

Third party response to provisional findings

In brief, here is our initial response to your published preliminary view on the Copart-Hills merger. I say 'initial' as I am waiting for some further feedback from [X], but I wanted to get something across to you promptly.

We agree with your conclusion, that the merger should not proceed & that complete divestiture is required.

Copart already dominates the salvage services sector in the UK & realistically competition is limited.

However, we think that should the merger have gone forward, this would (within a few years) have severely restricted the availability of damaged vehicles suitable for dismantling for parts. We have also already seen such a move with Synetiq.

Moving forward, who could be interested in buying Hills?

It depends upon (much as you have already set out):

- the price
- the expertise (leadership & staff)
- the contracts

We do not understand how the Hills-GPS brand would be 'viewed' by the market post-divestiture but assume that it has lost some of its value. We also assume that it might be able re-join the e2e network if purchased by an 'independent' but I would guess this depends on exactly who buys it.

It should not be forgotten that even if the merger is to be reversed, Copart still needs to offer a green parts service to their insurers (or potentially lose contracts). We would expect this to form part of their exit strategy.

Our current (simplistic) view of possible purchasers (likelihood of any of these is completely unknown):

1. **Ian Hill** (heavily discounted buy-back (otherwise Ian unlikely to be interested) presumably tied to service to supply green parts for Copart's insurers)?
2. **LKQ/ Euro Car Parts**. A very interesting move. We would expect this to be followed by a series of further UK acquisitions to provide a national infrastructure. This could be a game changer for our industry – not necessarily negative (depending upon your point of view). We believe (but do not know for sure) that LKQ does not generally 'run' insurance salvage contracts but of course we also don't know whether they would operate differently in the UK than elsewhere. If they weren't interested in salvage contracts, this could allow Copart to grow (acquire those salvage contracts independently) but allow LKQ to provide parts for their insurers. In many respects, this could further suppress competition, in several areas.
3. **Synetiq**. Another very interesting possible move, which could dramatically increase competition. Even if this were the case, the combined entity would still be significantly smaller than Copart its salvage services (we believe). However, almost certainly 'cat B' vehicles would be processed internally within a short time-frame.
4. **Recycling Lives**. A big metal recycler already involved on the fringes of salvage services & green parts. Might be attractive as both the Hills & RL main properties are located relatively close to each other in the NW (Preston & Skelmersdale). RL has also expressed interest in generating more revenue from green parts. RL is by far the largest ELV operator in the UK &

green parts recovery has the potential to generate a lot of extra revenue for them. Might also fit nicely with insurers ESG outlooks

5. **EMR.** The UKs & one of Europe's largest metal recyclers. Were apparently involved in bidding for Synetiq. Not sure if their interest has cooled in this area recently. They have a huge vehicle parts operation in the USA, trading under the name My Auto Store, but so far have been reluctant to bring over to the UK. <https://myautostore.com/>
6. **Vehicle manufacturer.** There has been some recent speculation that vehicle manufacturers may be taking more interest in this area, particularly with forthcoming changes in ELV regulations in Europe & circular economy considerations. Some VMs are already actively involved in 'reclaimed' parts in Europe (B-Parts, I think, may be owned by Stellantis?). There are other examples, I believe, involving Toyota & Renault.

I also wouldn't be surprised if a purchase is made by any of the above 'indirectly' through another company.

There may be others, but none spring to mind at present.

18 May 2023