

Copart, Inc. (CPRT)

\$84.41 (As of 06/19/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

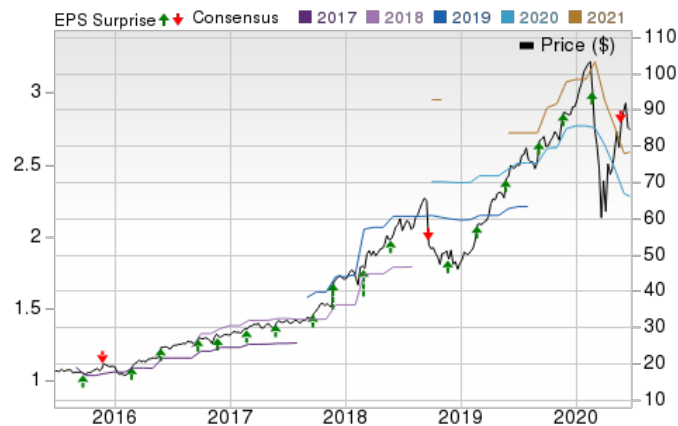
Growth: B

Momentum: C

Summary

Copart's active presence across U.S. and international markets is anticipated to aid worldwide sales volumes. High activity levels in the United States, and expansion efforts in the Canadian and European markets are expected to boost its prospects. Higher average selling prices from the international online bidders are buoying Copart's profits. However, increased investments to support growth initiatives, including expansion of the business in international markets, are hampering its bottom line. Copart's overall vehicle sales volumes and revenues declined year over year in Q3 on sluggish demand amid the coronavirus pandemic and the trend is likely to continue in the upcoming quarter. Improving safety features in vehicles might dampen its earnings in the upcoming period. Hence, the stock warrants a cautious stance.

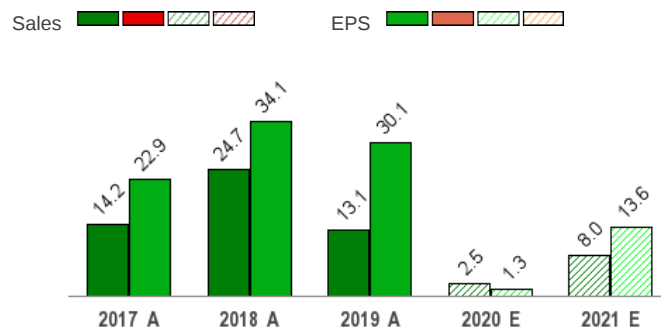
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$104.88 - \$55.69
20 Day Average Volume (sh)	1,588,599
Market Cap	\$19.8 B
YTD Price Change	-7.2%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Auction and Valuation Services
Zacks Industry Rank	Top 38% (96 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.4%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-3.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	34.0
P/E F1	37.0
PEG F1	1.9
P/S TTM	8.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	521 E	587 E	602 E	556 E	2,262 E
2020	554 A	575 A	550 A	414 E	2,094 E
2019	461 A	485 A	553 A	543 A	2,042 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.68 E	\$0.73 E	\$0.63 E	\$2.59 E
2020	\$0.65 A	\$0.65 A	\$0.58 A	\$0.40 E	\$2.28 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 06/19/2020. The reports text is as of 06/22/2020.

Overview

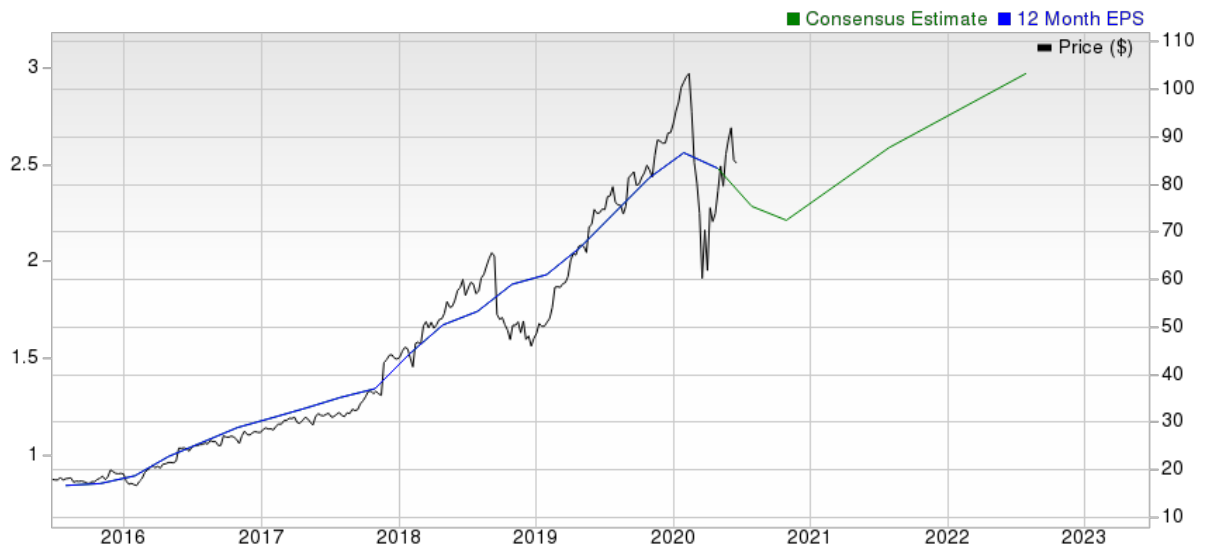
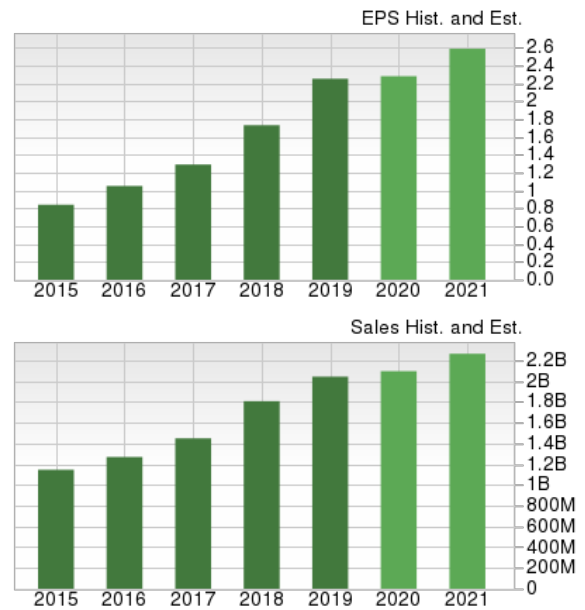
Based in Dallas, TX, Copart, Inc. was founded in 1982. The company provides online auction and a wide range of remarketing services to process and sell salvage and clean title vehicles. This is done mainly over the Internet, through its Virtual Bidding Third Generation (VB3) Internet auction-style sales 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 likely to bolster worldwide sales and volume in the coming periods. 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, fueling growth in a competitive marketplace.
- ▲ 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. The company noted that unique international bidders were up 20% year over year in third-quarter fiscal 2020, while international bids and bids per unit sold also increased. This growth is anticipated to favourably impact Copart's financials, as the larger international buyer base generally drives increased bidding activity and higher auction prices.
- ▲ Copart's total debt-to-capital ratio stands at 0.19, lower than its industry's 0.28. This favorable reading indicates that the firm is not a much leveraged company. Moreover, the company's times interest earned ratio of 42.04 is favorable to the industry ratio of 19.27. While the low leverage of the firm increases its financial flexibility to tap onto growth opportunities, the high times earned ratio lowers Copart's default risk.
- ▲ 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. Furthermore, the company has a good track record in profitably integrating acquisitions to their benefit.

High activity levels in the United States and expansion efforts in Canadian and European markets are expected to boost the company's prospects further.

Reasons To Sell:

- ▼ The COVID-19 pandemic has impacted Copart's operations across the United States, the U.K. and others. In fact, its operating results for the fiscal third quarter were affected by lower processed vehicle volume. Copart's overall vehicle sales volumes and revenues are likely to be under pressure in the fiscal fourth quarter as well amid sluggish demand of vehicles and weak consumer sentiment. Moreover, auction prices for used cars are falling significantly. Orders are slowing too. As supply is exceeding demand, used car values are going into a tailspin, which is likely to adversely impact Copart's near-term results.
- ▼ 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. In 2019, the company's operating expenses rose to \$1.32 billion from the year-ago figure of \$1.22 billion. In Q3, the company's operating expenses rose to \$355.26 million from the year-ago figure of \$345.62 million.
- ▼ Copart's presence in various international markets makes it vulnerable to foreign currency fluctuations and country-specific policy threats resulting in a loss of purchasing power. In fact, during 2019, the company's year-over-year revenue growth was partly offset by strength of the U.S. dollar in comparison with the pound and the Brazilian real. Unfavourable foreign-currency translations might strain the firm's overall earnings in 2020 as well.
- ▼ Improving safety features in vehicles will likely have a negative impact on Copart's bottom line. As the 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 for the long run. In the medium term, the increasing addition of driver-assist features to vehicles is likely to lower accident rates. This might affect Copart's inventory levels, which in turn, will hamper revenue growth.

Increased expenses due to business expansion is a concern before Copart. Moreover, improving safety features in vehicles may impact revenue growth.

Last Earnings Report

Copart Q3 Earnings Miss Estimates, Down Y/Y

Copart reported third-quarter fiscal 2020 (ended Apr 30, 2020) adjusted earnings per share of 58 cents, missing the Zacks Consensus Estimate of 64 cents. The figure also came in lower than the year-ago number of 66 cents.

Total revenues came in at \$550.4 million, missing the Zacks Consensus Estimate of \$554 million. The top line also came in 0.5% lower than the year-ago figure of \$553.1 million.

Service revenues came in at \$491.6 million, up from the \$473.7 million recorded in the year-ago quarter. Service revenues accounted for 89.3% of total revenues. Vehicle sales totaled \$58.8 million during the quarter, down from the year-ago level of \$79.4 million.

Gross profit was down 3.6% year over year to \$242.6 million. Total operating expenses flared up to \$355.2 million from the \$345.6 million incurred in the prior-year period. Operating income decreased to \$195.1 million from the \$207.5 million reported in the previous year. Net income came in at \$147.5 million, down 23.5% from the year-ago figure of \$192.7 million. Adjusted net income was \$138.2 million in the reported quarter compared with \$154.9 million in the prior year quarter.

Copart had cash and cash equivalents of \$306.4 million as of Apr 30, 2020, compared with \$186.3 million as of Jul 31, 2019. Long-term debt, revolving loan facility and capital-lease obligations were \$403.6 million as of Apr 30, 2020, up from \$400.1 million as of Jul 31, 2019.

Quarter Ending 04/2020

Report Date	May 20, 2020
Sales Surprise	-0.70%
EPS Surprise	-9.38%
Quarterly EPS	0.58
Annual EPS (TTM)	2.48

Valuation

Copart's shares are down 7.2% in the year-to-date period and up 14.4% over the trailing 12-month period. Stocks in the Zacks Auction and Valuation Services industry and the Zacks Business Services sector are down 7% and up 2.5%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 14.6% and 13.9%, respectively.

The S&P 500 index is down 3.8% in the year-to-date period and up 5.1% in the past year.

The stock is currently trading at 33.07X forward 12-month earnings, which compares to 31.24X for the Zacks sub-industry, 24.7X for the Zacks sector and 22.24X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.25X and as low as 16.56X, with a 5-year median of 22.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$89 price target reflects 30.16X 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	33.07	31.24	24.7	22.24
	5-Year High	36.25	33.43	24.7	22.24
	5-Year Low	16.56	18.42	8.2	15.23
	5-Year Median	22.9	24.44	9.9	17.49
EV/EBITDA TTM	Current	24.93	20.13	10.71	11.47
	5-Year High	32.66	24.61	11.31	12.85
	5-Year Low	10.39	10.49	6.94	8.25
	5-Year Median	19.14	17.63	9.24	10.82
P/S F12M	Current	8.83	6.02	0.76	3.47
	5-Year High	9.83	6.4	0.76	3.47
	5-Year Low	3.25	3.31	0.49	2.53
	5-Year Median	5.48	4.29	0.61	3.02

As of 06/19/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Asbury Automotive Group, Inc. (ABG)	Neutral	2
AutoNation, Inc. (AN)	Neutral	3
Cooper TireRubber Company (CTB)	Neutral	3
The Goodyear TireRubber Company (GT)	Neutral	3
KAR Auction Services, Inc (KAR)	Neutral	3
CarMax, Inc. (KMX)	Neutral	3
Sonic Automotive, Inc. (SAH)	Neutral	3
LKQ Corporation (LKQ)	Underperform	3

Industry Comparison Industry: Auction And Valuation Services				Industry Peers		
	CPRT	X Industry	S&P 500	ABG	KAR	LKQ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	A	F	A
Market Cap	19.82 B	2.43 B	21.51 B	1.45 B	1.98 B	7.88 B
# of Analysts	7	6	14	6	8	9
Dividend Yield	0.00%	0.31%	1.92%	0.00%	4.96%	0.00%
Value Score	C	-	-	A	C	A
Cash/Price	0.02	0.17	0.06	0.26	0.21	0.04
EV/EBITDA	24.69	11.40	12.62	5.61	7.27	9.91
PEG Ratio	1.86	3.75	2.90	0.69	7.21	NA
Price/Book (P/B)	8.69	3.67	2.99	2.19	1.26	1.60
Price/Cash Flow (P/CF)	31.13	19.04	11.39	5.99	5.82	7.57
P/E (F1)	37.14	37.04	21.20	12.81	39.95	16.76
Price/Sales (P/S)	8.92	2.13	2.29	0.20	0.72	0.64
Earnings Yield	2.70%	2.18%	4.42%	7.82%	2.48%	5.98%
Debt/Equity	0.21	0.47	0.77	1.76	1.41	0.96
Cash Flow (\$/share)	2.71	2.40	7.01	12.52	2.63	3.43
Growth Score	B	-	-	A	F	B
Hist. EPS Growth (3-5 yrs)	28.31%	28.31%	10.87%	14.64%	1.55%	13.10%
Proj. EPS Growth (F1/F0)	1.27%	-1.10%	-10.65%	-38.11%	-63.10%	-34.74%
Curr. Cash Flow Growth	25.44%	24.70%	5.46%	6.74%	-41.97%	6.66%
Hist. Cash Flow Growth (3-5 yrs)	19.27%	19.27%	8.55%	7.11%	-4.24%	15.32%
Current Ratio	2.77	1.99	1.29	1.48	1.34	2.29
Debt/Capital	17.66%	29.86%	45.14%	63.83%	58.47%	48.92%
Net Margin	30.95%	12.23%	10.53%	2.28%	4.15%	4.74%
Return on Equity	29.08%	8.21%	16.06%	28.33%	7.42%	14.85%
Sales/Assets	0.77	0.66	0.55	2.46	0.43	0.99
Proj. Sales Growth (F1/F0)	2.57%	0.00%	-2.61%	-14.53%	-26.20%	-16.06%
Momentum Score	C	-	-	C	F	B
Daily Price Chg	-2.34%	-1.58%	-1.02%	-3.91%	-2.85%	-0.19%
1 Week Price Chg	-7.38%	-6.82%	-7.25%	-6.66%	-11.30%	-14.51%
4 Week Price Chg	-2.30%	9.57%	5.73%	2.75%	19.58%	1.61%
12 Week Price Chg	16.33%	19.83%	15.89%	23.28%	25.66%	16.54%
52 Week Price Chg	12.92%	10.78%	-6.79%	-9.84%	-75.53%	-2.77%
20 Day Average Volume	1,588,599	273,470	2,574,456	215,315	2,514,354	2,813,031
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.87%
(F1) EPS Est 4 week change	-3.04%	-1.42%	0.00%	5.78%	-14.72%	-1.27%
(F1) EPS Est 12 week change	-15.30%	-14.98%	-14.21%	-35.10%	-69.24%	-36.88%
(Q1) EPS Est Mthly Chg	-3.20%	-3.20%	0.00%	740.00%	0.00%	10.26%

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	C
Growth Score	B
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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