

# Completed acquisition by Copart, Inc of Green Parts Specialist Holdings Ltd (Hills Motors)

## Summary of Provisional Findings

**Notified: 5 May 2023**

1. The Competition and Markets Authority (**CMA**) has provisionally found that the completed acquisition by Copart UK Limited, a wholly owned subsidiary of Copart, Inc. (**Copart**), of the entire issued share capital of Green Parts Specialist Holdings Ltd (formerly named ILT Project Limited) (**Hills Motors**) (the **Merger**) has resulted or may be expected to result in a substantial lessening of competition (**SLC**) in the supply of salvage services in the UK. Copart and Hills Motors are together referred to as the **Parties** and for statements referring to the future, as the **Merged Entity**.
2. We have provisionally found that the Merger may not be expected to give rise to an SLC in: (i) the supply of damaged and other used vehicles to dismantlers in the UK; (ii) the supply of damaged and other used vehicles to non-dismantlers in the UK; (iii) the supply of recycled original equipment manufacturer (**OEM**) vehicle parts (**recycled parts**) to insurance repair networks in the UK; and (iv) the supply of recycled parts to other customers in the UK.
3. This is not our final decision, and we invite any interested parties to make submissions on these provisional findings by no later than **5pm on Friday 26 May 2023**. Please make any response to these findings by email to [copart.hills-motors@cma.gov.uk](mailto:copart.hills-motors@cma.gov.uk). We will take all submissions received by this date into account in reaching our final decision.

## **Who are the businesses and what services do they provide?**

4. Copart is a global provider of online vehicle auctions and vehicle remarketing services. Hills Motors is a UK-based provider of vehicle recycling and remarketing services.
5. The Parties both provide services – including collection (recovery), storage and remarketing for sale via online auctions – to customers looking to dispose of and commercialise damaged and other used vehicles in the UK. The Parties principally overlap in the supply of such services to insurance companies. They also provide these services to other customers, including private individuals (Copart via its Cash For Cars business and Hills Motors via its scrapacar.co.uk website), local authorities (such as the police) and vehicle rental, fleet management and finance companies.
6. Hills Motors dismantles vehicles to supply recycled parts, whereas Copart does not. Hills Motors has a particular focus on its recycled parts supply capabilities, including through the development of its ‘The Green Parts Specialists’ platform.

## **How have we assessed the impact of the Merger?**

7. In a completed merger, we are required to determine whether it has resulted, or may be expected to result, in an SLC within any market or markets in UK. In deciding whether a merger may be expected to result in an SLC, the question we are required to answer is whether there is an expectation — a more than 50% chance — that it will result in an SLC.
8. In assessing whether this is the case, we have focused on three broad ways, or ‘theories of harm’, in which the Merger could give rise to an SLC:
  - (a) the first considers whether the Merger would result in an SLC in the supply of salvage services in the UK by removing a competitive constraint;
  - (b) the second considers whether the Merger would result in an SLC in the supply of damaged and other used vehicles to dismantlers and to non-dismantlers, respectively, in the UK by removing a competitive constraint; and
  - (c) the third considers whether the Merger would result in an SLC in the supply of recycled parts to insurance repair networks or other customers, respectively, in the UK by enabling the Merged Entity to harm the

competitiveness of rivals in those markets by restricting access to damaged and other used vehicles used as an input.

9. We discuss our provisional findings in respect of these theories in further detail below.

## **What evidence have we looked at?**

10. To assess the impact of the Merger, we gathered a substantial volume of evidence that we considered in the round to reach our provisional findings.
11. We held site visits and hearings with each of Copart and Hills Motors and received several submissions from the Parties – including a response to our [phase 1 decision](#) issued on 28 November 2022 (**Phase 1 Decision**), a subsequent response to our [Issues Statement](#) (in which we set out the theories of harm on which we planned to focus our phase 2 investigation) and a response to our working papers and annotated Issues Statement (the **AIS**), which set out our emerging thinking and was shared with the Parties ahead of our hearings with them – as well as responses to our information requests. We gathered and analysed a substantial volume of contemporaneous documentary evidence from the Parties, including internal documents relating to recent tenders and email correspondence regarding the rationale for the Merger and the Parties' business plans.
12. We gathered evidence from customers and competitors via written questionnaires and video conference calls in order to better understand the markets and obtain their views on the potential impact of the Merger on competition. This included evidence from 18 competitors in salvaging and dismantling and 19 customers of salvage services (of which the majority were insurance companies). We also received input from other industry associations and players.
13. Finally, we considered evidence from the Parties and third parties received during our phase 1 investigation of the Merger.

## **What would have happened absent the Merger?**

14. To determine the impact that the Merger may have on competition, we have considered what would have likely happened absent the Merger. This is known as the counterfactual. In this case, based on the evidence we gathered, our provisional conclusion is that the most likely counterfactual is the pre-Merger conditions of competition.

15. We have received evidence that a salvager offering a recycled parts service is important to a material portion of customers. Given that insurers' preferences in this regard is an industry-wide development, we have considered the competitive impact of this, and in particular its impact on Copart's competitive position, in the competitive assessment.

## **The impact of the Merger on the supply of salvage services in the UK**

16. We have provisionally concluded that the Merger would result in an SLC in the supply of salvage services in the UK by removing a competitive constraint. In our assessment, we first considered the extent of competition between the Parties that would be lost because of the Merger, and then considered whether that loss would be substantial in view of the constraints that the Merged Entity would face post-Merger from remaining rivals. As part of this assessment, we considered evidence on the structure of the market and the Parties' position over time, the closeness of competition between the Parties – in particular, recent competitive interactions and how this would have likely continued absent the Merger – and the constraint remaining from alternative providers.

## **Market structure and the Parties' position over time**

17. We estimated shares of supply using data from the Parties and other salvagers on the volume of vehicles they handled on behalf of salvage service customers – including all customers, whether insurance companies, public authorities, private individuals, rental, finance or fleet companies, etc – in the UK from 2019 to 2022. Based on these estimates for 2022, Copart is the largest supplier by a significant distance, with a market share of over 40%. The next largest suppliers are Recycling Lives, IAA, e2e and Hills Motors. There is a tail of smaller suppliers, including Charles Trent, Silverlake and SureTrak.
18. We also estimated shares of supply based on volumes identified by the Parties and other salvagers as being supplied by insurance customers, as this is the main area of overlap between the Parties. On this basis, as compared with the supply of salvage services overall, Copart remains the market leader, but with a higher share of supply of over 60%. Copart is over three times the size of the next largest supplier, IAA. Hills Motors' share of supply is similar to its share of supply of salvage services overall. Owing to the much smaller presence of Recycling Lives and Charles Trent in this segment, the Merger combines the first and fourth largest players.

19. While share of supply estimates are inherently backward-looking, they provide useful information as to the relative position of the largest players in the supply of salvage services. In particular, we consider Copart's leading position – which has remained consistent over time – indicative of its sustained success in winning salvage service contracts.
20. While there is variation in our share of supply estimates – including our sensitivity analyses – based on the different ways in which we have assessed the data, they all show that Copart is substantially larger than any other player and that the Merger will lead to a material increment. We consider that more weight should be placed on the shares based on vehicles received from insurance companies, given the nature of the Parties' overlap.
21. We have considered this evidence in the round alongside other evidence as outlined below.

### **Closeness of competition between the Parties**

22. Our provisional view is that, while historically Hills Motors has placed only a weak constraint on Copart, the competitive constraint by Hills Motors on Copart was increasing in recent competitive interactions and, absent the Merger, the competitive constraint from Hills Motors would likely have increased further. This is in the context of a market in which competition (in particular for large insurance customers) mainly takes place among a small number of firms.
23. In particular, evidence gathered from the Parties, their customers and competitors shows that:
  - (a) The Parties are two of a small number of players – Copart, IAA, e2e, Hills Motors, SureTrak – with demonstrable success in winning and servicing large national salvage contracts for insurance companies (**'large national insurance contracts'**). While the way in which the Parties service these contracts differs – Copart services its contracts in-house whereas Hills Motors operates a network of suppliers – several insurance customers with large national insurance contracts told us that it is acceptable for national coverage to be provided via subcontracting, subject to certain service level parameters being met.
  - (b) Copart is one of a small number of players – Copart, IAA, e2e and Recycling Lives – with a proprietary auction platform. Prior to the Merger, Hills Motors had made a significant investment in developing its own auction technology. While Hills Motors pre-Merger had not launched its

own auction platform, there is evidence that Hills Motors had well-developed platform technology.

- (c) While, historically, Hills Motors and Copart have not been considered to be alternatives by customers, there is evidence of this changing in recent years following Hills Motors winning a contract with Ageas, a large national insurance customer. While Hills Motors' model for servicing the Ageas contract has some unique features, the evidence suggests that it is capable of being replicated, with certain adjustments, for other large national contracts. In particular, there is evidence of recent competitive interactions between the Parties in relation to large insurance customers. This indicates that going forward the model used by Hills Motors may have wider appeal with customers, particularly in the context of the growing importance of recycled parts, where it has a strong position.
- (d) While the views of customers expressed in response to our investigation show a lack of perceived closeness of competition between the Parties, in weighing this evidence in our assessment, we have had regard to the particular market context in this case, taking into account the small number of significant rivals to Copart in the supply of salvage services and the juncture in time at which the Merger occurred (Hills Motors having won the Ageas contract in 2020 and the value of the recycled parts opportunity to insurers having gained traction relatively recently). This timing may mean that the views of customers today are not particularly probative as evidence of the degree of closeness of competition between the Parties had the Merger not taken place. For example, half of Copart's customers who responded to our investigation do not appear to have tendered their contracts since 2020 (when Hills Motors won the Ageas contract). By contrast, the observed behaviour of customers in recent competitive interactions suggests that the competitive constraint by Hills Motors on Copart in salvage services was increasing.
- (e) Consistent with other evidence we have gathered and assessed above, Copart's internal documents indicate that its closest competitor is IAA followed by, more distantly, e2e. However, Copart's documents also show that, prior to the Merger, it was monitoring Hills Motors alongside a small number of competitors and was targeting the same customers.
- (f) Internal documents submitted by Hills Motors – including documents relating to tenders, benchmarking exercises and Hills Motors' auction platform as well as internal strategy documents – show that, prior to the Merger, Hills Motors had ambitions to continue to compete for salvage service customers, including Copart's existing customers.

## **Remaining constraints post-Merger**

24. We have provisionally found there to be weak alternative constraints on the Merged Entity. In particular, while IAA places a strong constraint on the Merged Entity, e2e only provides a moderate constraint on the Merged Entity, which is likely to be weaker following the Merger. In addition, of the other salvagers identified by the Parties, most place a weak constraint on the Merged Entity. While we expect the historically weak constraint from Charles Trent to increase in the future, for example, we consider that the constraint would not be as strong as constraint from Hills lost as a result of the Merger given Hills Motors' more developed IT systems and proven track record of servicing a large national insurance contract outside of e2e.

## **The impact of the Merger on the supply of damaged and other used vehicles to dismantlers in the UK**

25. We have provisionally found that the Merger has not and may not be expected to give rise to an SLC as a result of horizontal unilateral effects in the supply of damaged and other used vehicles to dismantlers in the UK.
26. We provisionally consider that the market for the supply of damaged and other used vehicles to dismantlers in the UK includes vehicles sourced from salvage service customers (directly or indirectly, via subcontracting arrangements or purchasing from salvager auctions) but excludes vehicles sourced from other vehicle remarketers who specialise in the sale of used vehicles (eg BCA and Manheim) and platforms listing vehicles for sale.
27. Available share of supply data show that the Merged Entity has a high share of supply of all vehicles handled by salvagers – which may be used for dismantling – and a very high (over 60%) share of supply of the vehicles most suitable for dismantling (Category B vehicles) with a material increment (attributing to Hills Motors the volumes of Category B vehicles it supplies to subcontractors). However, evidence received from dismantlers shows that the Parties are not significant alternatives to each other in practice.
- (a) Copart sells Category B vehicles to verified licensed dismantlers via its online auctions, whereas the vast majority of vehicles supplied by Hills Motors to dismantlers are supplied through sub-contracting arrangements.
  - (b) Further, Hills Motors supplies vehicles via sub-contracting to a limited subset of all dismantlers.
  - (c) For those dismantlers receiving sub-contracted volumes from Hills Motors, most receive the majority of their volumes from sources other

than the Parties. In particular, seven out of ten that responded to our investigation received less than half of their volumes from the Parties.

## **The impact of the Merger on the supply of damaged and other used vehicles to non-dismantlers in the UK**

28. We have provisionally found that the Merger has not and may not be expected to give rise to an SLC as a result of horizontal unilateral effects in the supply of damaged and other used vehicles to non-dismantlers in the UK.
29. We provisionally consider that the market for the supply of vehicles to non-dismantlers in the UK includes salvagers as well as other vehicle remarketers (eg BCA and Manheim) and platforms listing vehicles for sale.
30. We have not sought to estimate shares of supply but have focused on the closeness of competition between the Parties and the extent to which there are significant alternatives in practice.
  - (a) Data from the Parties shows that most buyers buy a small number of vehicles with the vast majority of Hills Motors' buyers only buying very few vehicles annually. For Copart there are more large-scale buyers, however, most still buy a small number.
  - (b) Survey evidence submitted by the Parties shows that, among non-dismantler respondents, the most commonly identified alternatives were eBay, Auto Trader, Gumtree, Facebook Marketplace and IAA. Hills Motors was only identified by a small proportion of respondents and was identified less frequently than other salvagers. While the evidence the Parties submitted from the websites of eBay, Facebook Marketplace and Gumtree does not support that these platforms have a credible supply of Category B vehicles, there is evidence of some of the vehicles identified by the Parties being Category N or S vehicles or roadworthy vehicles and as such equivalent to vehicles the Parties generally supply to non-dismantlers.
  - (c) Copart's internal documents are consistent with there being some overlap in the vehicles available for non-dismantlers.

## **The impact of the Merger on the supply of recycled parts to insurance repair networks and other customers in the UK**

31. We have provisionally found that the Merger has not and may not be expected to give rise to an SLC as a result of input foreclosure of rival



suppliers of recycled parts to insurance repair networks or other customers in the UK through the Merged Entity restricting access to damaged and other used vehicles used in the supply those parts.

32. In assessing whether the Merged Entity would have the ability to foreclose rivals in the supply of recycled parts to insurance repair networks and to other customers in the UK, we have considered whether the Merged Entity would have the ability to harm the competitiveness of rivals in those markets by restricting access to damaged and other used vehicles used as an input. Given the presence of vertically integrated rivals in both markets we have considered both:
- (a) whether the Merged Entity would have control of an important input in the supply of recycled parts to (i) insurance repair networks and (ii) other customers in the UK, having regard to available share of supply of data; and
  - (b) the extent to which the Merged Entity's rivals in the supply of recycled parts to both customer groups are dependent on the Merged Entity for their inputs (such that a foreclosure strategy could harm their competitiveness).
33. As to whether the Merged Entity would have control of an important input, as set out above, the available share of supply data show that the Merged Entity has a high share of supply of all vehicles handled by salvagers – which may be used for dismantling – and a very high (over 60%) share of supply of the vehicles most suitable for dismantling (Category B vehicles) with a material increment (attributing to Hills Motors the volumes of Category B vehicles it supplies to subcontractors). Viewed in isolation, this would suggest that the Merged Entity has an important position in the supply of damaged and other used vehicles to dismantlers.
34. However, available share of supply data for the UK show that the only players besides the Merged Entity with a material presence in the supply of recycled parts to insurance repair networks that may be impacted by a foreclosure strategy are Silverlake, IAA and Charles Trent, all of whom are vertically integrated and receive the majority of their insurance vehicles – being those vehicles most suitable for dismantling to supply parts – from contracts with insurance customers (whether held independently, in the case of IAA, or through consortia). We therefore provisionally conclude that the Merged Entity does not have the ability to harm the competitiveness of these rivals.
35. In the supply of recycled parts to other customers in the UK, IAA, Charles Trent and Silverlake are also the largest suppliers. Further, the market is

highly fragmented, with a large number of players (including Hills Motors) each with a small share of supply of less than 5%. Hills Motors' insignificant size in this market suggests that a foreclosure strategy with respect to dismantlers serving other customers would be unlikely to be profitable, as any potential gains from foreclosure would likely be very limited.

36. Given that all significant rivals – in both the supply of recycled parts to insurance repair networks and the supply of recycled parts to other customers in the UK – are vertically integrated, such that they have alternative sources of insurance vehicles (the vehicles most suitable for dismantling for parts), we provisionally conclude that the Merged Entity does not have the ability to harm the competitiveness of rivals that impact competition in either market.

## **Countervailing factors**

37. As we have provisionally found that the Merger gives rise to an SLC in the supply of salvage services in the UK, we have considered whether there are countervailing factors that may prevent or mitigate an SLC arising in this market. There are two main ways in which this could happen:
- (a) through the entry and/or expansion of third parties in reaction to the effects of a merger; or
  - (b) through merger efficiencies (specifically, at this stage, we consider rivalry-enhancing efficiencies).

## **Entry and expansion in the supply of salvage services**

38. On the basis of the available evidence, it is our provisional view that barriers to entry and expansion in the provision of salvage services are high, and that it is not likely that entry or expansion of sufficient scale would occur in a timely and sufficient manner to mitigate or prevent an SLC from arising as a result of the Merger. This view takes into account the evidence we have in relation to the scale (whether in-house or achieved through operation of a network) needed to compete for and service national contracts – in particular, large national insurance contracts – and associated capital investment and regulatory requirements as well as the prospects of expansion by existing players.

## **Merger efficiencies**

39. Based on the evidence currently available, our provisional view is that it is unlikely that rivalry-enhancing efficiencies will arise from the Merger to

prevent the SLC we have provisionally identified as arising as a result of the Merger. In order for us to take rivalry-enhancing efficiencies into account in our assessment, the efficiencies must:

- (a) enhance rivalry in the in the supply of the products or services where an SLC may otherwise arise;
- (b) be timely, likely and sufficient to prevent an SLC from arising (having regard to the effect on rivalry that would otherwise result from the merger);
- (c) be a direct consequence of the merger; and
- (d) benefit customers in the UK.

40. While the Parties have submitted that the Merger will benefit salvage service customers and better enable Copart to compete with IAA, the Parties have not to date put forward verifiable evidence to demonstrate that such suggested efficiencies would be timely, likely, sufficient and specific to the Merger to offset the SLC we have provisionally identified. In particular, we have not seen evidence that any such efficiencies are reliant on the Merger in question and would not be brought about by other means.

## **Provisional conclusions**

41. As a result of our assessment, we have provisionally concluded that:
- (a) the completed acquisition of Hills Motors by Copart has resulted in the creation of a relevant merger situation (**RMS**); and
  - (b) the creation of that RMS has resulted, or may be expected to result, in an SLC in the market for the supply of salvage services in the UK due to horizontal unilateral effects.