

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

**Addendum Provisional Findings Report**

23 June 2023

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The Competition and Markets Authority has excluded from this published version of the addendum provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂].

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# 1. Introduction

- 1.1 On 5 May 2023, the CMA provisionally found<sup>1</sup> 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**)<sup>2</sup> (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.<sup>3</sup>
- 1.2 We 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 this 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' positions 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.<sup>4</sup>
- 1.3 Considering the closeness of competition between the Parties, we provisionally found that, while historically Hills Motors had 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.<sup>5</sup> In particular, together with other evidence, we assessed evidence of Hills Motors having been invited to compete against Copart in three tenders – two recent (for [X] in [X] 2022 and [X] in [X] 2022) and a third, smaller opportunity in 2020 ([X]) – and a further benchmarking exercise by [X] (where Copart was the incumbent) in 2021.<sup>6</sup>

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<sup>1</sup> CMA, [Provisional findings \(publishing.service.gov.uk\)](https://publishing.service.gov.uk), 5 May 2023 (**Provisional Findings**). All defined terms used in this Addendum have the same meaning as in our Provisional Findings.

<sup>2</sup> Copart and Hills Motors are together referred to as the **Parties** and for statements referring to the future, as the **Merged Entity**.

<sup>3</sup> We also provisionally found that the Merger has not and 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.

<sup>4</sup> [Provisional Findings](#), paragraph 16.

<sup>5</sup> [Provisional Findings](#), paragraph 8.117.

<sup>6</sup> [Provisional Findings](#), paragraphs 8.71 to 8.82. Given other evidence on Hills Motors' recent growth trajectory – including its success in winning a large national salvage contract with Ageas in 2020 and the growing importance of recycled parts to salvage service customers, where Hills Motors has a strong position – we focused on recent opportunities as a more reliable indicator of the degree of competition between the Parties that could be expected going forward (and that would be lost as a result of the Merger) than historical opportunities.

- 1.4 Information gathering takes place throughout a phase 2 inquiry.<sup>7</sup> Following the publication of our Provisional Findings, we received new evidence relating to these competitive interactions – in particular, in relation to the [X] benchmarking opportunity in 2021 and the [X] tender in [X] 2022 – that impacts our assessment of the extent of competition between the Parties prior to the Merger and how this would have likely continued absent the Merger. In particular, we obtained contemporaneous internal documents from [X] and [X] which show that Hills Motors’ prospect of success in those opportunities, and the constraint that it exerted on Copart, was materially weaker than indicated previously. Overall, our provisional view is that, while Hills Motors was invited to participate in the [X] tender and [X] benchmarking exercise (and was preparing to or did participate in these opportunities),<sup>8</sup> there is contemporaneous evidence from these customers that, in practice, Hills Motors was not considered a meaningful alternative to Copart in these opportunities. As such, our provisional view is that Hills Motors is unlikely to have exercised a meaningful constraint on Copart in these instances.
- 1.5 As a result of this new evidence, which we have considered in the round with other evidence received to date, we have now provisionally concluded that the Merger has not and may not be expected to give rise to an SLC in the supply of salvage services in the UK.<sup>9</sup>

## **2. New evidence on recent tender and benchmarking opportunities**

- 2.1 In our Provisional Findings, we assessed evidence of Hills Motors having been invited to compete against Copart in three tenders – two recent (for [X] in [X] 2022 and [X] in [X] 2022) and a third, smaller opportunity in 2020 ([X]) – and a further benchmarking exercise by [X] (where Copart was the incumbent) in 2021.<sup>10</sup> In particular, we considered whether the larger of these instances<sup>11</sup> (the [X], [X] and [X] opportunities) provide recent evidence of the Parties competing in practice.<sup>12</sup> These opportunities comprise one of the largest salvage contracts for insurance companies (referred to in our

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<sup>7</sup> CMA’s [Mergers: Guidance on the CMA’s jurisdiction and procedure \(publishing.service.gov.uk\)](https://publishing.service.gov.uk), January 2021 (as amended on 4 January 2022), paragraph 11.6.

<sup>8</sup> [Provisional Findings](#), paragraphs 8.44, 8.78 and 8.114; see also paragraphs 2.8 and 2.16 below.

<sup>9</sup> For the avoidance of doubt, nothing in this Addendum represents a change in our Provisional Findings insofar as they relate to our findings that the Merger has not and 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 parts to insurance repair networks in the UK; and (iv) the supply of recycled parts to other customers in the UK.

<sup>10</sup> [Provisional Findings](#), paragraphs 8.71 to 8.82.

<sup>11</sup> In our Provisional Findings, we focused our assessment on these larger instances as the most recent opportunities and taking into account that the Parties are two of a small number of players with demonstrable success in winning and service large national insurance contracts. [Provisional Findings](#), paragraphs 8.39.

<sup>12</sup> [Provisional Findings](#), paragraphs 8.81 to 8.82.

Provisional Findings as **insurance contracts**) ([X]), with approximately [X] vehicles annually),<sup>13</sup> two smaller insurance contracts ([X] and [X], with around [X] vehicles annually)<sup>14</sup> and one small customer ([X], with less than [X] vehicles annually).<sup>15, 16</sup>

- 2.2 We set out below our position as set out in our Provisional Findings together with the Parties' submissions and the new evidence received since our Provisional Findings in relation to these opportunities.

## **[X] (the 2021 benchmarking exercise)**

### ***Provisional Findings***

- 2.3 In our Provisional Findings, we considered Hills Motors' participation in [X] benchmarking exercise (where Copart was the incumbent provider) to be evidence of the Parties being considered to be alternatives by customers, including large insurance customers.<sup>17</sup> In particular, we noted [X] submission that Hills Motors was invited to be a part of the benchmarking exercise as it is a known significant salvage services provider, who partners with other motor insurers. We noted that, while Hills Motors did not submit a financial offering in the process because e2e had also been invited, it submitted a response with details on its salvaging services (including its recycled parts offering).<sup>18</sup>

### ***The Parties' submissions following our Provisional Findings***

- 2.4 In response to our Provisional Findings, the Parties submitted that Hills Motors did not pitch or attempt to compete for the supply of salvage services and that [X] was not looking to use Hills Motors for salvage services.<sup>19</sup>

### ***[X] submissions following our Provisional Findings***

- 2.5 Further to our Provisional Findings, [X] submitted, by way of clarification to its to its previous submission, that it considered Hills Motors and Copart, in its benchmarking exercise, as offering two separate services in the provision of

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<sup>13</sup> [Provisional Findings](#), paragraph 8.76(ii).

<sup>14</sup> [Provisional Findings](#), paragraphs 8.71 and 8.76(iii); see also paragraph 2.12 below.

<sup>15</sup> [Provisional Findings](#), paragraph 8.76(i). The Parties submitted that [X] has an annual requirement of just [X] vehicles (the Parties' response to our Provisional Findings submitted on 26 May 2023 (**Parties' response to our Provisional Findings**), paragraph 7).

<sup>16</sup> By way of comparison, Copart submitted that most of its large insurance contracts have an approximate volume of more than [X] vehicles annually (the Parties' supplementary submission on Hills Motors' salvaging capabilities: inability to compete for national insurance contracts submitted on 27 May 2023, Table 2). See also [Provisional Findings](#), paragraph 8.39.

<sup>17</sup> [Provisional Findings](#), paragraph 8.82.

<sup>18</sup> [Provisional Findings](#), paragraph 8.81.

<sup>19</sup> Parties' response to our Provisional Findings, paragraph 43.

salvage operations.<sup>20</sup> [X] also told us that Hills Motors was not considered as an end-to-end salvage provider meeting [X] essential requirements but for its recycled parts proportion only.<sup>21</sup>

- 2.6 Given the importance of this evidence to our assessment and the need to understand how [X] viewed Hills Motors at the time of its benchmarking exercise, we requested that [X] clarify its submissions<sup>22</sup> and provide all correspondence between [X] and Hills Motors related to its benchmarking exercise, as well as any documents containing an assessment by [X] of any submissions made by Hills Motors in the context of the benchmarking exercise.<sup>23</sup>
- 2.7 In its response, [X] clarified that, although it invited Hills Motors to participate in the benchmarking exercise on the basis that it is a known significant salvage service provider who partners with other motor insurers, Hills Motors had made it clear in both its meeting with [X] in [X] 2021 and its subsequent response to the benchmarking exercise that Hills Motors only wanted to be considered for recycled parts. Therefore, when ultimately assessing suppliers within the benchmarking exercise, [X] only considered Hills Motors' offering for recycled parts at Hills Motors' request.<sup>24</sup>
- 2.8 With regard to the nature and scope of Hills Motors' participation in the benchmarking exercise, the contemporaneous documents submitted by [X] in response to our request show that:
- (a) in [X] 2021, Hills Motors presented to [X] on its recycled parts capabilities, following which it shared some slides detailing the benefits of its 'closed loop' parts and salvage management process in which '[X]' (in response to which an email from [X] dated [X] 2021 states that there had been a '[X]' internally to considering '[X]');<sup>25</sup>
  - (b) in [X] 2021, Hills Motors was invited to compete in a benchmarking exercise that [X] was conducting with respect to its salvaging service requirement;<sup>26</sup>

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<sup>20</sup> In that Copart sells the vehicle on its own auction platform and Hills Motors either sells the vehicle via a third-party auction platform or dismantles the vehicle and sells the parts as recycled parts. [X] response to the CMA's remedies questionnaire, May 2023, question 2.

<sup>21</sup> [X] response to the CMA's remedies questionnaire, May 2023, question 2.

<sup>22</sup> Email to [X] dated 31 May 2023.

<sup>23</sup> CMA's notice issued under section 109 of the Act dated 31 May 2023 to [X] (**Phase 2 Notice 1 to [X]**).

<sup>24</sup> [X] response to Phase 2 Notice 1 to [X] and CMA email dated 31 May 2023.

<sup>25</sup> It further noted that '[X]' and offers '[X]'. Annex 8, document titled '[X]', [X] 2021 and Annex 2b, document titled '[X]', pages 10 and 11, [X] 2021, both submitted in response to Phase 2 Notice 1 to [X].

<sup>26</sup> An email from [X] to Hills Motors shows that [X] invited Hills Motors to participate in 'a benchmarking activity that [X] are conducting whilst reviewing its total loss proposition' – in [X] 2021. The email attached (i) an

- (c) later in [REDACTED], [REDACTED] attended a site visit at Hills Motors;<sup>27</sup>
- (d) in [REDACTED] 2021, Hills Motors submitted its completed response to the benchmarking exercise together with a presentation pack and cover letter:
  - (i) the cover letter explains that Hills Motors had not included a financial offering in its response as, owing to a conflict of interest with respect to Ian Hill's directorship on the board of e2e, it could not compete directly with e2e where e2e had also been invited to tender or benchmark for an insurance contract '[REDACTED]' and instead requested [REDACTED] to consider Hills Motors for a recycled parts trial (which was not considered to create a conflict of interest with e2e whilst [REDACTED] continued to contract with Copart);<sup>28</sup>
  - (ii) this notwithstanding, the response to the benchmarking exercise includes details on Hills Motors' salvage services in addition to its recycled parts offering<sup>29</sup> and the presentation pack sets out the salvage capabilities of [REDACTED] and describes it as having a '[REDACTED]';<sup>30</sup> and
- (e) in [REDACTED] 2021, Hills Motors followed up with [REDACTED] regarding securing a recycled parts trial, starting locally in the North of England providing recycled parts to [REDACTED] body shops.<sup>31</sup>

2.9 With regard to [REDACTED] evaluation of Hills Motors in the benchmarking exercise, the documents show that, at Hills Motors' request, [REDACTED] removed Hills Motors from the salvage services element of its evaluation (but retained it for recycled parts).<sup>32</sup> This notwithstanding, [REDACTED] did conduct an assessment comparing the service level agreement (SLA) data for salvage services provided by Hills Motors with the corresponding data provided by Copart and the other participants ([REDACTED], [REDACTED] and [REDACTED]). These data covered a range of metrics for

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overview document which included background on [REDACTED] (including that Copart was its current salvager), information on the benchmarking exercise (including the criteria that needed to be met, overall volumes processed in the previous two years, the scope of services being considered and project timelines) and set out that '[REDACTED]'; and (ii) a pack setting out questions that Hills Motors was requested to answer and data it was requested to provide as part of the benchmarking exercise. Annex 7, document titled '[REDACTED]', [REDACTED] 2021, Annex 6a, document titled '[REDACTED]' and Annex 6b, document titled '[REDACTED]', all submitted in response to Phase 2 Notice 1 to [REDACTED].  
<sup>27</sup> Annex 8, document titled '[REDACTED]', [REDACTED] 2021 and Annex 9b, document titled '[REDACTED]', both submitted in response to Phase 2 Notice 1 to [REDACTED].

<sup>28</sup> Annex 9, document titled '[REDACTED]', [REDACTED] 2021 and Annex 9b, document titled '[REDACTED]', [REDACTED] 2021 submitted in response to Phase 2 Notice 1 to [REDACTED]; Hills Motors, '[REDACTED]' submitted in response to Notice 2 to Hills Motors.

<sup>29</sup> In one response, Hills Motors states that '[REDACTED]'. Later, Hills Motors explains that it '[REDACTED]' and later discusses its new auction platform that will '[REDACTED]'. Annex 9a, document titled '[REDACTED]', tab '[REDACTED]', [REDACTED] 2021 submitted in response to Phase 2 Notice 1 to [REDACTED]; and '[REDACTED]' submitted in response to Notice 2 to Hills Motors.

<sup>30</sup> Annex 10, document titled '[REDACTED]', [REDACTED] 2021 and Annex 10b, document titled '[REDACTED]', [REDACTED] 2021, both submitted in response to Phase 2 Notice 1 to [REDACTED].

<sup>31</sup> Annex 13, document titled '[REDACTED]', [REDACTED] 2021 submitted in response to Phase 2 Notice 1 to [REDACTED].

<sup>32</sup> An email dated [REDACTED] 2021 stated that '[REDACTED][REDACTED]'. Annex 11, document titled '[REDACTED]', [REDACTED] 2021 submitted in response to Phase 2 Notice 1 to [REDACTED]. Consistent with this, Hills Motors was not included in the 'overall' comparison of salvage service providers (Annex 12, document titled '[REDACTED]', tab '[REDACTED]', [REDACTED] 2021 submitted in response to Phase 2 Notice 1 to [REDACTED].



measuring salvagers' performance, such as vehicle collection and return times, instances of damage in transit and calls not answered. In that comparison, Hills Motors was ranked last ([REDACTED] out of [REDACTED]) with an overall score of [REDACTED], significantly lower than the other participants: [REDACTED] was ranked first, with an overall score of [REDACTED]; [REDACTED] was ranked second, with an overall score of [REDACTED]; [REDACTED] was ranked third, with an overall score of [REDACTED] and [REDACTED] was ranked fourth, with an overall score of [REDACTED].<sup>33</sup>

## [REDACTED] (the [REDACTED] 2022 tender)

### *Provisional Findings*

2.10 In our Provisional Findings, we considered [REDACTED] invitation to Hills Motors to participate in its [REDACTED] 2022 tender (against Copart, among others) and evidence from Hills Motors' internal documents showing that it was preparing to submit a response to [REDACTED] request for proposals (**RFP**) had the Merger not occurred, to be evidence of the Parties being considered to be alternatives by customers, including large insurance customers. In particular, we had regard to:<sup>34</sup>

- (a) evidence from Hills Motors' internal documents that Hills Motors was preparing to bid for both the salvage services – as the operator of national network<sup>35</sup> – and the recycled parts elements of the contract;<sup>36</sup>
- (b) [REDACTED] submissions to the CMA that Hill Motors had been considered a credible participant for all elements of the tender and would not have been invited to tender if this had not been the case;<sup>37</sup> and
- (c) that [REDACTED] told us that it was aware that Hills Motors was a regional company based in North West England – in the way that, similarly, its incumbent provider, [REDACTED], was a regional company based in Southern England – but that [REDACTED] considered both of them to have the potential to build networks of salvage services to meet its needs.<sup>38</sup>

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<sup>33</sup> Annex 12a, document titled '[REDACTED]', tab '[REDACTED]', [REDACTED] 2021 submitted in response to Phase 2 Notice 1 to [REDACTED].

<sup>34</sup> [Provisional Findings](#), paragraphs 8.81(b) and 8.82.

<sup>35</sup> [Provisional Findings](#), paragraphs 8.44(a) and 8.46(b).

<sup>36</sup> Whereas the Parties submitted that Hills Motors contact with [REDACTED] was to maintain its recycled parts supply and potentially some of the regional salvage volumes that Hills Motors currently collects for [REDACTED]. Parties' response to putbacks relating to competition in salvaging of 4 May 2023 (**Parties' response to putbacks relating to competition in salvaging**), paragraph 20.

<sup>37</sup> By contrast, Copart submitted that [REDACTED] had informed them that it had not considered Hills Motors a viable option to compete for the salvage services element of the tender and had only invited Hills Motors to tender for the recycled parts element. [Provisional Findings](#), paragraph 8.73.

<sup>38</sup> Whereas Copart provided a 'witness statement' which outlined [REDACTED] views of Hills Motors as not being a credible national salvager and submitted that [REDACTED] views Hills Motors as a regional (North-West of the UK) salvager. Parties' response to putbacks relating to competition in salvaging, paragraph 25.

### ***The Parties' submissions following our Provisional Findings***

- 2.11 In response to our Provisional Findings, the Parties reiterated their submissions that Hills Motors' contact with [X] was to maintain its recycled parts supply and potentially some of the regional salvage volumes that Hills Motors currently collects for [X]. In particular, they submitted that there is no evidence that [X] would have considered using Hills Motors to supply a national salvage services contract (distinct from any recycled parts supply) and that Hills Motors did not prepare a draft response with the objective of competing for the salvage services.<sup>39</sup>
- 2.12 The Parties also submitted contemporaneous documentary evidence from the [X] tender process which indicated that [X] annual volume of vehicles was fewer than 10,000.<sup>40</sup> This contrasts with third-party evidence we had received at Provisional Findings, which indicated that [X] annual volume of vehicles was more than 10,000.<sup>41</sup>

### ***[X] submissions following our Provisional Findings***

- 2.13 Further to our Provisional Findings, [X] submitted, by way of clarification to its previous submissions, that it did not consider Hills Motors to be a 'direct competitor' of Copart for salvage services. [X] noted that, although it considers that all tender participants may, in principle, be capable of providing salvage services, the purpose of the tender process is to establish what responders can and cannot supply. It was in this context, [X] submitted, that it considered Hills Motors as a 'potential viable competitor' to Copart for national salvage services (but it would be for responders to the tender to offer those services which they felt they could provide or alternatively confirm they could not).<sup>42</sup>
- 2.14 As with [X], given the importance of this evidence to our assessment and the need to understand how [X] viewed Hills Motors at the time of its tender, we asked [X] to further clarify its submissions,<sup>43</sup> and to provide all correspondence between [X] and Hills Motors which related to its [X] 2022

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<sup>39</sup> Parties' response to our Provisional Findings, paragraphs 49 and 50.

<sup>40</sup> Documentation from the tender provided by Hills Motors following our Provisional Findings shows that [X] supplied [X] vehicles to its incumbent salvager from [X] 2020 to [X] 2021. Parties' submission dated 6 June 2023, document titled '[X]'.

<sup>41</sup> [Provisional Findings](#), paragraph 8.44(a).

<sup>42</sup> [X] response to the CMA's remedies questionnaire, May 2023, question 11.

<sup>43</sup> Email to [X] dated 31 May 2023.

tender, as well as any documents containing an assessment by [X] of who to invite to respond to its RFP.<sup>44</sup>

- 2.15 In its response, [X] again stated that Hills Motors was not considered to be a 'direct competitor' of Copart for salvage services on a national level, and noted that [X] understanding was that Hills Motors was a regional provider of salvage services. [X] confirmed that Hills Motors was invited to tender for the services because, based on [X] established relationship with Hills Motors and its knowledge of the market, [X] believed Hills Motors to be credible and considered that Hills Motors may in principle have the potential to develop a network of service providers which could collectively satisfy [X] national services requirements.<sup>45</sup>
- 2.16 With regard to Hills Motors' participation in the [X] 2022 tender process, the contemporaneous documents provided by [X] confirm that [X] sent Hills Motors an invitation to tender for salvage management services,<sup>46</sup> in response to which Hills Motors confirmed that it would take part in the tender process.<sup>47</sup> In [X] 2022 Hills Motors informed [X] that it was pulling out of the tender process due to its acquisition by Copart.<sup>48</sup>
- 2.17 With regard to [X] assessment of who to invite to respond to its RFP, the documents also show that:
- (a) from [X] to [X] 2022, Copart provided information about its services to [X] as part of a benchmarking analysis;<sup>49</sup>

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<sup>44</sup> CMA's notice issued under section 109 of the Act dated 31 May 2023 to [X] (**Phase 2 Notice 1 to [X]**); CMA's notice issued under section 109 of the Act dated 6 June 2023 to [X] (**Phase 2 Notice 2 to [X]**).

<sup>45</sup> [X] further noted that the purpose of the RFP process was to select the provider who could best meet the needs identified in the RFP requirements for [X] and deliver the best customer outcomes. [X] expectation was that the RFP process would have established whether or not Hills Motors could provide a suitable and competitive national salvage service for [X] and its customers and, if so, how exactly they would propose to do so. [X] response to CMA email dated 31 May 2023.

<sup>46</sup> Annex E3, document titled '[X]', [X] 2022 submitted in response to Phase 2 Notice 1 to [X].

<sup>47</sup> Annex E4, document titled '[X]', [X] 2022 submitted in response to Phase 2 Notice 1 to [X].

<sup>48</sup> Annex E8, document titled '[X]', [X] 2022 submitted in response to Phase 2 Notice 1 to [X].

<sup>49</sup> This included (i) a pack setting out the services offered by Copart, Copart's long term strategy, Copart's vehicle and parts recycling proposition and a financial proposal and projected net returns based on the benchmarking data provided by [X] (Annex F1, document titled '[X]') and document titled '[X]', [X] 2022 submitted in response to Phase 2 Notice 2 to [X]; (ii) additional information on how the financial proposal could be structured in different ways (Annex F2, document titled '[X]' and document titled '[X]', [X] 2022 submitted in response to Phase 2 Notice 2 to [X]); and (iii) a pack with more detail on all the specific services Copart could offer, including a slide on its plans (including acquisition of a recycled parts business) for a recycled parts offering, Copart's fees and standard service levels and the onboarding process for new customers (Annex F4, document titled '[X]' and document titled '[X]', [X] 2022 submitted in response to Phase 2 Notice 2 to [X]).

- (b) following an initial comparison of Copart's benchmarking response with the proposal of [REDACTED],<sup>50</sup> in [REDACTED] 2022 [REDACTED] sought internal approval to engage in a tender process '[REDACTED]';<sup>51</sup>
- (c) however, an internal strategy document also dating from [REDACTED] 2022 – discussing market scanning undertaken and [REDACTED] future strategy/sourcing considerations in relation to the 'motor market', including with respect to its salvage service supplier – identified [REDACTED], [REDACTED] and [REDACTED] as possible alternative salvage service suppliers, whereas Hills Motors was only identified as an existing supplier of recycled parts ([REDACTED]).<sup>52</sup>

[REDACTED]

- 2.18 Following our Provisional Findings, the Parties submitted that Copart did not participate in a tender process for [REDACTED], and Copart did not believe that it was invited to participate. In addition, Hills Motors submitted that it did not believe the [REDACTED] contract was tendered through a competitive process, but rather that Hills Motors was directly awarded the work. Further, the Parties submitted this is not a 'national contract' – [REDACTED], with [REDACTED]% of vehicles being collected directly by Hills Motors, and the volume of vehicles involved was small.<sup>53</sup>
- 2.19 At our request, [REDACTED] provided further context to its previous submissions. [REDACTED] had previously indicated that it did not engage in a tender process and instead awarded its contract to Hills Motors via a bilateral process.<sup>54</sup> Further to our request, [REDACTED] clarified that, while it had engaged informally with a Copart representative to make a decision about whether to engage in a more formal process, following this informal engagement, it decided not to pursue the engagement or discussion any further (and Copart did not submit a proposal to it).<sup>55</sup>

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<sup>50</sup> Annex F5, document titled '[REDACTED]', [REDACTED] 2022 submitted in response to Phase 2 Notice 2 to [REDACTED].

<sup>51</sup> In this context, [REDACTED] noted that: the benchmarking exercise involving Copart had shown that it may be able to increase its return on salvage by going out to market and engaging with alternative suppliers; the RFP would allow it to explore [REDACTED]; and that the benefits could include increased returns on salvage, an opportunity to introduce new requirements, such as technology integration and recycled parts, to [REDACTED] salvage solution and potential closure of risk acceptance in relation to financial stability (Annex F6, document titled '[REDACTED]', [REDACTED] 2022 submitted in response to Phase 2 Notice 2 to [REDACTED]).

<sup>52</sup> Annex F3, document titled '[REDACTED]', pages 4, 6, 18, 19 and 23, [REDACTED] 2022 submitted in response to Phase 2 Notice 2 to [REDACTED].

<sup>53</sup> Parties' response to our Provisional Findings, paragraphs 35 to 41.

<sup>54</sup> [REDACTED] response to the CMA's Phase 1 customer questionnaire, October 2022, Annex 2.

<sup>55</sup> [REDACTED] response to CMA email dated 31 May 2023.

## Our assessment of the new evidence on recent tender and benchmarking opportunities

- 2.20 In light of the new evidence received following our Provisional Findings, as set out above, we have considered to what extent Hills Motors' participation in the [X], [X] and [X] opportunities (together with the [X] opportunity) can be considered evidence of the Parties competing in practice.
- 2.21 Some of the new contemporaneous evidence we have received is consistent with the evidence set out in our Provisional Findings in that it shows that Hills Motors was invited to participate in both the [X] 2021 benchmarking exercise and [X] [X] 2022 tender, and that Hills Motors had ambitions to compete for additional national insurance contracts.<sup>56</sup>
- 2.22 However, the new contemporaneous evidence also provides additional context in terms of how Hills Motors was viewed by relevant customers engaging in these tender and benchmarking exercises. In particular, contemporaneous evidence shows that [X] benchmarking exercise found Hills Motors' offering was significantly weaker than that of Copart, [X], [X] and [X], who [X] (in that [X], [X] and [X] scored between [X] and [X] and [X] scored [X], as compared with Hills Motors' score of [X]).<sup>57</sup> In addition, contemporaneous evidence from [X] shows that, while it had invited Hills Motors to tender, Hills Motors was not part of its strategic market scanning, suggesting that it did not see Hills Motors as an alternative to Copart (or [X] or [X]) in practice.
- 2.23 With regard to [X], further to [X] clarification that Copart was not approached formally by [X] and did not submit a proposal,<sup>58</sup> we do not consider this to be evidence of material competition between the Parties.
- 2.24 With regards to the [X] tender, we placed limited weight on this tender in our Provisional Findings due to its timing.<sup>59</sup> Our assessment of the weight that can be placed on this has not changed as we have not received any additional evidence relevant to this assessment.
- 2.25 Overall, our provisional view is that, while Hills Motors was invited to participate in the [X] tender and [X] benchmarking exercise (and was preparing to or did participate in these opportunities),<sup>60</sup> there is contemporaneous evidence from these customers that, in practice, Hills

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<sup>56</sup> See paragraphs 2.8 and 2.16 above.

<sup>57</sup> Annex 12a, document titled '[X]', tab '[X]', [X] 2021 submitted in response to Phase 2 Notice 1 to [X].

<sup>58</sup> [X] response to CMA email dated 31 May 2023.

<sup>59</sup> [Provisional Findings](#), paragraph 8.45.

<sup>60</sup> [Provisional Findings](#), paragraphs 8.44, 8.78 and 8.114; see also paragraphs 2.8 and 2.16 above.

Motors was not considered a meaningful alternative to Copart (in particular, given the significant margin between its performance and that of other salvagers participating in the [X] benchmarking exercise and the context in which [X] invited Hills Motors to tender). As such, our provisional view is that Hills Motors is unlikely to have exercised a meaningful constraint on Copart in these instances. We assess the implications of this view for our overall assessment of the competitive impact of the Merger in Chapter 3 below.

### **3. Revised Provisional Findings**

- 3.1 We consider below the implications of our assessment of the new evidence regarding recent tender and benchmarking opportunities for our assessment of the closeness of competition between the Parties and our overall assessment of whether the Merger is likely to give rise to an SLC in the supply of salvage services in the UK.

#### **Our assessment of closeness of competition between the Parties**

- 3.2 In our Provisional Findings our assessment of closeness of competition between the Parties considered:
- (a) the service propositions of the Parties, having regard to the nature of the contracts they compete for and how they service them; and
  - (b) the extent of competition between the Parties expected absent the Merger, having regard to evidence on the Parties' participation in tenders and other contract opportunities to date, their internal documents and the views of customers and competitors.

#### ***The Parties' salvage services propositions***

- 3.3 In our Provisional Findings we considered that 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 insurance contracts.<sup>61</sup> Further, we provisionally considered that Hills Motors is able to compete for national contracts using a subcontracted network as:
- (a) Six out of 13 insurance customers identified as having volume requirements of over 10,000 vehicles annually told us that it is acceptable

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<sup>61</sup> We noted that while that the Parties' offerings are differentiated in some respects and that they are not each other's closest competitors, this does not mean that the Parties would not be competing closely – in particular, as two of a small number of rivals with demonstrable capability in servicing large national insurance contracts – had the Merger not taken place. [Provisional Findings](#), paragraph 8.95.

for national coverage to be provided via subcontracting, subject to certain service level parameters being met, such as there being the correct controls and oversight in place, the same consistency of performance throughout the network and a single point of contact.<sup>62</sup>

- (b) Consistent with this, we had seen evidence indicating that, had the Merger not taken place, Hills Motors would likely have continued to bid for national contracts, including a large insurance contract, on the basis of its network model.<sup>63</sup> In particular, internal documents of Hills Motors showed that, before the Merger, it was preparing a response to the [REDACTED] RFP (which, on the basis of third-party information submitted to us, we understood to require more than 10,000 vehicles annually) on the basis of a network model.<sup>64</sup>
- (c) We had not received evidence that a lack of a single point of contact in a network model puts Hills Motors at a significant disadvantage compared to others servicing national contracts or compelling evidence that the [REDACTED] inhibits Hills Motors from competing for national insurance contracts. In particular, we considered the fact that Hills Motors prepared a draft response to [REDACTED] RFP evidence that Hills Motors considered itself capable of competing for such opportunities.<sup>65</sup>
- (d) We had not received compelling evidence that Hills Motors' operating model and approach to risk, or management capacity, are material barriers to it continuing to compete for national insurance contracts. Again, we had regard in particular to Hills Motors' draft response to the [REDACTED] RFP as strong evidence that it did not consider its management capacity or [REDACTED] prevented it from competing for other large opportunities.<sup>66</sup>
- (e) A lack of a proprietary auction does not in itself prevent Hills Motors from competing for national contracts and immediately prior to the Merger, Hills Motors was actively continuing to invest in the development of its platform.<sup>67</sup>

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<sup>62</sup> [Provisional Findings](#), paragraph 8.43.

<sup>63</sup> [Provisional Findings](#), paragraph 8.44.

<sup>64</sup> We also noted that Hills Motors submitted a response to the [REDACTED] RFP (requiring coverage for around [REDACTED] vehicles) in [REDACTED] 2022 as evidence that Hills Motors had, in its estimation, the capability to respond to RFPs for further contracts with national collection and storage requirements. However, given the [REDACTED] RFP submission occurred after the Merger, we placed limited weight on Hills Motors' response as evidence of how Hills Motors would have acted had the Merger not taken place. [Provisional Findings](#), paragraphs 8.44 and 8.45.

<sup>65</sup> [Provisional Findings](#), paragraph 8.46.

<sup>66</sup> [Provisional Findings](#), paragraph 8.47.

<sup>67</sup> [Provisional Findings](#), paragraph 8.50.

- (f) While Hills Motors' model for servicing the Ageas contract has some unique features, the evidence suggested that it is capable of being replicated, with certain adjustments, for other large national contracts.<sup>68</sup>
- 3.4 Our provisional view remains that Hills Motors is one of a small number of players with demonstrable success in winning and servicing a large national insurance contract. Further, our provisional views remains that, in principle, Hills Motors' model for Ageas is capable of being replicated (in that, at a minimum, it would not have inhibited Hills Motors from responding to RFPs on the basis of its network model).
- 3.5 However, as discussed above, our provisional view is that, while Hills Motors was invited to participate in the [X] tender and [X] benchmarking exercise (and was preparing to or did participate in these opportunities), there is new contemporaneous evidence from these customers that, in practice, Hills Motors was not considered a meaningful alternative to Copart. We therefore consider that, even if Hills Motors' model could be used to service a large national contract in principle, there was limited competition or likelihood of competition between Hills Motors and Copart in practice.

### ***Customer views***

- 3.6 In our Provisional Findings we considered that the views of customers expressed in response to our investigation show a lack of perceived closeness of competition between the Parties. In particular:<sup>69</sup>
- (a) Copart's customers did not identify Hills Motors as a salvager capable of meeting their requirements. While Hills Motors' customers identified Copart as a salvager capable of meeting their requirements, Copart was considered less suitable, and they did not consider Copart and Hills Motors to be competing closely. Most customers did not consider Copart and Hills Motors to compete closely due to their differentiated offerings and Hills Motors' size or capacity.
- (b) Most customers who responded to our questionnaires did not express concerns about the reduction in the number of suppliers of salvage services post-Merger, with only one customer saying that it results in a marginal reduction in competition.
- 3.7 In weighing this evidence in our assessment of the degree of closeness of competition between the Parties, we had regard to the particular market

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<sup>68</sup> [Provisional Findings](#), paragraph 8.70.

<sup>69</sup> [Provisional Findings](#), paragraph 8.93.



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. With regard to the latter, we considered that the timing of the Merger – Hills Motors having won the Ageas contract in 2020 and the value of the recycled parts opportunity to insurers having gained traction relatively recently – may mean that the views of customers today may not be particularly probative as evidence of the degree of closeness of competition between the Parties had the Merger not taken place.<sup>70</sup> In particular, we noted the contrast between the views expressed by customers in response to our questionnaires with the observed behaviour of customers in recent competitive interactions which suggested that the competitive constraint by Hills Motors on Copart in salvage services was increasing.<sup>71</sup> We considered this evidence on the perception of the Parties by customers together with other evidence on closeness of competition between the Parties, including the evidence on customers' observed behaviour in recent opportunities and the consideration of each other in their internal documents.<sup>72</sup> When considering these points in the round, we therefore placed limited weight on the limited explicit concerns raised by customers in response to our questionnaires.<sup>73</sup>

- 3.8 As set out above, our provisional view is that, while Hills Motors was invited to participate in the [REDACTED] tender and [REDACTED] benchmarking exercise (and was preparing to or did participate in these opportunities), there is new contemporaneous evidence from these customers that, in practice, Hills Motors was not considered a meaningful alternative to Copart. This evidence is therefore consistent with the customer views expressed in response to our questionnaires (in particular, that Copart customers did not identify Hills Motors as a salvager capable of meeting their requirements).

### **Competitor views**

- 3.9 As set out in our Provisional Findings, roughly two-thirds of competitors responding to our investigation said that Copart and Hills Motors compete closely and expressed a concern that competition in the supply of salvage services would be reduced.<sup>74</sup>
- 3.10 In our Provisional Findings we recognised that, as in any merger inquiry, competitors may have an interest in its outcome and that commercial

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<sup>70</sup> We noted in this regard that, 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). [Provisional Findings](#), paragraph 8.94(c).

<sup>71</sup> [Provisional Findings](#), paragraph 8.94.

<sup>72</sup> [Provisional Findings](#), paragraph 8.95.

<sup>73</sup> [Provisional Findings](#), paragraph 8.96.

<sup>74</sup> [Provisional Findings](#), paragraphs 8.102 and 8.104.

incentives may influence their views. Therefore, when using such views as evidence in our Provisional Findings, we gave due regard to a range of factors including: (i) the incentives of the party giving that view; (ii) the extent to which the party has knowledge relevant to the subject areas being explored as part of our assessment; and (iii) the extent to which the view is corroborated by other evidence available to us.<sup>75</sup>

- 3.11 In our Provisional Findings we considered that, consistent with other evidence received and discussed in our Provisional Findings, evidence submitted by competitors indicated that competition in the supply of salvage services takes place among a relatively small number of significant players. We noted the different perspective of competitors responding to our investigation as compared to customer respondents as to the degree of closeness of competition between the Parties. In this regard, while we recognised that competitors' views may be influenced by commercial incentives, we considered that they may also be closely attuned to recent developments in the market. Recognising this potential conflict of interest, however, our Provisional Findings did not place particular weight on the views of competitors on closeness of competition but considered the relevant evidence in the round with the other evidence assessed in our Provisional Findings.<sup>76</sup>
- 3.12 In line with our Provisional Findings, we do not place particular weight on the views of competitors on closeness of competition but have considered this evidence in the round with the other evidence assessed in our Provisional Findings and in this Addendum. In weighing this evidence, we have had particular regard to the fact that customers' assessment of Hills Motors' capabilities in very recent opportunities – as documented in contemporaneous internal documents – is consistent with the views of customers expressed in response to our investigation.

### ***Internal documents***

- 3.13 In our Provisional Findings we considered that:
- (a) Copart's internal documents indicated that its closest competitor is IAA followed by, more distantly, e2e.<sup>77</sup> However, we found that Copart's documents also showed that:

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<sup>75</sup> [Provisional Findings](#), paragraph 8.105.

<sup>76</sup> [Provisional Findings](#), paragraph 8.106.

<sup>77</sup> [Provisional Findings](#), paragraph 8.110.

- (i) prior to the Merger, it was monitoring Hills Motors alongside a small number of competitors, had taken action against Hills Motors as an identified competitor and was targeting the same customers;<sup>78</sup>
    - (ii) while a key driver for the Merger was to respond to competitive threat from IAA, the Merger is additive to Copart's position in salvaging through the acquisition of Hills Motors' contracts;<sup>79</sup> and
  - (b) internal documents submitted by Hills Motors showed that, prior to the Merger, Hills Motors had ambitions to compete for salvage service customers, including Copart's existing customers.<sup>80</sup> In particular, we considered that Hills Motors' internal documents taken together showed that Hills Motors was considering different strategies to win a portion of salvage business (even if only [X]) with a view to proving its concept and winning more salvaging business in the longer term.<sup>81</sup>
- 3.14 We consider internal documents in the round with other evidence on the closeness of competition between the Parties. Therefore, while our provisional view of what the Parties' internal documents show – ie that Copart considered Hills Motors to be a competitor to some extent and Hills Motors had ambitions to compete for salvage service customers – remains the same, the weight we place on this takes account of other evidence, including in particular in this case the observed behaviour of customers in recent tender and benchmarking opportunities. Taking this evidence together in the round, while the internal documents point to Hills Motors in particular having ambitions to compete against Copart for salvage opportunities, there is new contemporaneous evidence that customers in very recent opportunities did not consider it to be a meaningful alternative to Copart in these instances. This indicates that Hills Motors is unlikely to have exercised a meaningful constraint on Copart.

### ***Provisional view on the closeness of competition between the Parties***

- 3.15 On balance, based on the evidence set out above, our revised provisional view is that, while Hills Motors' model could in principle be used to service additional national insurance contracts and Hills Motors had ambitions to expand its business, there is new contemporaneous evidence from relevant customers that, in practice, Hills Motors was not considered a meaningful alternative to Copart. We therefore consider that, even if Hills Motors' model could be used to service a large national contract in principle, there was

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<sup>78</sup> [Provisional Findings](#), paragraph 8.111.

<sup>79</sup> [Provisional Findings](#), paragraph 8.112.

<sup>80</sup> [Provisional Findings](#), paragraph 8.114.

<sup>81</sup> [Provisional Findings](#), paragraph 8.115.

limited competition or likelihood of competition between Hills Motors and Copart in practice.

## **Provisional conclusion on horizontal unilateral effects in the supply of salvage services in the UK**

- 3.16 As noted above, in our Provisional Findings, we provisionally concluded that the Merger has resulted or may be expected to result in an SLC in the supply of salvage services in the UK by removing a competitive constraint, taking account of the extent of competition between the Parties that would be lost because of the Merger and whether this loss would be substantial in view of the constraints that the Merged Entity would face post-Merger from remaining rivals.
- 3.17 For the reasons given above, taking account of new evidence received in relation to customers' assessment of Hills Motors' capabilities in recent tender and benchmarking opportunities, as documented in contemporaneous internal documents, our revised provisional conclusion is that Hills Motors is unlikely to have exercised a meaningful constraint on Copart in these instances, such that there was limited competition or likelihood of competition between Hills Motors and Copart in practice. Accordingly, our revised provisional conclusion is that the Merger has not and may not be expected to result in an SLC in the supply of salvage services in the UK by removing a competitive constraint.<sup>82</sup>

## **4. Responses to this Addendum**

- 4.1 Any interested person is invited to provide the Inquiry Group with its reasons in writing as to why the addendum provisional findings in relation to salvage services in the UK should not become final (or, as the case may be, should be varied).
- 4.2 These reasons should be provided by email to [copart.hills-motors@cma.gov.uk](mailto:copart.hills-motors@cma.gov.uk) and received by the Inquiry Group no later than **17:00 (UK time) on Friday 30 June 2023**. The Inquiry Group will take all submissions received by this date into account in reaching its final decisions on the statutory questions and any consequential actions.

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<sup>82</sup> Should our final decision be that the Merger has not and may not be expected to result in an SLC in any affected markets, a remedy will not be required.