



# Buy: Copart (CPRT)

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HOLDINGS UPDATE

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**Copart** operates auctions and wrecking yards for salvage-title vehicles. Copart's primary suppliers are insurance companies, and its customers include auto rebuilders, dismantlers, individuals and small businesses. Copart's business is primarily in the U.S., but the company has been expanding in Europe, particularly in the U.K. and Germany. In the U.S., the industry is a duopoly where Copart is the market leader with about 40% share.

## Know What You Own

We believe Copart enjoys several competitive advantages, primarily driven by the company's scale and scope of operations. Insurance companies want the best and broadest service, especially during surges in claims that occur during natural disasters. Copart is an essential partner both day-to-day and during disasters, including pickup, delivery, auction and title transfer. Insurers also want the best sales prices for these totaled vehicles, which offsets the cost of paying out an insurance claim. Copart has more auction participants than smaller rivals, which can drive up auction prices and generate better returns for insurance companies. While Copart typically only collects a fee for its services, in some cases the company does purchase vehicles and take ownership. Sales of purchased vehicles generate about 20% of revenues.

Another notable fact is that vehicle accident rates have declined steadily over the past century due to technological innovation. While Copart believes that the accident rate will continue to decline, it notes that the total loss frequency, or the percentage of wrecked cars that are not worth repairing, has increased over time, largely driven by increased technology content on vehicles, higher labor costs and auto repair industry consolidation. Additional offsetting factors include increased traffic congestion and the tendency for drivers to take more risks when driving vehicles with more safety features.



## Outlook

Going forward, we believe that Copart has solid long-term growth drivers, including market share gains in both salvage-title and clean-title vehicles; expansion in Europe; acquisition of smaller competitors; further expansion into ancillary markets; and increasing natural disaster frequency due to global warming. Likewise, we see many positive margin drivers, primarily focused on revenue mix changes to favor auction sales, export sales and higher-value vehicles. Overall, due to the company's solid competitive advantages, good growth profile, high margins and strong balance sheet, we have a positive outlook on the company and added it to the Quality Growth Strategy based on the stock valuation at the time.

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