



Copart

CONVICTION

● ● ● ○ ○
3 / 5

NASDAQ: CPRT · Long — we expect the price to rise · Priced 27 Jun 2026

One half of a hard-to-replicate auction duopoly, riding a decades-long tailwind — more and more crashed cars are written off rather than repaired — is going through a short-term volume dip, and that dip is the reason you can buy it at a sensible price.

WHAT YOU'D BE BUYING

Copart runs the world's biggest online auction for written-off and damaged cars. When an insurer declares a crashed car a "total loss", Copart auctions it to a global pool of buyers (breakers, rebuilders, dealers) and takes a fee from both sides.

PRICE

\$31

EXCHANGE

NASDAQ

VALUATION

~20x earnings

TIME FRAME

12–18 months

SIZE

~\$28bn (large)



Daily price over the last four years with our entry, stop and target marked. Priced 27 Jun 2026. Not advice.

ENTRY

\$31

STOP

\$27

TARGET

\$39

REWARD vs RISK

2 : 1

How we would trade it, in plain terms

We would **buy at the next day's closing price, about \$31 a share, sell and take the loss if it fell to \$27** (our "stop" — the line that says the idea isn't working), and aim for **\$39** over 12–18 months. That means risking about \$4 a share to try to make about \$8 — roughly **two-to-one**. Confidence: **3 out of 5**, deliberately modest, because growth has slowed in the short term, the shares aren't cheap on this year's profit, and a strengthening rival is taking some share.

What the company does

Copart runs the world's biggest **online auction for written-off and damaged cars**. When an insurer declares a crashed car a "total loss", Copart auctions it to a global pool of buyers (breakers, rebuilders, dealers) and takes a fee from both sides. It owns the land and the technology, and the two-sided



marketplace — more cars attract more buyers, which attracts more cars — is very hard to copy. It is effectively a **duopoly** (with IAA, now part of RB Global), earns about **36% operating margins**, and sits on **net cash** (no debt).

The idea in one sentence

One half of a hard-to-replicate auction duopoly, riding a decades-long tailwind — more and more crashed cars are written off rather than repaired — is going through a short-term volume dip, and that dip is the reason you can buy it at a sensible price.

How shares like this usually behave

Here is our starting point, and it's two-sided. Auction-duopoly businesses with network effects tend to compound well over time, which favours us. But there is a cautionary pattern too: when a strengthening number-two starts winning back share from the incumbent, it can cap the leader's growth for a while — and that is exactly the live question here. So the quality earns the benefit of the doubt, while the competitive threat keeps our conviction at a measured 3.

Why it looks reasonably priced

Copart trades at about **20 times earnings**. For a net-cash business earning 36% margins in a duopoly, that is reasonable rather than cheap — and notably below where it has often traded. The support is the **balance sheet and the structural driver** rather than a low price: it has no debt (so no interest-rate risk to its finances), turns profit into cash, and rides a trend that has run for years — the share of crashed cars written off rather than repaired (the industry calls it "total-loss frequency") has **risen to about 23.6%, up nearly five percentage points in four years**, because cars are now so expensive to fix that insurers write more of them off. Every written-off car is a car for Copart to auction. And — correcting an earlier impression — Copart *is* returning cash: it **repurchased more than \$1.6bn of its own shares this financial year**, alongside its roughly \$4.2bn of net cash.

What today's price assumes — and what we think it's worth

We model three possible futures over the next five years. In each we grow the earnings forward, then apply the price-to-earnings ratio we'd expect at the end, to get a fair value:

Scenario	What we assume	Fair value in 5 years
Bad case (1-in-4)	The rival keeps taking share, the write-off trend plateaus, and US volumes stay soft	~\$27
Most likely (1-in-2)	The soft patch passes, the write-off trend and international growth resume, the rating holds near ~20 times	~\$50
Good case (1-in-4)	Volume re-accelerates and the pricing power plus write-off tailwind compound	~\$74



Blending those three by how likely we think each is gives an **expected return of about 8.8% a year**, with a worst-case loss of about **11%**. Quality, but a fair (not cheap) price plus the competitive question keep this a 3, not a top pick.

What we think the market is missing

The recent numbers look dull — revenue up just **2%**, US insurance volumes actually **down about 4%** — and the market is extrapolating that softness. We think most of it is explainable and *moderating*. As insurance premiums rose, more drivers dropped to cheaper, damage-only cover, which means **fewer comprehensive claims and so fewer total-loss cars** — a one-off shift in the mix, not lost customers — and the US decline has already **improved from about -7% to about -3%** over recent quarters, while **pricing per car stayed strong (up about 8%)**. Copart is also **growing fast abroad** (units up about 6%, revenue up about 14% internationally, led by the UK, Germany and Canada).

We are honest about the one genuine negative: the rival, RB Global's IAA, **grew its volumes around 9% for three straight quarters and is clawing back share** (back toward 35% of the market, from a low ebb), with a major insurer reportedly shifting some volume to it. So the soft patch is *partly* a cyclical mix-shift and *partly* some share loss to a reinvigorated competitor — both true. That's why this is a measured 3.

Does the economic backdrop help or hurt?

Copart's volumes track **how much people drive and how often they crash** (cyclical, currently soft) and, more importantly, the **steady rise in the share of cars written off** (a long tailwind). Used-car and scrap prices affect the value of what it auctions. The net-cash balance sheet means **interest rates don't threaten its finances**. Because it earns mostly in **US dollars**, the **dollar-to-pound exchange rate** affects what we make in pounds, though the growing international arm adds some currency variety.

Why we think there's an edge

This is a **quality compounder at a fair price during a soft patch**. The durable advantage is a genuine **network-effect moat** (the two-sided marketplace) and a **pristine balance sheet**, on top of a multi-decade structural driver (the rising write-off rate). These are independent of the near-term volume dip. It reached us through a respected quality investor's holdings, but the case rests on the business, not on whose holdings it appeared in. No insider-buying claim is made.

What other real-world signals show

The signals are cautious, consistent with the soft patch. Analysts trimmed their price targets (from around \$49 toward \$42) on the volume miss and on **competition over fee rates**, the consensus is a "hold," and short-selling is modest (around 3%). The key external fact to watch is the **rival's share gains** above — genuine, and the main thing that could turn a passing dip into a lasting problem. (*A fuller sweep of this kind of data is still to come.*)

The checklist we run every idea through

- **How profitable, and how protected** — a two-sided-marketplace network effect, a duopoly, about 36% margins, and high returns on capital.
- **What it does with its cash** — net cash, reinvests in land and technology and international growth, and now

buying back stock (more than \$1.6bn this year).



- **Cushion if we're wrong** — about 20 times earnings is reasonable (not cheap) for the quality; the cushion

is the net-cash balance sheet plus the write-off tailwind, bought during a soft patch.

- **Are the profits real cash?** — yes; strong, clean cash conversion.
- **Is it financially solid?** — net cash, no debt — about as safe as it gets.
- **Where we differ, and how we could lose** — the market extrapolates the volume dip; we see mostly a

mix-shift over a structural uptrend. We lose if the write-off trend plateaus, US volumes stay soft, *and* the rival keeps taking share.

- **Are managers aligned with shareholders?** — founder-shaped, long-term culture; no open-market insider-buying claim made (and we note the chief executive trimmed his own stake last year).

Management: do they do what they say?

A strong record. Copart has compounded for decades under a stable, founder-shaped culture — the founder, Willis Johnson, is chairman, and the chief executive, Jeff Liaw, "thinks like an owner" — with consistent margins, net cash throughout, and disciplined international expansion. It tends to **under-promise** (it gives little formal guidance) and let results speak; the latest quarter showed the US softness honestly while international growth offset it.

What would make us wrong

If the long-run rise in the write-off rate stalls *and* US volumes stay depressed *and* the rival keeps taking share, growth flatlines and 20 times earnings is no bargain. A sharp fall in used-car values would also hurt. Our discipline: we **sell at \$27** (about 13% below entry).

What we'll watch to check we're right

- **The US volume decline keeps narrowing** (it has improved from about -7% to about -3%).
- **Pricing per car stays strong** (it was up about 8%).
- **The write-off trend holds** around its multi-year uptrend (~23.6% and rising).
- **The rival's share gains** — whether IAA keeps clawing back ground.
- **What would make us give up:** the rival keeps taking share *and* the write-off trend plateaus — that

combination and we'd downgrade or drop it.

- **What would make us re-check the whole case:** each quarter's volumes and pricing, and any further sign of

insurers shifting work to the competitor.

Sources: Copart's results announcements and investor calls for its recent quarters; its share-buyback and balance-sheet disclosures; industry reporting on the competing auction business (RB Global / IAA); the financial figures it files with the US regulator; recent analyst notes; and market prices. Figures are approximate and for context, not advice.