

# Acquisition by Copart, Inc. of Green Parts Specialist Holdings Ltd (Hills Motors)

## Decision on relevant merger situation and substantial lessening of competition

ME/7010/22

### SUMMARY

1. On 5 July 2022, Copart UK Limited, a wholly owned subsidiary of Copart, Inc. (**Copart**), acquired the entire issued share capital of Green Parts Specialist Holdings Ltd (formerly named ILT Project Limited) (**Hills Motors**) (**the Merger**). Copart and Hills Motors are together referred to as the **Parties** and for statements referring to the future, as the **Merged Entity**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Copart and Hills Motors is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; and that the share of supply test in the Enterprise Act 2002 (the **Act**) is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. The Parties overlap in the supply of salvage vehicle commercialisation services (**salvage services**) and the supply of salvage vehicles in the UK. Salvage vehicles are damaged vehicles that are typically deemed no longer fit for use on the road and/or uneconomical for repair, following a road accident, theft or weather-damage. Providers of salvage services (also referred to as **salvagers**) collect, store and commercialise (eg, through the sale of the vehicle or their parts) salvage vehicles on behalf of upstream customers such as insurance companies, fleet management companies, claims management companies and the police (collectively, **upstream customers**). Where fit for sale, salvagers sell salvage vehicles to downstream customers such as dismantlers, body shops, repairers and end-customers (collectively, **downstream customers**) via online auctions. Dismantlers – including salvagers with dismantling capabilities – dismantle the vehicles and sell their recycled official manufacturer (**OEM**) parts (**green parts**).

4. Salvagers – including the Parties – are therefore active in both the supply of salvage services (to upstream customers) and the supply of salvage vehicles (to downstream customers). There is also a vertical relationship between Copart and Hills Motors, given that Hills Motors has in-house dismantling capability and supplies green parts (whereas Copart does not).
5. The CMA considered whether the Merger may give rise to a substantial lessening of competition (**SLC**) as a result of:
  - (a) horizontal unilateral effects in the supply of salvage services in the UK;
  - (b) horizontal unilateral effects in the supply of salvage vehicles in the UK; and
  - (c) input foreclosure of rival suppliers of green parts in the UK through restricted access to salvage vehicles.

### **Horizontal unilateral effects in the supply of salvage services**

6. In relation to the supply of salvage services in the UK, the CMA's investigation found that the Merger combines the largest and fourth largest suppliers, and the Merged Entity would have a high combined share of supply (in excess of 60%). The CMA considers that there are few significant alternative suppliers, specifically (i) IAA, Inc. (**IAA**) and (ii) e2e Total Loss Vehicle Management (**e2e**), which is a consortium comprised of a number of salvagers as its members (including, pre-Merger, Hills Motors). The Parties are two of a few salvagers that compete for national contracts and the Parties' internal documents, in particular from Hills Motors, showed instances of monitoring each other's contracts. Customers and competitors that responded to the CMA's merger investigation also stated that the Parties are two of a few significant alternatives. The CMA therefore considers that competition mainly takes place among a few firms, and the Parties are sufficiently close competitors that the elimination of competition between them may raise competition concerns.
7. In light of the above, the CMA found that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of salvage services in the UK.

### **Horizontal unilateral effects in the supply of salvage vehicles**

8. The CMA found that the market dynamics in the upstream market for salvage services, specifically the Parties' high share of supply and the lack of alternative players, was reflected in the downstream market for the supply of salvage vehicles. As a result, the CMA also found that the Merger gives rise to a realistic prospect of

an SLC as a result of horizontal unilateral effects in the supply of salvage vehicles in the UK.

### **Input foreclosure of rival suppliers of green parts through restricted access to salvage vehicles**

9. In relation to input foreclosure of rival suppliers of green parts, the CMA believes that the Merged Entity would have the ability to restrict access to salvage vehicles to rival suppliers of green parts by virtue of its position as the largest supplier of salvage vehicles in the UK, which are an essential input for the supply of green parts. The CMA also considers that the Merged Entity would have the incentive to pursue such a foreclosure strategy, given that an important rationale for the Merger is for Copart to provide existing and potential salvage service customers with a green parts supply service and Copart has expressed intentions to scale Hills Motors dismantling capabilities to this end. The CMA believes that foreclosure of rival suppliers, if it occurred, would have an effect on competition. The Merged Entity is an important source of salvage vehicles for dismantlers, including those not active in the supply of salvage services or who supplement their source of salvage vehicles for dismantling with salvage vehicles purchased from Copart or Hills Motors.
10. In light of the above, the CMA found that the Merger gives rise to a realistic prospect of an SLC in the UK as a result of input foreclosure of rival suppliers of green parts through restricted access to salvage vehicles.

### **Conclusion**

11. The CMA is therefore considering whether to accept undertakings under section 73 of the Act. Copart has until 5 December 2022 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.