



Adam J. Mead @BRK_Student

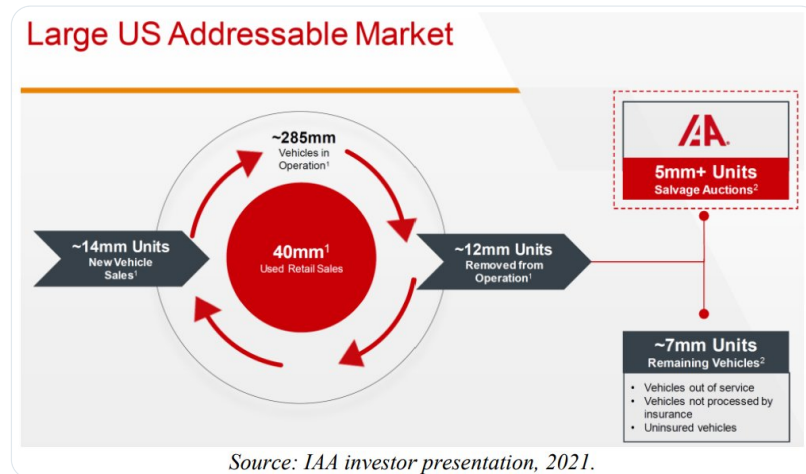
Oct 26 · 20 tweets · [BRK_Student/status/1585302832940744704](https://twitter.com/BRK_Student/status/1585302832940744704)

[Watchlistinvesting.com](https://www.watchlistinvesting.com) issue just went out to paid subscribers. October's issue is on \$CPRT, a company a friend calls the undertaker of the car industry. It's a great business...



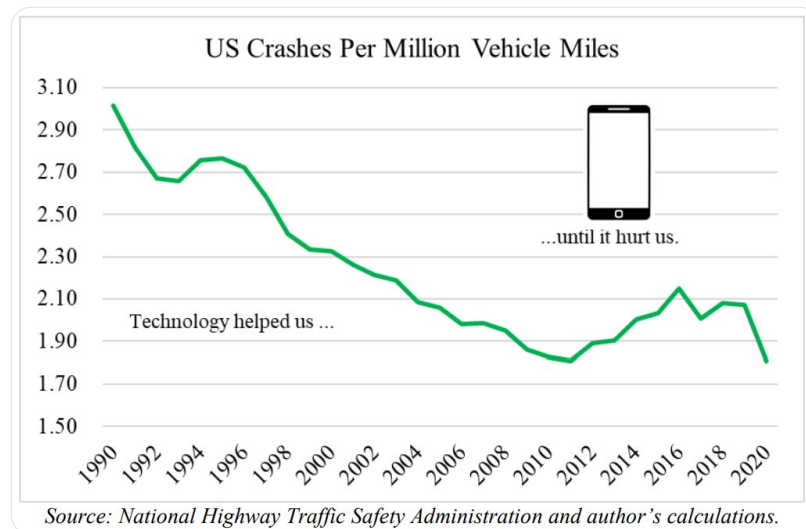
- 2/ To continue the visual, when the Grim Reaper finds its way to the millions of cars totaled each year, Copart has the opportunity to step in and facilitate the end-of-life process. Some cars are sent to the graveyard to be dismantled for parts and/or scrapped for metal.
- 3/ Others meet Frankenstein to be repaired and put back on the road. And just like real-life undertakers this is a very profitable business.
- 4/ Today, \$CPRT and \$IAA dominate the industry as a powerful duopoly controlling 80% of the market. Each company controls 8,000 acres of land and about 250 locations which make it virtually impossible to replicate.

5/ Of the 12 million vehicles taken off the road each year 5 million go through salvage auctions. Most come from insurance companies.



6/ Volume is driven by the number of miles people drive, how frequently they get into accidents, how severe those accidents are, and how many of those vehicles are determined to be total losses. Lots of factors interact, including salvage rates and repair costs.

7/ Technology has improved safety and reduced accidents, but cars today contain many expensive safety features and electronics that impact loss ratios.

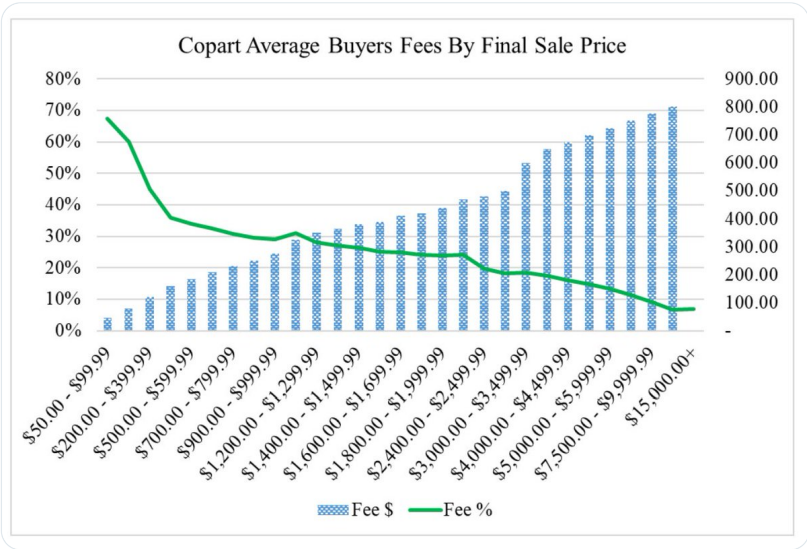


8/ Copart is best described as a network or ecosystem. It sits in the middle of suppliers of vehicles and their buyers. More vehicles on the network attracts more buyers, which attracts more sellers and so on in a virtuous cycle.

9/ The supplier side is dominated by insurance companies, who supply 80% of Copart's unit volume of vehicles. These are few, as the auto insurance industry in the US. The remaining 20% or so come from banks, finance companies, charities, fleet operators, dealers, and individuals.

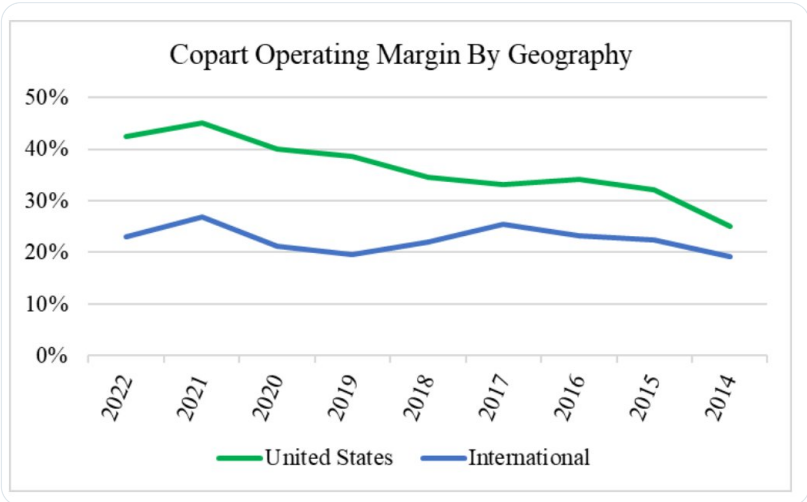
10/ Buyers # literally hundreds of thousands that include vehicle dismantlers like LKQ, exporters, body shops, and individuals. In FY '22, 67% were to buyers located outside of the state in which the vehicle was located. That figure includes 36% sold to international buyers.

11/ Most fees are paid by buyers, who pay an annual fee to access the platform plus a % of the sales price.

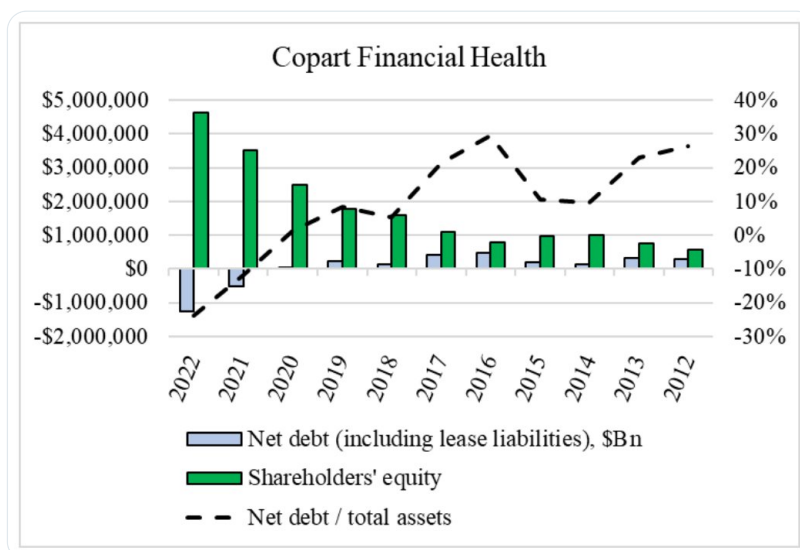


12/ Founder, Willis Johnson, remains chair and owns 6.7% of the company. His son-in-law, Jay Adair, joined the company in 1989 at age 19. He owns 3.7% of the company. Both are billionaires and prove that a boring "dirty" business can be highly profitable.

13/ Operating margins are strong and increasing, evidence of economies of scale at work.



14/ The company's balance sheet is the picture of financial health.



15/ Capital allocation is excellent. Reinvestment into the business and returns via sporadic buybacks dominate the picture. Excess cash sits on the books after three years of no buybacks.

Copart Major Capital Allocation 2013-22			
Sources		% Total	% NI
Net income	4,979,174	90%	100%
Change in debt/leases	527,405	10%	11%
Total sources	5,506,579	100%	111%
Uses			
Growth capex	(1,927,672)	53%	39%
Change in core working capital	(291,127)	8%	6%
Acquisitions	(390,176)	11%	8%
Share repurchases, net	(1,027,438)	28%	21%
Total uses	(3,636,413)	100%	73%
Change in cash	1,244,124		25%
Unaccounted	626,042		

16 / Returns on incremental capital are excellent.

Incremental ROIC analysis:	2022	2021	2020	2019	2018
Rolling 5-year capital invested	\$1,966,627	\$1,826,120	\$1,459,308	\$892,104	\$644,667
Rolling 5-year EBIT	\$913,698	\$729,956	\$471,698	\$441,541	\$301,353
Incremental return	46%	40%	32%	49%	47%

17/ Valuation is... [redacted]. JK. I have to leave something for paying subscribers, don't I? I will say this: I like current prices and own shares of \$CPRT for myself and clients.

18/ I don't see autonomous vehicles as a major risk. 1) They aren't here yet; 2) It'll take time for adoption by a skeptical public; 3) Even then it'll take 15-20 years to cycle through the car parc.

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