Copart's (CPRT) Management on Q1 2020 Results - Earnings Call Transcript

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FQ1: 11-20-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.65 beats by $0.06 | Revenue of $554.42M (20.17% Y/Y) beats by $9.95M

Earning Call Audio

Copart, Inc. (NASDAQ:CPRT) Q1 2020 Earnings Conference Call November 21, 2019 11:00 AM ET

Company Participants

Jeff Liaw – President and Chief Financial Officer

Darren Hart – Vice President-Finance

Conference Call Participants

Bob Labick – CJS Securities

Craig Kennison – Baird

John Healy – Northcoast Research

Bret Jordan – Jefferies

Chris Bottiglieri – Wolfe Research

Derek Glynn – Consumer Edge Research

Excuse me, everyone. We now have our speakers in conference. Please be aware, that each of your lines is in a listen-only mode. At the conclusion of today's presentation, we will open the floor for questions. [Operator Instructions]

I would now like to turn the conference over to President and CFO, Jeff Liaw. Please go ahead, sir.

Jeff Liaw

Thank you, Dan, and welcome to Copart's Fiscal 2020 First Quarter Earnings Call. I'll ask Darren Hart, our VP of Finance, to start with the Safe Harbor.

Darren Hart

Thanks, Jeff. During today's call, we'll discuss certain non-GAAP measures, including non-GAAP net income per diluted common share, which includes adjustments to reverse the effect of certain discrete income tax items, foreign currency related gains, certain income tax benefits and payroll taxes related to accounting for stock option exercises, and the effect on common equivalent shares from ASU 2016-09. We've provided a recollection of these non-GAAP financial measures to the most directly comparable GAAP measures on our website under the Investor Relations link and in our press release issued yesterday. We believe the presentation of these non-GAAP measures together with the corresponding GAAP measures is relevant in assessing Copart's business trends and financial performance.

We analyze our results on both a GAAP and non-GAAP basis described above. In addition, this call contains forward-looking statements within the meaning of federal securities laws, which are subject to substantial risks and uncertainties that could cause actual results to differ materially from those projected or implied by our statements and comments. We do not undertake to update any forward-looking statements that may be made from time to time on our behalf. For a more complete discussion of the risks that could affect our business, please review the management's discussion and analysis portions of our related periodic reports filed with the SEC.

Jeff Liaw

Thanks, Darren. We are certainly pleased with our results for the quarter. Darren, in a moment, will walk through details of those results with the metrics that we traditionally disclose. Wanted to pause for a few minutes also to talk about some of the bigger themes in our business, as those themes, I think, will help explain and drive the results of the past quarter and the past year, and frankly shed light also on our strategic approach to the business.

First, we want to talk about the evolution of the total loss universe. I think historically, we've been good and the industry has been good about talking about repair costs. And while rising repair costs due to vehicle complexity and age and labor rates and the like, we're driving increased total loss frequency. Needless to say those trends continue unabated and are accelerating due to rising complexity in the proliferation of accidents – accident detection and avoidance system. It's well understood among customers, investors and other stakeholders, that repairing cars has become progressively less attractive economically for many, many years.

I think where we've been less effective is in communicating the other side of salvage equation and to be precise, I mean the values that we can generate for these cars at auction. The total loss industry has changed very dramatically over Copart's 37 years, and even fairly significantly over the past five. In our early days of course, salvaged vehicles were literally worked their weights in metals. You see even vestiges of this in earnings calls as recently at a year ago when we were disclosing scrap prices and how they change year-over-year. I've been the CFO of Copart for four years. Outside of those earnings calls, we have literally never once talked about scrap prices. Why? Because the cars that we sell increasingly instead, became valuable for their parts competition. As the dismantling industry evolves and the OEMs leverage their aftermarket parts businesses for profit through higher prices, the dismantling industry helped to drive salvage values upwards.

Since then, however, there has been a still more significant shift in our industry, which is that today these cars are not worth their weight in metals, not worth per se their value as parts, but instead their value as drivable, rebuildable vehicles, which has forever altered the salvage equation for ourselves and for our insurance company partners. The punch line then there is that the rising total loss frequency isn't just a function of preparing cars becoming more expensive, it's that totaling them and selling them has become more attractive over time as well. We have a number of initiatives under way with our insurance carrier partners for whom this reality is becoming more and more apparent. We intend to help them further optimize their claims processes, yielding more totals and earlier ones as well.

But how? How we've been able to drive those volume increases with price increases at the same time is in part by becoming a still more global business, our physical reach, our brand reputation and, of course, the auction platform liquidity that we offer has expanded buyer universe for our cars and lifted the prices we can achieve at auction. You can see it first hand that our unit growth rate has certainly eclipsed that of the industry in general and certainly that of the dismantling industry as well, while our prices at auction had actually increased. And that's because the fastest-growing economies in the world, in Eastern Europe, in Africa and Central and South America are also the lowest automotive penetration markets in the world. So while we have grown our supply very substantially over the past few years, we've grown our demand much more still through our proactive marketing efforts.

And that's the second thing I wanted to briefly tackle, and that's Copart's auction liquidity being the flywheel that generates differentiated value for ourselves and for our customers. I'm sure we'll get questions in Q&A about certain market share wins and insurance. You already know that we don't comment on specific accounts on an individual basis. But I think we emphasized that over time we have grown market share very steadily over the years, we just haven't talked about them on an individual account basis. Why? Ultimately because auction results are the most important, we generate better value at auction than the rest of the industry, and service levels as well, which we believe we deliver better than others.

The growth for our auction liquidity has further been enhanced by organic industry growth, of course, the same total loss frequency phenomena we described a moment ago. And then growth in our non-insurance business, which is fueled by, but also helps contribute to our insurance business. Every car we earn the right to sell from an automotive dealer also increases the value proposition of our auction and ultimately raises the price we can achieve in our insurance cars as well.

We've made the investments in land and technology, process and people for decades that enabled us to grow this platform, making it more valuable with each passing year to our customers and to us. And so the virtuous cycle of auction liquidity continues.

The last thing I wanted to tackle is our international expansion efforts, which, you already know has been an important driver of our past, but likewise will be an important driver of our future growth as well. We described in great detail during our fourth quarter 2018 earnings call our expansion efforts in Germany, our strategy there remains consistent. Build the physical infrastructure necessary to effectively serve a nationwide footprint, build logistics capabilities, enable rapid vehicle pickups, use purchased cars to seed our German auctions, leverage Copart buyer – global buyer network, and bring our value proposition to overhaul the claims process for the German insurance industry.

As you know already from Germany, our intentions are to expand elsewhere in Western Europe as well. Our year-over-year and sequential trends in Germany are encouraged with substantial growth in unit volumes, revenue and trading profits providing very clear indications that our consignment model will be an economically superior proposition for the insurance carriers in the German market in general.

With that, why don't we dive into the specifics of the quarter, and I'll turn it back over to our Vice President, Darren Hart.

Darren Hart

Thanks, Jeff. We delivered another strong quarter with record first quarter revenues, gross profits and operating profits. Global revenues grew by 20.2% or $93.1 million, despite $3.9 million in foreign currency headwinds, primarily due to the relative strength of the U.S. dollar against the British pound.

Global service revenue grew by 23.6%. Our purchased vehicle sales were flat as we converted a substantial UK customer from a purchase-based sales contract to a fee-based sales contract. First quarter global unit sales volumes increased by 12.4% and vehicle inventories grew by 14.1% versus Q1 of last year.

U.S. revenues grew by 25%, fueled by higher average selling prices and a 13.2% volume increase driven by organic growth from our existing insurance and non-insurance customers and market share gains. Our non-insurance business represents approximately 24% of total U.S. sales volumes and includes franchises, independent dealers, finance and leasing companies, fleets, charities, equipment dealers and wholesalers. Excluding charities, our non-insurance unit sales volume increased by 13%. We attribute the growth across non-insurance to our increased marketing, sales and operational focus and our auction liquidity. First quarter U.S. average selling prices grew 4.2% year-over-year.

ASPs continue improving as a result of more bidders, more international bidders, and therefore auction liquidity, as well as an increasing mix of newer less-damaged cars. International bidding and buying activity reflect our proactive marketing efforts, as well as the effectiveness of our all-digital auction platform, VB3. Year-over-year, we increased unique international bidders and unique domestic bidders by over 20%. The outcome is higher bids per unit and therefore better selling prices for our customers.

Our selling prices continue to significantly outpace various used car indices such as the Manheim used car price index, which was roughly flat this quarter versus last year. Increasing ASPs then cycle back to our unit growth drivers. U.S. vehicle inventories grew by 15% due to these continued strong industry tailwinds as well as market share gains.

International revenues were flat due to the aforementioned customer contract shift from purchase to fee based revenue and unfavorable foreign currencies. International service revenues grew by 11.4%, while international volumes grew 8.4% and international vehicle inventories grew 8.1%. Globally, purchased vehicle sales were flat as U.S. and Germany purchased vehicle growth was offset by UK customer contract shift.

Globally, gross profit grew from $195.9 million to $254.9 million or 30.1%, and gross margin percentage grew from 42.5% to 46%, an expansion of 350 basis points. U.S. gross margins grew from 45.2% to 49.2%, driven by rising ASPs and operational efficiencies.

International gross margins declined from 31.4% to 29.5%, in part due to the increasing mix of our German business. In the U.S. and globally, we do note rising labor, health insurance and selling costs. However, these rising costs have been offset in part by rising ASPs and operational efficiencies.

General and administrative expenses, excluding stock compensation and depreciation, increased from $34.8 million a year ago to $38.8 million, primarily driven by a $3.7 million pre-tax charge related to the employer portion of payroll taxes on certain executive stock compensations.

This one-time charge has been reflected as such on an after-tax basis in the non-GAAP earnings, included in our earnings release. Beyond this item, international G&A growth, in support of the expansion of our European businesses, was offset by a lower U.S. G&A due to decreased legal costs and higher capitalized software development. While our G&A may fluctuate modestly in any given quarter, we continue to generally expect G&A expenses will grow, but provide operating leverage overtime.

Operating income grew from $151.4 million to $205.4 million or 35.6%, which represents a 420 basis point operating margin expansion, inclusive of an unfavorable $800,000 year-over-year foreign currency impact. Net interest expense was up year-over-year from $3.7 million to $4 million, primarily due to reduced offsetting interest income given our lower average cash balances.

The Q1 income tax benefit of $16.1 million reflects a $62.4 million tax benefit on the exercise of employee stock options and a $3 million tax benefit from other discrete income tax items. The one-time benefit from the exercise of employee stock options as well as the discrete income tax benefits have been included and reflected as such in the non-GAAP earnings included in our earnings release.

GAAP net income increased from $114.1 million to $218.2 million or 91.2% year-over-year. Non-GAAP net income increased 36.9% from $113.3 million to $155.4 million. GAAP diluted earnings per share grew from $0.47 to $0.91 and non-GAAP diluted earnings per share grew from $0.47 to $0.65 or 38.3%.

Now turning to the balance sheet and cash flows. We adopted a new lease standard, ASC 842, this quarter and now show a $136.4 million operating lease right-of-use asset and $140.3 million of operating lease liabilities on the balance sheet. We finished the quarter with $181.1 million in cash and $219.5 million in net debt. Operating cash flows for the quarter were $212.5 million, an increase of $105 million, driven by higher earnings, due in part to the large income tax benefit.

We invested $131.5 million in CapEx during the quarter, with over 85% attributable to capacity expansion. Given the sustained industry-wide volume fueled growth by higher – due to a higher total loss frequency, we remain focused on purchasing and developing land to meet current and prospective demand. We currently have 39 new yard and expansion projects in the engineering phase and 33 projects in the development phase. During the quarter, we also collected $12.6 million in proceeds from stock option exercises and paid $101.4 million for employee stock-based withholdings.

We thank you for your continued interest in Copart. Dan, if you'd open it up to questions, that would be appreciated.

Question-and-Answer Session

Operator

Yes, sir. [Operator Instructions] Our first question in the queue comes from Bob Labick with CJS Securities. Please go ahead.

Bob Labick

Good morning, and congratulations on another nice quarter.

Jeff Liaw

Thanks, Bob.

Bob Labick

I wanted to start, you've talked a lot about your strong international buyer base, you brought it up, say, obviously, and how it benefits your insurance customers, I guess, actually all your customers that are selling. Can you give us a little more color on the types of cars the international buyers are most focused on? Is it the same as the general pattern in the U.S.? Are they more focused on insurance or non, newer or older cars? Just a little color into what they're buying.

Jeff Liaw

Bob, thanks for the question, and a good one. I think in general, they are – the demand is similar with the one nuance being that they will – their interest is typically on higher value vehicles, which makes logical sense because a car which is a very old battery case, which is largely just metal value, you would never bother to ship overseas. So they tend to focus on rebuildable, drivable vehicles in particular. And those – so they overlap very heavily. I would say that we talk about how international bidders are purchasing approximately half the value of our U.S. options, plus or minus. They did of course on many, many more cars still than that. So the point being that it is similar in the aggregate with the nudge to higher value cars.

Bob Labick

Got it. Okay, great. That's helpful. And then just related to that roughly half the value of cars purchased, I know you don't target numbers like that at all, but – so where do you think the percentage goes given the trends in the industry right now over the next three years to five years? Again, I know you're just focusing on service – servicing your customers and things, you're not targeting any number, but where do you think it might go?

Jeff Liaw

Don't have an end state in mind, Bob. Think that it has grown steadily overtime. There are a number of important secular tailwinds there that we mentioned a few moments ago about economic growth in those markets, low automotive penetration. I think we take for granted here in the U.S. that mobility is essential for our economic well-being for education or healthcare and the like. In those economies, likewise have demand for the same mobility. So overtime, I think there will be still more demand for U.S. vehicles, wrecked cars that could become drivable cars there, but we don't have an end state in mind per se, Bob.

Bob Labick

Got it. Okay. And then looking at dealer cars, there's obviously been a lot of growth from franchise and independent dealer sales, on Copart over the past couple of years. Can you talk a little bit about the typical car that's consigning to you and who the buyers are? Is that international? Or is that other dealers? Or just a little more info on that dealer cars?

Jeff Liaw

Both. I think the dealer car – dealer source cars, I think you know, has been an area of emphasis for us for years, with meaningful growth really over a number of quarters now year-over-year. And that's because our value proposition, again, it's the same one as it is for the insurance carriers that has delivered auction values which matter the most to them. And that is a function of the phenomena we talked about a moment ago, that is liquidity, that is marketing efforts, that is international buyers and domestic alike. So it is again a fairly representative sample of buyers on the other side of the equation.

Bob Labick

Super. All right. Thanks so much.

Jeff Liaw

Thank Bob.

Operator

Our next question in the queue comes from Craig Kennison with Baird. Please go ahead.

Craig Kennison

Hey, thanks for taking my questions. And Jeff, thanks for the dramatic overview. I wanted to start with the UK conversion. With that conversion to a consignment model, should we anticipate three more quarters of pressure on vehicle sales from that customer?

Jeff Liaw

The word pressure, I probably hesitate, it's the math, yes, will persist for – will persist for a few quarters if that's you mean. I think for us, it's not pressure per se, because I think we think about cars, our economics on a unit economics basis, per unit basis more so than we do the actual gross revenue.

Craig Kennison

Got it. And then I have another math question where we don't get to use numbers, but clearly you earned significant business from – and ensure that previously committed nearly all of its volume to a competitor. First, why do you think Copart won that business? And second, this was described as a 30% volume customer that's going to happen, most of which by the end of this year, does all of that math jive with how you understand the relationship?

Jeff Liaw

Craig, you find us unsatisfying, but we've been very – about not commenting on individual customers. More generically, we have earned very significant market share for years and for decades, often organically. And the reasons in general, for not commenting on specific accounts, are that we deliver superior auction results, that is first and foremost, certainly depending on where we are in a historical cycle, other considerations like catastrophic events and the like can also factor the decision, but ultimately it's about the economic value we deliver to our customers, number one.

Number two, related but somewhat – is service levels, and that in turn is a function of our yard network, our people, our technology, our process, how well do we service and account day-to-day, week-to-week, year-to-year. And then of course, as I noted a moment, how we service them in times of crisis as well.

That's how every insurance carrier considers their salvage partner decisions and depending on who the partner is and when you – where we are in history, they'll prioritize differently, but those are the criteria that anyone would make that decision on.

Craig Kennison

And then my last question is just around innovation and what you might be doing to innovate your services or your auction platform. There has been talk lately among your competitors about improving cycle times through a platform that would connect banks and insurers or better video and camera views such that you have a better look of the interior or exterior of the car if you're bidding from all the way across the ocean.

Jeff Liaw

Yes. Good question. And I think, perhaps we've been remiss in not describing them robustly enough on our earnings calls. But in general, we take those services – those types of services very seriously. So I'll comment just on one, for example, the loan payoff question I think you just raised. And for those who aren't already in the node, one complication in the resolution of a total loss claim can be that a policyholder has an outstanding loan on his or her car, so before the salvage plan can be resolved altogether, the loan payoff balance to per owed on that loan needs to be obtained by the carrier and the policyholder so that the lender conversely paid-off.

As I understand it, others in the industry are in alpha or beta testing for a product they intend to launch at some point. We launched ours in May of 2019, so whole six months ago, we had an automated loan payoff offering already delivered to our customers. We didn't talk about it on our earnings calls per se. We recognize that as an important consideration for an insurance carrier and wanting to resolve those claims. We love the claims process. We are meticulous students of it. We appreciated it for a while now that this is a second point at a bottleneck and we developed and delivered service accordingly six months ago.

Craig Kennison

I'm sorry to follow-up, is there any way you can describe the cycle time improvement from that loan payoff tool?

Jeff Liaw

Hard to do, Craig, because it's very hard to isolate variables. As you might imagine that is on a portion of the cars that have loans outstanding and a portion still for which those financial institutions are connected to various intermediaries that we have partnered with. So it is not always quite black and white, but it's certainly a tangible improvement, both we and our insurance partners appreciate it.

Craig Kennison

Great. Thank you.

Jeff Liaw

Thanks, Craig

Operator

And our next question in the queue comes from John Healy with Northcoast Research. Please go ahead.

John Healy

Thank you. I wanted to ask a question about the market share gains, Jeff. You alluded to that the economics in the dollar returns in the business that you get the insurers that was I think that your lead off point into why the company has been successful over the years in terms of gaining share. Is there any way you could kind of peel back the onion a little bit on that topic for us a little bit? Potentially over the last few years, how that dollar return number to the insurer maybe has changed if you think the gap is widened? And then also, what do you contribute the gap to? Is it just purely the build out of the international buyer base and just scale? Just love to know a little bit more on that topic.

Jeff Liaw

Sure. So the delivered values at auction, you've heard us describe the length on this call the international buyers and how important they are. And I think that sometimes maybe underappreciated that how relevant they are both for the units that are ultimately acquired by international buyers, but also on all of the other units they bid on, right? They just help provide value disclosure, full and fair value realization across virtually all the units that Copart offers.

Beyond that, there are number of other considerations too. VB3, if you haven't already, you should quote attend an online auction to Copart and do so for others in the industry and render your own judgments. But we have what we think is the best-in-class technology for sellers and buyers alike, which yields – which has for us anyway, yielded increasing bidders. So bidders and bids well in excess, even if our unit growth, meaning bids per unit – domestic bids per unit, international bids per unit have very consistently increased for a long time. So it's mostly about the auction liquidity phenomena we just described, John.

John Healy

Great. And then, just wanted to ask about the land investment in the quarter. Kind of jumped up a little bit. And I was curious to know if you could help us think about what we should be thinking about in terms of normalized land spend over the next couple of years? And should we look at Q1 as kind of anomaly or a sign of things to come here?

Jeff Liaw

I think it's capital expenditures, in particular, I think are hard to extrapolate from a given quarter, but we're talking about parcels of land and in some cases costs, multiple tens of millions of dollars. So reading into one quarter's numbers I think is bouncy. I would say that if you consider the past four years to be quote elevated capital expenditure levels for Copart, those investments will continue for years to come, both as necessary for the business that we have today as well as growth we anticipate.

John Healy

Great. Thank you.

Jeff Liaw

Thanks, John.

Operator

Our next question comes from Bret Jordan with Jefferies. Please go ahead.

Bret Jordan

Hey, good morning guys.

Jeff Liaw

Good morning.

Bret Jordan

Hey, Jeff, if you could put it in perspective, may be give us a feeling for what the yield spread does look like versus the average competitor. Obviously, you've done a good job building out the end buyer base, and the frequency of their bidding. But could you sort of quantify how much the yield those benefit your auction?

Jeff Liaw

Tough to quantify, Bret. We know, we believe it is significant, we believe that the industry has generally voted with its feet, but literally an individual car, of course, would not be sold on both auctions, you would never have and all else equal, auction comparison like-for-like. But we believe that simply the international proposition of our bids, the increasing number of bids per unit over time, this is pretty compelling evidence. That's true.

Bret Jordan

Do you think it's single-digit percentage points or double-digit percentage points, I mean sort of ballpark?

Jeff Liaw

Bret, I don't know. I would – I can't. We really don't have the data to do that, but literally no cars that were sold on both – on multiple auctions. So it's – we can't quantify that.

Bret Jordan

Okay. All right. And then a question, I guess, you talked about mix and maybe 50% of the volume is now being rebuilt. Could you compare that to where we were five years ago? You sound like we've got a big change recently. But what percent was scrap, what percent was dismantled, and what percent was built five years ago versus that?

Jeff Liaw

Won't be able to point-to-point comparisons in part, because we don't have perfect visibility either buyer who buys 400 units from us may have different intentions for different of those units. We can surmise that if they're based in the Ukraine, they intend to drive them again versus if it's a buyer who is six miles away, also owns a scrap yard, we can guess – we can render a different judgment. But those would be estimates in the aggregate, I think directionally very clearly all have been – it's been a very significant shift from scrap and dismantling in favor of rebuildable drivable cars.

You can see that in part also in the – and literally the physical appearances of the cars we've been selling, if you attended the Copart auction in the 1980s, and saw what was sort of 50% damaged car, you can see one that is obliterated that very clearly will never be returned to growth. If you look at the car today with 50% damage, it looks like a car. It probably had a technology set, if you even were willing to temporarily forgo, you could drive the car right away. So the very nature of the car has changed as well.

Bret Jordan

Okay. And I guess, do you have any new thoughts as far as the upper boundary of total loss rates? If we're in the high teens now, what that number could go to?

Jeff Liaw

No new thoughts. And perhaps, we have old ones then. And that is to say the total loss frequency, I think, folks who see 20% or whatever today wonder, could it someday be capped at 25%. And I think if you take then the 40-year view and look back to 1980, you'll see the total loss frequency then is 4%. So if it went from 4% to 20%, I don't see the logic in believing that it will ultimately tug out as 25% instead. If we're having this conversation any point over the past 40 years, I think we would have foreseen ceilings that are quite a bit less than reality ended up being. So our view is that, so long as there is a natural outlet for these cars in the form of international buyers, in particular, in higher growth economies, who need cars that there is no particular – there is no ceiling, there is no gauge on where total loss frequency can go.

Bret Jordan

Yes. Thank you.

Jeff Liaw

Thanks, Bret.

Operator

Our next question in the queue comes from Chris Bottiglieri with Wolfe Research. Please go ahead.

Chris Bottiglieri

Hi, thanks for taking the question. The first one is on the – hey, first one is on the ASP growth. I mean, pretty demonstrable growth there last year. I mean 4% still really impressive. But want to get your sense if you're lapping anything or kind of how do you think about that decelerate here on ASP growth?

Jeff Liaw

I think there is enough noise in any given quarter that I think it's all – you hear me talk about this in – with respect to many variables in our business, this one included. I look over a longer period of time. That said, selling price improvement is a good solid quarter for us and it's been consistent now that we've been up consecutively for 12 quarters or so. As you know there are secular and cyclical forces here.

The secular ones being total loss frequency that as we total more cars, those are generally better ones. Secular drivers maintained [indiscernible] improved more of them, they will drive ASPs upward as well. There are cyclical forces here as well, including currency, I think of that sort that can cause fluctuations in both directions. So I think we're – we are happy to continue delivering better values for our customers.

Chris Bottiglieri

Yes. It's okay. And then I kind of re-ask a question different way that was asked earlier. But when I look at your CapEx in an LTM basis, it's about $440 million. It's roughly double what it was a few years ago, yet the yard ups and depreciation have kind of barely bunched recently. So I guess this would imply that you're – you probably have more land at development phase right now. And I'll track the number. I can go back and see if you disclosed that.

But just wanted to get a sense for what's behind the set an urgency of land expansion? If there is any way to kind of thematically bifurcate where you're kind of added capacity or is it internationally, domestically, is it yard expansion existing yards? Are you trying to – is the biggest of customer win? So anything you can do to provide clarity on the capacity additions there would be helpful.

Jeff Liaw

The strong majority of these expenditures are for our quote traditional markets, so ones in which we've been doing business in for a long time, and they are a reflection of demands – demand to-date, meaning if you have perfect visibility into every Copart yard, you'd be able to see that plenty of them could use more space now. Therefore, a good portion of this CapEx is for expansions. Whatever we can expand into contiguous space, we of course would love to. But the operating efficiencies that affords us, and when necessary we will expand it – we will instead build new facilities elsewhere. So you're right to guess that we have many facilities in development. What's driving that is simply demand – demand today and demand growth in the future.

Chris Bottiglieri

Got you. Okay. Thank you.

Jeff Liaw

Thank you.

Operator

[Operator Instructions] Our last question in the queue comes from Derek Glynn with Consumer Edge Research. Please go ahead.

Derek Glynn

Hey, guys. Good morning. Thanks for taking our questions. Just a follow-up on yard ops. You've gained some leverage on that line item over time, probably helped in part by higher pricing. But I'm wondering if you see any areas of inefficiencies there that you guys can tackle or any initiatives for that cost item in particular to drive further margin improvement?

Jeff Liaw

It's a fair question and the answer is somehow both yes and no. So this is an area of relentless focus for us, it is how we optimize the efficiency of our yard operations. And therefore, we are – we deploy initiatives all the time, including for example, a self-help driver app last year, which reduces weight for unnecessary trips that our drivers make to our yard. So at that times hundreds, we have a number of initiatives under way.

I don't know that any of them will yield a step function change. In some cases, they help to offset natural inflation we see in our business from fuel and healthcare and other factors I'm sure you know quite well. So yes, it is an area of ongoing emphasis for us and it has been worked.

Derek Glynn

Got it. And then just secondly, it's been a couple of years since you announced the acquisition of NPA. Just wanted to get an update there. Can you give us a sense of how the powersports business is progressing? What its contribution to growth has looked like? And broadly, if it met your expectations?

Jeff Liaw

Got it. Yes. NPA has been a great acquisition for us. We're thrilled that they are – they are a part of the Copart family today. I think you may remember from the time we did the deal that our logic was twofold. We needed to like the transaction on a stand-alone basis and we needed also to believe that it would add – it would contribute strategic value to Copart and our insurance and non-insurance business as well. I think it's delivered on both fronts. The business has grown organically on its own, meaning the powersports business, the auction that we run through NPA have grown on their own.

And likewise, its contributed to our expertise when it comes to the powersports space, which you may remember we noted is a nuance in different markets, in many respects as well. So now having that expertise in-house has contributed to our capabilities in our traditional business as well. So yes, on both counts.

Derek Glynn

Great. Thanks guys.

Operator

And speakers, there are no more questions in the queue.

Jeff Liaw

Great. Thank you for joining us for the call. We'll look forward to talking to you next quarter. Thank you, everyone.

Operator

Thank you. Ladies and gentlemen, this concludes today's presentation. You may now disconnect.