

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

Summary of the Final Report

Published: 14 July 2023

Overview of findings

1. The Competition and Markets Authority (**CMA**) has 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**)¹ (the **Merger**) has not and may not be expected to give rise to a substantial lessening of competition (**SLC**) within any markets in the UK.

Who are the businesses and what services do they provide?

2. 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.
3. 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.

¹ Copart and Hills Motors are together referred to as the **Parties** and for statements referring to the future, as the **Merged Entity**.

4. Hills Motors dismantles vehicles to supply recycled original equipment manufacturer (OEM) vehicle parts (**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?

5. 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.
6. 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.
7. We discuss our findings in respect of these theories in further detail below.

What evidence have we looked at?

8. To assess the impact of the Merger, we gathered a substantial volume of evidence that we considered in the round to reach our findings.
9. 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), 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) and responses to our [provisional findings report](#) issued on 5 May 2023 (our **Provisional Findings**) and [addendum provisional findings report](#) issued on 23 June 2023 (our **Addendum Provisional Findings**) – 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.

10. 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). As part of this evidence gathering, we requested and reviewed contemporaneous internal documents from customers who had conducted recent benchmarking and tender processes to which the Parties had been invited. We also received input from other industry associations and players.
11. We also received submissions from ten customers of salvage services, three competitors in salvaging and dismantling, two individuals active in the industry and one industry association in response to our Provisional Findings as well as receiving responses from six competitors in response to our Addendum Provisional Findings.
12. 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?

13. 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 conclusion is that the most likely counterfactual is the pre-Merger conditions of competition.
14. 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

15. We found 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.
16. 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 considered this evidence in the round alongside other evidence as outlined below.

Closeness of competition between the Parties

22. In our Provisional Findings we provisionally found 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.
23. Following our Provisional Findings, we received new contemporaneous evidence pre-dating the Merger in relation to those recent competitive interactions that showed that customers did not consider Hills Motors a meaningful alternative to Copart in practice. We therefore found that, even if Hills Motors’ model could be used to service a large national salvage contract in principle, there was limited competition or likelihood of competition between Hills Motors and Copart in practice.
24. In particular, on the basis of evidence gathered from the Parties, their customers and competitors:
 - (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’**).
 - (b) 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 – we consider that, in principle, Hills Motors’ model is capable of being used to compete for at least some additional large national insurance contracts (in that, at a minimum, it would not have inhibited Hills Motors from responding to at least some request for proposals on the

basis of its network model and we have not seen evidence that it would be incapable of servicing such a contract in principle).

- (c) While there is apparent evidence of recent competitive interaction between the Parties – in that Hills Motors was invited to participate in recent benchmarking and tender opportunities (and was preparing to or did participate in these opportunities) – contemporaneous evidence from these customers shows that, in practice, Hills 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 benchmarking exercise and the context in which Hills Motors was invited to tender). As such, our view is that Hills Motors is unlikely to have exercised a meaningful constraint on Copart in these instances.
- (d) While competitors identified the Parties as competing closely, the new contemporaneous evidence in relation to recent competitive interactions is 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).
- (e) Similarly, while the internal documents point to Hills Motors in particular having ambitions to compete against Copart for salvage opportunities, there is contemporaneous evidence that customers in very recent opportunities did not consider it to be a meaningful alternative to Copart in practice. Considering this evidence (which is consistent with Copart customers not identifying Hills Motors as a salvager capable of meeting their requirements) together in the round, this indicates that Hills Motors is unlikely to have exercised a meaningful constraint on Copart absent the Merger.

Remaining constraints post-Merger

- 25. We 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. However, given our finding that Hills Motors is unlikely to have exercised a meaningful constraint on Copart absent the Merger, our overall assessment 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.

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

26. We 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.
27. We 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.
28. 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

29. We 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.

30. We 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.
31. 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

32. We 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 of those parts.
33. 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 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 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).
34. 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.
 35. 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 found that the Merged Entity does not have the ability to harm the competitiveness of these rivals.
 36. 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.
 37. 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 found that the Merged Entity does not have the ability to harm the competitiveness of rivals that impact competition in either market.

Conclusions

38. As a result of our assessment, we 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 not and may not be expected to give rise to an SLC in any markets in the UK.