



Company Overview:

Copart, Inc. is a leading provider of online vehicle auctions and vehicle remarketing services. Breaking it down, the company acts as an intermediary agent, connecting sellers, i.e., insurance companies with buyers, i.e., dealers. In general, these vehicles are either damaged or deemed totaled by the insurers where the insurer has already made the vehicle owner whole and is looking to capitalize on the asset.

<u>Name</u>	<u>Ticker</u>	<u>Yield</u>	<u>Growth</u>	<u>D + G</u>
Copart, Inc.	CPRT	0.00%	10.75%	10.75%

Company Highlights:

Revenue continues to be around 7.5% annually over the past few years as 1% global volume growth is fueled by stronger average selling prices (“ASPs”) and higher fees. Insurance assignments slowed due to cyclical factors (more uninsured/underinsured motorists) and insurance carrier trends (Copart partners wrote fewer policies), which are likely to weigh on trading action. Big picture, Copart operates a unique business with a wide moat backed by network effects and secular growth trends (total loss rate), making it a core holding for investors that prioritize quality business models.

Bull Case:

- **Long Runway for Superior Organic Growth**
 - Increase in Number of Cars Considered Totaled - As each new car model becomes more elaborate, it is expected that the number of cars being considered “totaled” will continue to grow. With more technology being engrained in each vehicle, vehicle repair costs are steadily rising, skyrocketing the number of vehicles deemed a total loss. Historically, around 14% of cars involved in wrecks have been considered a total loss. Now, this figure has been on a consistent upward trajectory with over 20% of cars being deemed a total loss.
 - Growing Average Age of the North American Car Fleet – The number of registered vehicles and average age of the North American car fleet are at historical highs. This will likely drive down used vehicle values, sending a higher proportion of crashed vehicles to salvage auction.
- **Growth Outside the United States** – Copart has been diligently investing internationally, which has already proven successful by adding growth to the topline and a meaningful impact to earnings per share. International demand for repaired/salvaged cars has been very strong, outperforming internal goals.
- **Competitive Moat** – CPRT has focused on reinvesting into improving technology and additional fixed assets. Not only does this add capacity and drive organic growth, but more importantly, we believe this creates a breadth of offerings for the customer, solidifying relationships, and increasing the opportunity cost for the customer to change auctioneers.

Bear Case:

- **Sentiment Surrounding Autonomous Vehicles** – Though not a short-term threat, sentiment can create unintentional near-term volatility around the stock. Longer-term, self-driving cars with better driving records than humans could reduce the available supply of “totaled vehicles”, albeit this is probably well into the future.
- **Earnings Volatility** – Copart doesn’t hedge foreign currency transactions, which can create some volatility in net income and earnings per share. As Copart continues to grow its international business, this could create earnings volatility.
- **Not Recession Proof** – What is the main component driving growth in Copart’s sales? The fact that people are purchasing new cars, sending their old ones to online auctions, and miles driven. In a recession, buying a car becomes a very discretionary purchase. If there are less cars being purchased, there are less cars going to an online auction block.

Overview:

Copart virtually operates in a duopolistic industry owning nearly 50% of the market share, with its main competitor, Insurance Auto Auctions, having closer to 35% (recently acquired by Ritchie Brothers in Canada). This domination of an industry allows Copart to be the first mover in technology, growing their business well above their peers. This advantage gives the company a significant advantage to be the preferred auctioneer. Copart has seen consistently high growth in both net income and margins, while steadily utilizing free cash flow to finance projects and acquisitions. In our opinion, they have placed a strong focus on growing through acquisitions, creating economies of scale, and providing their customers with the best technology in the industry. We believe Copart has been making a strong effort to diversify away from the U.S. segment by utilizing their tried-and-true processes to push for growth both globally, as well by increasing their breadth of service. We feel confident in the management’s ability to carefully steward shareholders’ capital and accretively invest and continue to compound capital at attractive yields over the long run. Not to mention, that insiders own 10% of the shares outstanding, so we are investing alongside the owners. In a nutshell, CPRT is an easy way to play the ever-growing problem of texting and driving!



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