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Jan 22, 2020

Copart, Inc. (CPRT)

$98.60 (As of 01/21/20)

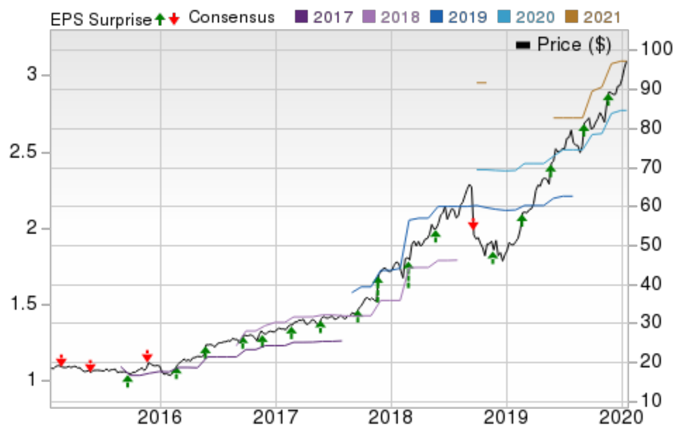
Price Target (6-12 Months): **$113.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/03/19) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:C
	Value: F | Growth: A | Momentum: C	

Summary

Shares of Copart have outperformed the industry in the past one year. The company's active presence across U.S. and international markets is is aiding worldwide sales volumes. High activity levels in the United States and expansion efforts in Canadian and European markets are expected to boost the company's prospects. In addition to opening hubs and expanding its network of facilities, the company's strategic acquisitions are likely to drive revenues. Increased demand for its vehicle remarketing services and the higher average selling prices from the international online bidders are buoying the firm's profits and revenues. Copart's soaring free cash flows and strong balance sheet are other positives. As such, the stock warrants a bullish stance at the moment.

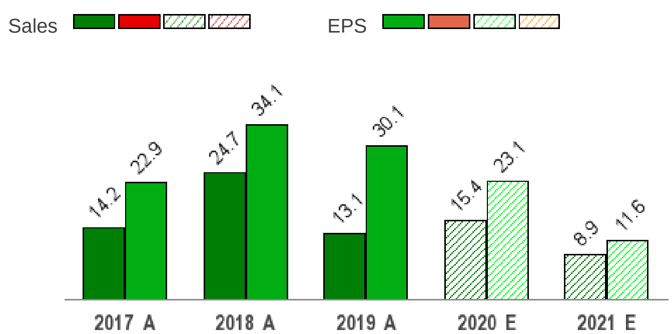
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$99.04 - $48.88**
20 Day Average Volume (sh)	**1,209,112**
Market Cap	**$22.9 B**
YTD Price Change	**8.4%**
Beta	**0.80**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Auction and Valuation Services**
Zacks Industry Rank	**Top 46% (117 out of 255)**
Last EPS Surprise	**10.2%**
Last Sales Surprise	**4.4%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/19/2020**
Earnings ESP	**0.0%**
P/E TTM	**40.6**
P/E F1	**35.6**
PEG F1	**1.8**
P/S TTM	**10.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	604 E	630 E	695 E	666 E	2,566 E
2020	554 A	572 E	628 E	602 E	2,357 E
2019	461 A	485 A	553 A	543 A	2,042 A

EPS Estimates

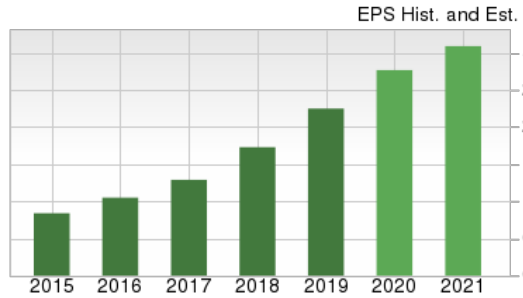
	Q1	Q2	Q3	Q4	Annual*
2021	$0.72 E	$0.73 E	$0.88 E	$0.79 E	$3.09 E
2020	$0.65 A	$0.65 E	$0.77 E	$0.70 E	$2.77 E
2019	$0.47 A	$0.52 A	$0.66 A	$0.60 A	$2.25 A

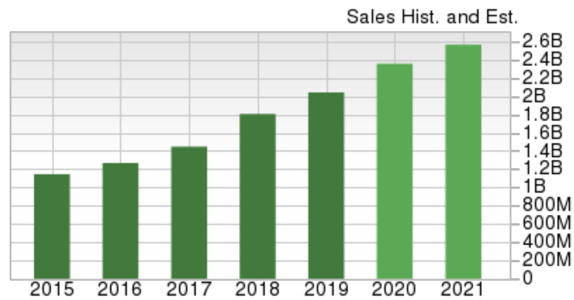
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

Overview

Based in Dallas, TX, Copart, Inc. was founded in 1982. The company provides online auction and a wide range of remarketing services to process and sell salvage and clean title vehicles. This is done mainly over the Internet, through its Virtual Bidding Third Generation (VB3) Internet auction-style sales technology.





Sellers are primarily insurance companies, banks and financial institutions, charities, car dealerships, fleet operators, and vehicle rental companies. Buyers include licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters, along with the general public.

Copart's services include online supplier access, salvage estimation services, end-of-life vehicle processing, virtual insured exchange, transportation services, vehicle inspection stations, on-demand reporting, DMV processing and flexible vehicle processing programs, among others.

In the United States, Canada, Brazil, the Republic of Ireland, Finland, the U.A.E., Oman, Bahrain, and Spain, Copart sells vehicles primarily as an agent and earns revenue from sales transaction fees paid by vehicle suppliers and vehicle buyers, as well as the associated fees for services, such as towing and storage. In the United Kingdom and Germany, it operates on a principal basis, purchasing the salvage vehicle from insurance companies and reselling it to buyers. It also serves as an agent in the United Kingdom. In Germany and Spain, Copart generates revenue from sales listing fees for listing vehicles for insurance companies.

Copart acquires and develops hubs in new as well as existing regions as an expansion strategy. It believes that acquisitions and facility opening will strengthen its footprint across the United States, the U.K., Brazil, the Republic of Ireland, Germany, Finland, the U.A.E., Oman, Bahrain, and Spain.

Reasons To Buy:

▲ Copart is expanding its network of facilities to manage the inflating volume of vehicles. The company's active presence across U.S. and international markets is is aiding worldwide sales volumes. High activity levels in the United States and expansion efforts in Canadian and European markets are expected to boost the company's prospects further. Expanding footprint will aid Copart in a fast pickup across the country, leading to improved growth in a competitive marketplace.

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▲ To meet the ever-increasing demand from car buyers and sellers, Copart has been doubling down on storage capacity expansion. Along with that, an increased demand for its vehicle remarketing services and the higher average selling prices from the international online bidders are buoying the firm's profits and revenues. Notably, the revenues have witnessed a CAGR of 15.5% from 2015-2019.

▲ In addition to opening hubs and expanding its network of facilities, the company's strategic acquisitions are likely to drive revenues. Copart's 2019 buyout of Kentucky-based online auctioning platform, Vincent Auto Solutions, has strengthened its footprint in western Kentucky. In 2018, with an aim to expand its presence throughout Europe, it acquired AVK, a leading Finland-based salvage auto auction company. In 2017, it acquired that supported its expansion in the areas of Atlanta, Cincinnati, Dallas, Philadelphia and San Diego. Further, the company has a good track record in profitably integrating acquisitions to their benefit.

▲ Copart's soaring free cash flows and strong balance sheet are other positives. The company's low debt-to-capital ratio of around 17% provides it with enough financial flexibility to tap onto growth opportunities. The firm's ROE of 34.06% is higher than the industry's 27%, indicating the management's efficiency in rewarding the shareholders.

Risks

- Increased investments to support growth initiatives, including expansion of the business in international markets and the United States, are hampering Copart's bottom line. Further, the company is still struggling with increased labor and temporary storage costs, and equipment lease expenses to handle the increased volume as a result of Hurricane Harvey. In fourth-quarter fiscal 2019, the company's operating expenses rose to $349.7 million from the year-ago figure of $314.3 million.

- Copart's presence in various international markets makes it vulnerable to foreign currency fluctuations and country-specific policy threats.

- Improving safety features in vehicles will likely have a negative impact on Copart's future earnings. As safety features improve, the accident rate and hence, the supply of salvage vehicles is expected to reduce. Moreover, the rapid progress in the development of driverless cars is a looming threat in the long run. In the medium term, the increasing addition of driver-assist features to vehicles is expected to lower accident rates. This could affect Copart's inventory levels, which in turn, will hamper revenue growth.

Last Earnings Report

Copart Extends its Winning Streak as Q1 Earnings Top

Quarter Ending	10/2019
Report Date	Nov 20, 2019
Sales Surprise	4.41%
EPS Surprise	10.17%
Quarterly EPS	0.65
Annual EPS (TTM)	2.43

Copart delivered a comprehensive beat in first-quarter fiscal 2020 (ended Oct 31), wherein it managed to surpass earnings and revenue estimates. Rising service revenues across markets served by the company and expanding network of facilities have aided the results.

The Texas-based online vehicle auctioning company reported adjusted earnings per share of 65 cents, surpassing the Zacks Consensus Estimate of 59 cents and increasing from the year-ago figure of 47 cents. Markedly, this is the fifth consecutive earnings beat for the company. Higher-than-expected service revenues led to the outperformance. Precisely, service revenues came in at $487.8 million, outpacing the consensus estimate of $462 million.

Total revenues came in at $554.4 million, surpassing the Zacks Consensus Estimate of $531 million. The top line was also 20.2% higher than the year-ago figure of $461.4 million. While service revenues accounted for nearly 88% of total revenues, vehicle sales totaled $66.5 million during the quarter under review, almost flat with the year-ago level.

Gross profit was up roughly 30% year over year to $254.8 million. Total operating expenses rose to $349 million from $309.9 million recorded in the prior-year period. Operating income increased to $205.4 million from $151.4 million reported a year ago.

Copart had cash and cash equivalents of $181.1 million as of Oct 31, 2019. Long-term debt, revolving loan facility and capital lease obligations were $400 million. Its debt-to-capital ratio stands at 17.2%. During the quarter, the Zacks Rank #2 (Buy) firm generated net cash flow of $212.4 million from operations compared with $107.7 million in the prior-year period.

Recent News

Copart Becomes Largest Auction Facility With Munich Location

On **Jan 10**, Copart, Inc., opened doors to its new Munich East location establishing the largest network of salvage auction facilities in Germany. Copart's Munich East location is 17.3 acres and has the capacity to store 1,800 vehicles.

Valuation

Copart's shares are up 100.1% over the trailing 12-month period. Stocks in the Zacks Auction and Valuation Services industry and the Zacks Business Services sector are up 77.1% and up 31.4%, respectively, over the past year.

The S&P 500 index is up 28.1% in the past year.

The stock is currently trading at 33.74X forward 12-month earnings, which compares to 31.81X for the Zacks sub-industry, 26X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.76X and as low as 16.56X, with a 5-year median of 22.34X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $113 price target reflects 38.7X forward 12-month earnings per share.

The table below shows summary valuation data for CPRT:

Valuation Multiples - CPRT

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	33.74	31.81	26	19.18
	5-Year High	34.76	31.81	26	19.34
	5-Year Low	16.56	18.42	18.76	15.17
	5-Year Median	22.34	24.28	20.56	17.44
EV/EBITDA TTM	Current	31.02	23.39	12.47	12.38
	5-Year High	31.02	10.6	12.55	12.86
	5-Year Low	10.55	16.87	8.75	8.48
	5-Year Median	18.54	23.39	10.42	10.67
P/S F12M	Current	9.33	6.21	4.12	3.57
	5-Year High	9.33	6.21	5.13	3.57
	5-Year Low	3.25	3.31	3.09	2.54
	5-Year Median	4.71	4.09	3.63	3

As of 01/21/2020

Industry Analysis **Zacks Industry Rank:** Top 46% (117 out of 255)

Top Peers

Asbury Automotive Group, Inc. **(ABG)**	Outperform
Sonic Automotive, Inc. **(SAH)**	Outperform
AutoNation, Inc. **(AN)**	Neutral
Cooper Tire & Rubber Company **(CTB)**	Neutral
The Goodyear Tire & Rubber Company **(GT)**	Neutral
KAR Auction Services, Inc **(KAR)**	Neutral
CarMax, Inc. **(KMX)**	Neutral
LKQ Corporation **(LKQ)**	Neutral

Industry Comparison Industry: Auction And Valuation Services

Industry Peers

	CPRT Outperform	X Industry	S&P 500	ABG Outperform	KAR Neutral	LKQ Neutral
VGM Score	C	-	-	A	C	A
Market Cap	22.92 B	675.89 M	24.43 B	1.99 B	2.82 B	10.49 B
# of Analysts	7	6	13	6	7	10
Dividend Yield	0.00%	0.20%	1.75%	0.00%	3.47%	0.00%
Value Score	F	-	-	A	A	B
Cash/Price	0.01	0.13	0.04	0.00	0.19	0.04
EV/EBITDA	28.70	18.91	14.00	7.95	4.97	12.26
PEG Ratio	1.78	4.33	2.06	0.66	1.50	0.96
Price/Book (P/B)	11.90	2.63	3.39	3.32	1.79	2.15
Price/Cash Flow (P/CF)	36.37	20.38	13.69	8.89	4.33	10.70
P/E (F1)	35.60	35.61	19.00	9.39	15.40	13.40
Price/Sales (P/S)	10.74	1.15	2.68	0.28	0.83	0.84
Earnings Yield	2.81%	2.30%	5.26%	10.65%	6.48%	7.48%
Debt/Equity	0.27	0.27	0.72	1.55	1.36	1.00
Cash Flow ($/share)	2.71	1.67	6.94	11.58	5.07	3.20
Growth Score	A	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	27.30%	41.91%	10.60%	15.41%	12.78%	14.16%
Proj. EPS Growth (F1/F0)	23.05%	23.01%	7.57%	18.27%	25.05%	9.09%
Curr. Cash Flow Growth	25.44%	25.44%	14.00%	19.73%	10.02%	25.24%
Hist. Cash Flow Growth (3-5 yrs)	19.27%	20.56%	9.00%	9.51%	16.85%	19.94%
Current Ratio	2.30	1.31	1.23	1.17	1.29	2.18
Debt/Capital	21.04%	21.04%	42.99%	60.74%	57.62%	49.97%
Net Margin	32.59%	9.90%	11.15%	2.55%	6.95%	3.50%
Return on Equity	34.06%	27.38%	17.16%	33.14%	16.67%	14.79%
Sales/Assets	0.85	0.85	0.55	2.53	0.48	1.02
Proj. Sales Growth (F1/F0)	15.42%	7.38%	4.05%	21.97%	4.03%	1.80%
Momentum Score	C	-	-	F	F	C
Daily Price Chg	1.52%	-0.83%	-0.27%	0.66%	-0.41%	-1.10%
1 Week Price Chg	1.90%	1.97%	2.29%	1.97%	2.90%	1.53%
4 Week Price Chg	8.46%	4.74%	2.13%	-10.07%	1.01%	-4.63%
12 Week Price Chg	16.44%	10.20%	6.99%	-1.50%	-17.35%	8.29%
52 Week Price Chg	98.63%	48.63%	21.25%	45.96%	-57.50%	32.16%
20 Day Average Volume	1,209,112	60,063	1,415,064	183,391	1,465,978	1,348,599
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.20%	-1.73%	0.00%
(F1) EPS Est 12 week change	5.79%	-18.46%	-0.34%	9.91%	-6.56%	1.31%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-2.67%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.