

Andy Warren response to provisional findings

I have over 25 years' experience in motor insurance and vehicle repair. In this time, I have held, and still hold senior executive roles in large insurance companies and build strategies and solutions to drive efficiency and cost benefits for all parties involved in the supply chain, as well as support the Green/Eco agenda. Something that I am incredibly passionate about.

I have taken time to review the preliminary findings for the above case and note that you are now seeking comments. I felt compelled to respond as I believe the CMA have either not considered or been misled on some important information material to the outcome of this review.

I strongly believe that there cannot be a substantial lessening of competition as the result of this potential merger as there never was any direct competition between the Copart and Hills companies in the first instance. They are completely differing businesses, albeit both involved in the tail end of motor claims and vehicle repair. A single dismantling contract at Hills, focused on green parts does not make them a like for like competitor surely?

I feel it would be helpful to the CMA if I were to point out that across the developed world there are typically two public competing companies that provide vehicle salvaging services, Copart Inc and Richie Bros (IAA) now incorporating the huge Maltby site in the UK. In the UK it would appear that you seem to think that our small island needs many choices? Also, the documents state that 92% of insurance companies want Copart to acquire Hills so they are on a level playing field to IAA. I and other leading insurers see that Copart will future proof the industry when the UK economy is shrinking. The CMA seems to suggest that the Insurance industry doesn't know about Hills. My expert opinion is that every sector involved in insurance, mobility, crash repair and accident management knows about Hills, they were a founding member of the NSG/NSA Salvage business (now called e2e network) in 1985, set up specifically to support the Direct Line Contract, which also started in 1985.

Hills cover the geographic area around Liverpool /Manchester. Everyone is also aware that 3 dismantling companies broke away to form Syneq which was sold to IAA or now Ritchie Bros. The CMA approved that deal quickly which I find confusing mindful of the focus the Copart/Hills deal is now causing.

Copart supported that acquisition despite it being a competitor as it is evolution sought by the customers looking for lower cost alternatives to new parts that have been, and still are, quite difficult to source post covid! It is also widely known that Hills has a contract with the insurance giant, Ageas. However, no one else in the entire industry would put green parts savings over and above the financial salvage returns, Ageas are a maverick entity and always have been. There are daily news updates issued to the entire industry over several platforms (ABP, Post, Insurance Age, Insurance Times, Body Shop magazine, ARC 360, I Love Claims), to name but a few publications and online mail services covering company changes, general updates, personnel changes and supply chain updates. You cannot miss really miss them if you are involved in motor insurance.

Insurers have many compliance obligations to consider when tendering, while ensuring their suppliers can manage surge events with the increasing capacity requirements for erratic weather events the UK is experiencing and, I, for one, would not consider Hills would ever meet the needs of a general insurer to trade direct, they are too small and direct trade would be too difficult to integrate into an end to end supply chain management process. In my 25 years of claims work, I would never

have considered Hills for tender selection. For the record; the selection would typically be Copart, Richie/IAA, e2e and Suretrak. Four compared to two everywhere else. Few entities can afford the colossal investment and maintain the growing performance obligations of the Insurance Industry. In my numerous tenders to the motor salvage sector, I constantly require, faster collections, more compliant storage (both better security and more ecologically friendly and compliant), higher financial returns, faster processing, finance to be paid off for the customer, keys collected and a host of other value add work that a small business like Hills simply could not manage. Three to four options really are enough. The tender process also regulates the industry and controls pricing. All insurers support this view too according to your findings it would appear? You can also draw parallels with emergency roadside assistance (RAC & AA Dominant), car rental (Enterprise and Avis dominant) and damage estimating tools (Audatex and GT Motive dominant). Specialists exist in this sector, as an industry we would be in a bigger mess if they did not as it gives us commonality of trading and commercial platforms as well as visibility for the exchange of data and documents when we recover from other insurers handling third party claims.

An insurer needs to partner with strong suppliers and not risk complaints to the Financial ombudsman! Copart, IAA and e2e are proven, even Tesco now they have split from outsourcing services via Ageas have selected Copart, not a green parts company to align to their brand. I would see this as sufficient information to validate my point.

I would have a significant concern awarding any business to Hills or any smaller dismantler (as would many colleagues I have spoken to) directly as they have limited influence in the sector, no contingency plans, less land, equipment, resource, buyer base etc and I'm aware that Ian Hill is a lone family member since the retirement of his father with no children taking the business forward. Any self-respecting insurer handling more than a few hundred salvage units would shudder at the potential loss of income and lack of control passing their insurance salvage to a small regional player like Hills would have. Also, salvage needs to be moved to the best locations to achieve the best financial returns for the insurer (the insurer then using this increased income to lower insurance premium costs). Hills do not have this resource.

Overall, I see a company such as Hills is far better being sold to Copart than Amazon to build a warehouse or letting them struggle as a cottage industry! You rightly state that the e2e network can add other members, and as you point out, there is likely to be some movement here as businesses sell up and new ones move in, this has been the case over the years anyway. It is also good to see Trents Salvage has many family members invested, including the children and has employed the former e2e CEO, Neil Joslin, who can support growth in both Trents and e2e networks. They have a very active marketing campaign at present, so the industry is expecting to see more from them in the future. This activity will only help the market and create stronger alternatives. This again strengthens the case for the Copart/Hills activity.

Whilst I would imagine you have approached the salvaging departments of Insurers; you may not have interrogated the departments focusing on repairing vehicles as, strangely, they do operate in silos of isolation. The repair and engineering functions are all looking for green-parts where appropriate, to support the growing ESG requirements of the industry and the general lack of availability of new crash repair parts. Whilst worthwhile the opportunity is limited for many reasons. It is here that you need to partner with companies that are efficient, who quality assesses and can provide provenance of the part. Vehicle theft is on the increase (highest ever figures in 2022) and no insurer wants bad PR associated with fitting stolen parts. Insurers also want an established relationship where efficiencies and speed are optimised. Competing with non-OEM (non-genuine/aftermarket and OEM parts is also a challenging market).

As you will have gathered, I am very supportive in Copart acquiring Hills and urge you to readdress your preliminary views as no doubt we will all support an appeal process should it be necessary. I along with all insurers I have spoken to do not see these companies as direct competitors. They never have been. Nor would I ever entertain a tender approach to Hills as a serious player in salvage services, as they are not.

Both e2e and Synetiq are well run businesses, financially strong and robust competitors to Copart. Hills does not compete on the same level as the aforementioned, and I do not believe it was ever the case, either individually or as part of a collective or cooperative, that it was their intention to do so.

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