (CPRT). Second, IAA relies on active auctions and used car pricing. The former have come to a standstill and some have moved online but JD Power noting on 4/23 that the last two weeks of March saw the two largest-ever declines in average used-car transaction prices. Analysts have an average target for shares of \$47. Barrington upgrading to Buy on 3-18 noting that world will return to normal some day and the firm thinks their long-term margin plan provides upside. Short interest is 4%. Hedge fund ownership rose 8%. Third Point a notable buyer of 6.5M shares.

### Hawk Vision:



**Hawk's Perspective:** IAA has some near-term momentum but any reversal candle signal makes it a compelling short as there is a clear bear thesis here.

**Confidence Ranking:** \$\$

