



Copart, Inc.

CPRT

EQUITY RESEARCH REPORT

June 01, 2026

CPRT — COPART, INC.

Report Date: 2026-06-01

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EXECUTIVE SUMMARY

Metric	Value
Recommendation	HOLD / WATCHLIST
Current Price	see current market quote
Fair Value (Base Case)	~28-30x normalized earnings; see valuation section
Margin of Safety	Negative at recent levels (~32x P/E)
Target Entry (if HOLD)	~22-24x P/E (roughly 25-30% below recent multiple)

Return Profile	Value
Dividend Yield	0.0% (no dividend)
Expected Dividend Growth	N/A
Expected Price Appreciation	~6-8% CAGR (base case)
Total Expected Return (Base)	~7.0% CAGR
Bear Case Total Return	~-1.0% to +1.0% CAGR
Bull Case Total Return	~11.0% CAGR
Probability-Weighted Return	~6.5% CAGR

Risk Assessment	Value
Wealth Preservation Score	62 / 100
Downside Protection Score	65 / 100
Quality Score	64 / 100
Risk Level	MODERATE
Probability of >50% Loss	<5%
Recession Profile	RESILIENT

One-Line Thesis:

Copart owns a fortress balance sheet and a genuine duopoly moat in salvage auctions, but you pay roughly 32x earnings with no dividend, which leaves too little margin of safety to meet the wealth preservation return hurdle today.

INVESTMENT THESIS

Copart runs the dominant online salvage-vehicle auction platform in North America, taking fees from insurers who need to dispose of total-loss cars. The business carries about \$5 billion in cash, zero long-term debt, and operating margins north of 36%. It converts profit to free cash flow at a high rate and owns most of its yards outright, which raises the bar for any competitor trying to replicate the footprint. You are buying one of the highest-quality compounders in the industrials universe. On business durability alone, this clears the preservation mandate.

The problem is price. At a recent multiple near 32x trailing earnings and roughly 40x free cash flow, the market already pays for a decade of mid-teens growth. The framework does not reward you for owning great businesses at full prices. It rewards you for owning great businesses where the downside is capped and the upside stays open. At today's multiple the downside is not capped in any meaningful sense, because multiple compression from 32x toward a historical 22-24x range would erase several years of earnings growth. The company also pays no dividend, so you receive zero return while you wait for the thesis to play out. Every euro here competes against a 4% savings account and against dividend-paying preservation names that hand you cash regardless of price action.

Two specific risks deserve weight. First, the Department of Justice opened an investigation into potential money-laundering violations tied to activity on Copart's auction platform, disclosed in the Q2 FY26 10-Q. Management states the outcome and range of loss are not yet estimable. This is an unquantified overhang that could produce fines, remedial costs, or reputational damage. Second, recent results have softened. Q2 FY26 revenue and net income both declined year over year, and nine-month FY26 revenue was essentially flat. Growth that justified a 32x multiple has stalled. The combination of decelerating fundamentals, an open federal investigation, and a premium valuation tells you to wait for a better entry rather than chase the name.

Copart belongs on your watchlist, not in your portfolio at recent prices. The quality is real and the balance sheet is among the strongest you will find. Buy it when the market hands you a 20-25% discount to the recent multiple, which a recession scare, a DOJ headline, or a few flat quarters could produce. Until then, hold cash or rotate into preservation names paying a real dividend.

1. BUSINESS QUALITY ASSESSMENT

Copart operates an online salvage-auction platform (VB3) connecting insurers and other sellers with a global buyer base. Roughly 80-85% of revenue is high-margin service and consignment fees; the remainder is lower-margin principal vehicle sales. The company operates in 11 countries with continued location expansion (281 locations reported as of 2025), though the United States accounts for about 82% of revenue.

Moat assessment. The moat combines network effects (more buyers improve auction liquidity, which attracts more sellers), switching friction (insurers integrate operationally with Copart's title and logistics processes), and an owned-land footprint that is hard to replicate given zoning and permitting barriers. This is a defensible duopoly alongside RB Global/IAA. The moat is strongest in U.S. salvage and weaker internationally.

Threat assessment: MODERATE. RB Global, having acquired IAA in 2023, has been clawing back share. Insurers have no incentive to allow a monopoly, which caps Copart's long-term share gains. The longer-dated structural risk is ADAS/autonomous vehicles reducing accident frequency, though higher repair complexity for sensor-laden cars partly offsets this and the transition will be slow.

Moat Preservation Confidence: MEDIUM-HIGH. The position is unlikely to erode materially within 10 years, but a credible competitor and a structurally capped share ceiling prevent a HIGH rating.

Sector verdict: CONTINUE. Understandable business, moderately cyclical (tied to insurance total-loss volumes and used-car prices), not in secular decline.

2. FINANCIAL FORTRESS ANALYSIS

Metric	Value (FY25, aggregator-sourced)	Threshold	Assessment
Long-term debt	\$0	<1.0x D/E	FORTRESS
Cash & equivalents	~\$5.2B	—	Exceptional
Interest coverage	Effectively n/m (no LT debt)	>8x	FORTRESS
FCF (FY25)	~\$1.2B, +28% YoY	Positive 4/5 yrs	Strong
FCF margin	~26%	—	Strong
Operating margin	~36.5%	—	Excellent
Net margin	~33.4%	—	Excellent
New revolver	\$1.25B unsecured, matures Jan 2031	2031	Backup liquidity, not stress

Stress test (revenue -30% for 2 years): Copart remains solvent with ease. No long-term debt to service, ~\$5B cash. No dividend to defend. No dilutive raise required. The high owned-land fixed-cost base would compress margins more sharply in a severe downturn, but solvency is not in question.

Solvency Assessment: FORTRESS

Note: figures for FY25 are sourced from data aggregators reportedly derived from filings, not directly read from the FY25 10-K table excerpts available here. Cross-check against the filed 10-K.

3. DIVIDEND ANALYSIS

Copart pays no dividend. For a wealth preservation mandate, this is a meaningful negative. You receive zero return while holding, and the entire thesis depends on price appreciation and multiple stability. The absolute requirement that a dividend payer offer yield plus growth $\geq 5\%$ does not apply, but the absence of income removes a key preservation cushion and the income-reliability sub-score suffers accordingly.

Capital is returned via buybacks: 5.48 million shares repurchased for \$218.2 million in H1 FY26, plus an additional 24.26 million shares for \$898.7 million after quarter-end. Over \$1.1 billion committed across FY26 to date. Buybacks at ~32x earnings warrant scrutiny; repurchasing a premium-valued stock is less obviously accretive than retiring a cheap one.

Dividend Sustainability: N/A (no dividend)

4. VALUATION ANALYSIS

Metric	Current (TTM, mid-2025 source)	5Y Context	Assessment
P/E	~31.5-32.3x	Roughly in line to slightly above 5Y avg	5Y avg
Forward P/E	~29.6x	—	FULL
EV/EBITDA	~22.4-22.7x	Elevated vs Industrials	FULL
P/FCF	~39.7x	Rich	EXPENSIVE
P/B	~5.3-5.4x	Premium	FULL

Margin of safety. Normalized earnings (using recent EPS of roughly \$1.59-1.61) capitalized at a more conservative historical multiple of 22-24x implies fair value well below the recent ~32x level. At today's multiple the margin of safety is negative. The framework caps acceptable entry at 5Y average for high-quality names and rejects anything >40% above. CPRT sits near or modestly above its own 5Y average, so it does not trigger an automatic AVOID on valuation alone, but it offers no discount.

Valuation: FULL | Margin of Safety: negative at recent prices

The wealth preservation standard does not require cheap, only fair with a margin of safety of $\geq 10\%$. Copart fails that 10% test at recent levels.

5. SCENARIO ANALYSIS (10-Year Horizon)

No dividend, so total return equals earnings growth plus multiple change.

BEAR CASE (25% weight):

ADAS/used-car dynamics suppress total-loss volumes; RB Global takes share; DOJ matter produces a fine and remediation costs. Revenue near flat, EPS grows ~2-3%, multiple compresses from ~32x toward ~18-20x.

- 10-Year Total Return CAGR: roughly -1% to +1%

BASE CASE (50% weight):

Volumes recover modestly, international expansion adds growth, margins hold. EPS CAGR ~8-9%, multiple drifts down toward ~24-26x (mean reversion from a premium).

- 10-Year Total Return CAGR: roughly 7%

BULL CASE (25% weight):

CAT-event volumes and share gains drive low-teens EPS growth; market sustains a premium ~28-30x multiple.

- 10-Year Total Return CAGR: roughly 11%

Scenario	Total CAGR	Weight	Contribution
Bear	~0.0%	25%	~0.0%
Base	~7.0%	50%	~3.5%
Bull	~11.0%	25%	~2.75%
Expected	~6.5%		

Downside protection analysis. Probability of a >50% permanent loss not recovered within 5 years: <5%, given the fortress balance sheet and durable moat. The risk here is not bankruptcy. It is dead money or multiple compression eroding returns. Bear case total return is roughly breakeven rather than meaningfully negative, which clears the "bear case $\geq 0\%$ " requirement only marginally.

6. RISK ASSESSMENT

- DOJ money-laundering investigation (disclosed Q2 FY26): unquantified, no accrual recorded, outcome not estimable. The single most important new overhang.
- Total-loss volume sensitivity: rising used-car prices favor repair over total-loss, reducing salvage flow (this pressured volumes in 2021-2022).
- Decelerating fundamentals: Q2 FY26 revenue and net income declined YoY; 9M FY26 revenue roughly flat.
- Competitive pressure from RB Global/IAA and a structurally capped share ceiling.
- Long-term ADAS/AV disruption to accident frequency.
- Land-capitalization accounting flatters reported operating margins versus lease-model peers; focus on FCF margin (~26%) as the cleaner measure.
- CAT-event margin lumpiness (Hurricane Ian 2022 demonstrated both volume upside and cost volatility).
- Valuation risk: at ~32x, the multiple itself is the largest near-term downside driver.

Risk Level: MODERATE. Balance-sheet risk is low; valuation and the DOJ overhang are the live risks.

7. MANAGEMENT & GOVERNANCE

Operating execution has been strong: ~15-16% revenue CAGR and ~16-17% net income CAGR over five years, expanding net margins, disciplined reinvestment into yards and technology. CEO Jeffrey Liaw's recent option exercises and sales occurred under a Rule 10b5-1 plan adopted April 2025, with a meaningful retained stake. Executive Chairman A. Jayson Adair's January 2026 transfers were coded as gifts at \$0, consistent with charitable or estate transfers rather than open-market selling. No board instability, executive departures, or control disputes appear in recent filings. Clean unqualified audit opinion, no going-concern language, no material weakness, no restatement.

Watch points: buyback timing at premium multiples; long-tenured insider influence; land-capitalization judgment and potential impairment risk if yard utility declines.

Management Quality: GOOD

Capital Allocation Track Record: ACCEPTABLE (strong reinvestment; buyback discipline at high multiples unproven)

8. PEER COMPARISON

Dimension	Copart	RB Global/IAA
Balance sheet	Fortress (zero LT debt, ~\$5B cash)	More levered post-IAA acquisition
Margins	Higher (owned land)	Lower (lease model)

Dimension	Copart	RB Global/IAA
FCF margin	~26%	Lower
Moat	Strongest in U.S. salvage	Credible #2, regaining share
Valuation	Premium (~32x)	Generally lower multiple
Dividend	None	Varies

Copart is the higher-quality operator. RB Global offers a lower multiple but a weaker balance sheet and an integration overhang.

9. KEY METRICS SUMMARY

Metric	Value
WP Score	62 / 100
Solvency	FORTRESS
ROIC	High (capital-efficient, asset-light on the fee business)
Dividend	None
P/E (recent)	~32x
FCF margin	~26%
Recession Profile	RESILIENT
Expected Return (weighted)	~6.5% CAGR

WP Score build:

- Downside Protection: 65 (fortress balance sheet, low permanent-loss probability, but bear case only marginally positive and no income cushion)
- Return Adequacy: ~40 (base case ~7% sits at the hurdle, weighted ~6.5% below it)
- Quality: 64 (excellent balance sheet and margins offset by zero income reliability and full valuation)
- Composite: $(65 \times 0.45) + (40 \times 0.30) + (64 \times 0.25) = 29.25 + 12.0 + 16.0 = 57.25$, adjusted to 62 reflecting fortress solvency. Rounding to 62.

10. MONITORING CHECKLIST

Item	Trigger	Action
Valuation	P/E falls toward 22-24x	Upgrade to BUY review
DOJ investigation	Settlement, fine, or dismissal disclosed	Re-underwrite thesis
Total-loss volumes	Two+ quarters of volume recovery	Raise base-case growth
RB Global share	Material share loss by Copart	Lower base case

Item	Trigger	Action
FCF margin	Falls below ~22%	Investigate margin erosion
Buybacks	Large repurchases above ~30x	Flag capital-allocation concern

EXIT TRIGGERS: Not applicable. No BUY recommendation, so no position to exit. Upgrade triggers are listed in the monitoring checklist; the primary one is a 20-25% multiple compression toward 22-24x P/E.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

Copart is a fortress-balance-sheet business with a genuine moat and best-in-class margins. It fails the wealth preservation BUY test on three counts: no dividend (zero income cushion), a full-to-expensive valuation (~32x earnings, ~40x FCF, negative margin of safety), and a probability-weighted return of roughly 6.5% that sits below the inflation+4% hurdle. The DOJ investigation and recent fundamental softening reinforce patience. Wait for a 20-25% lower entry multiple.

What would change the assessment: a multiple in the 22-24x range, resolution of the DOJ matter, or a return to mid-teens earnings growth.

ANALYST NOTES

Key Assumptions:

- FY25 financials (revenue ~\$4.6B, FCF ~\$1.2B, net margin ~33.4%, zero LT debt, ~\$5.2B cash) sourced from data aggregators reportedly derived from filings, not directly from FY25 10-K tables.
- Recent valuation multiples sourced mid-2025; current quote unavailable.
- Bear-case multiple compression to 18-20x and base-case mean reversion to 24-26x are analyst estimates.

Limitations:

- Live price unavailable; no precise current-price-based margin of safety computed.
- Full 5-year SEC-traceable line-item table could not be reconstructed from provided snippets.
- DOJ investigation outcome is unquantified; bear case may understate tail risk if a large fine results.

Confidence Level: MEDIUM — High confidence on business quality and balance-sheet strength; lower confidence on precise valuation given unavailable live price and the unquantified DOJ overhang.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

IMPORTANT DISCLOSURES

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