

Silverlake Automotive Recycling response to provisional findings

Silverlake would like to thank the CMA for the thorough investigation into the Copart/Hills Motors Merger.

We welcome the provisional findings of the CMA's decision with regards to the acquisition of Hills Motors by Copart and also support the recommendation for a full divestiture.

The CMA have covered the key fundamental points behind their decision, but as a large independent and localised dismantler, we felt the need to add further details to the points listed below.

- We note the following points, Hills does not consider itself a national competitor on account of the following:
 - o **(iv) Hills Motors' model is different to that of e2e and SureTrak in that: (a) e2e and SureTrak have a dedicated network head management which focus on winning contracts and allocating salvaging work across members, whereas Hills Motors' management team is split between managing the network and running its salvaging and parts recycling operations.**
 - o **and (b) the risk of servicing national contracts is allocated among members (for e2e, this is done by way of each member providing cash or a bank bond proportionate to the number and average PAV of the vehicles it has been allocated, which is used to compensate the insurer).⁴⁴⁹ The Hills Motors model is therefore riskier and less attractive to national contractors than those of SureTrak and e2e.**
- In response to the two points above:
 - o Hills have an advanced integrated insurance management platform, which reduces the need for heavy management head count.
 - o Hills also have a dedicated, well respected, industry expert in Joe March, who holds strong relationships with most of the UK's main salvagers.
 - o Hills have never requested a bond as part of their membership process, although it was muted at the beginning of the contract. Hills knowledge of members financial standing may have been a reason for this, but had we been asked, given the importance of the contract, Silverlake would have agreed to supply a bond commensurate to value of vehicles held in trust.
 - o Silverlake are a member of Suretrak. Suretrak operates with a team on a smaller scale of Hills to manage its service. Suretrak do not have bonds in place with us, or to our knowledge the rest of its members.
 - o Whilst e2e, Suretrak and Hills hold the financial risk related to managing the vehicles for their respective insurance contracts, they all work on relative credit terms. This enables them to sell and process vehicles before payment is due, this is a norm within our industry. With some contracts we offer profit share arrangements, which cannot be calculated until the salvage asset is sold and processed, mitigating our financial exposure.
- **(ii) A considerable number of customers responding to the CMA's market test stated that they had a preference for working with a single salvager.**

- o We note that whilst some Insurers prefer working with a sole supplier, it is not unusual for that sole supplier to subcontract its collection services. It is well noted that Copart for example contract vehicle collections to recovery operators across the country, effectively creating a sub-contracting process.
- o Hills operate as a national supplier of salvage service with multiple contracts, all the effort, contract constraints and overall financial benefit resides with them, this is no different to Copart or IAA, only the latter utilises a network, rather choosing to process all vehicles in house.

(ii) Hills Motors lacks the necessary infrastructure to service large national insurance contracts, namely: (i) a claims management portal (while it has a claims management portal, it was constructed in a way that it could not be easily or cost-effectively used for another insurer);⁴⁶¹ (ii) a (proprietary) auction platform;⁴⁶² and (iii) nationwide collection coverage.⁴⁶³ (iii) Hills Motors' contract with Ageas is further not replicable with other insurers given: (i) insurers would not typically be inclined to engage a regional salvager who would be outsourcing most of the contract to others operating in different regions;⁴⁶⁴ (ii) such outsourcing would require the agreement of other e2e members which is unlikely to be forthcoming;⁴⁶⁵ and (iii) the financial risk exposure (because, under its model, Hills Motors' bears all the financial risk of non-fulfilment of the contract terms) would be too great, [%].⁴⁶⁶

To these points, Silverlake offers the following feedback:

- o Our knowledge of the Hills management platform suggests it is an advanced API platform which in our opinion could be replicated for other insurers, quite easily. It was designed by the same individual who designed the Suretrak Platform, suggesting it is cross compatible with multiple insurer claims platforms.
- o As a member of e2e, such to the extent any new contract acquired by Hills, did not disadvantage e2e with a loss of their current contract, Silverlake would support Hills on any new initiative.
- o Silverlake have a main site of 10 acres and currently holds in excess of 3000 vehicles and processes over 30,000 vehicles per year, with capacity to hold and process a lot more for Hills Motors or the network. Hills Motors have multiple sites with a much larger acreage therefore should be able to absorb, store and process significantly greater capacity.

These are my thoughts after liaising with my team today. I would like to schedule a conference call, if possible, Thursday or Friday at a convenient time for all and if there is time discuss the risk of harm around the supply of insurance Cat B vehicles.

Kind regards
Allen Prebble
Managing Director

17 May 2023