

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

Forward-looking statements may appear throughout this Quarterly Report on Form 10-Q, including the following section "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements are typically identified by such words as "aim", "anticipate", "believe", "could", "continue", "estimate", "expect", "intend", "may", "ongoing", "plan", "potential", "predict", "will", "should", "would", "could", "likely", "generally", "future", "long-term", or the negative of these terms, and similar expressions intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially, and include, among others, statements relating to:

- our future strategy, objectives, targets, projections and performance;
- potential growth and market opportunities;
- potential future mergers and acquisitions, including the planned acquisitions of the Euro Auctions (as hereinafter defined);
- our ability to integrate potential acquisitions;
- the impact of our new initiatives, services, investments, and acquisitions on us and our customers;
- our future capital expenditures and returns on those expenditures; and
- financing available to us pursuant to the Commitment Letter (as hereinafter defined), our credit facilities or other sources, our ability to refinance borrowings, and the sufficiency of our working capital to meet our financial needs.

While we have not described all potential risks related to our business and owning our common shares, the important factors discussed in "Part II, Item 1A: Risk Factors" of this Quarterly Report on Form 10-Q and in "Part I, Item 1A: Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020, which is available on our website at www.rbauction.com, on EDGAR at www.sec.gov, or on SEDAR at www.sedar.com, are among those that we consider may affect our performance materially or could cause our actual financial and operational results to differ significantly from our expectations. Except as required by applicable securities law and regulations of relevant securities exchanges, we do not intend to update publicly any forward-looking statements, even if our expectations have been affected by new information, future events or other developments.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles ("US GAAP"). Except for Gross Transaction Value ("GTV")¹, which is a measure of operational performance and not a measure of financial performance, liquidity, or revenue, the amounts discussed below are based on our consolidated financial statements. Unless indicated otherwise, all tabular dollar amounts, including related footnotes, presented below are expressed in thousands of United States ("US") dollars.

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with US GAAP. Certain of these data are considered "non-GAAP financial measures" under the SEC rules. The definitions of and reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable US GAAP financial measures are included either with the first use thereof or in the Non-GAAP Measures section within the Management's Discussion and Analysis of Financial Condition and Results of Operations. Non-GAAP financial measures referred to in this Quarterly Report on Form 10-Q are labeled as "non-GAAP measure" or designated as such with an asterisk (*). Please see pages 59-60 for explanations of why we use these non-GAAP measures and the reconciliation to the most comparable GAAP financial measures.

¹ GTV represents total proceeds from all items sold at our auctions and online marketplaces. GTV is not a measure of financial performance, liquidity, or revenue, and is not presented in our consolidated financial statements.

Overview

Ritchie Bros. Auctioneers Incorporated ("Ritchie Bros.", the "Company", "we", or "us") (NYSE & TSX: RBA) was founded in 1958 in Kelowna, British Columbia, Canada and is a world leader in asset management technologies and disposition of commercial assets, selling \$5.41 billion of used equipment and other assets during 2020. Our expertise, extensive global reach, market insight, and trusted

portfolio of brands provide us with a unique position in the used equipment market. We sell used equipment for our customers through our unreserved auctions at over 40 auction sites worldwide, which are also simulcast online to reach a global bidding audience and through our online marketplaces.

Through our unreserved auctions, online marketplaces, and private brokerage services, we sell a broad range of used and unused commercial assets, including earthmoving equipment, truck tractors, truck trailers, government surplus, oil and gas equipment and other industrial assets. Construction and heavy machinery comprise the majority of the equipment sold. Customers selling equipment through our sales channels include end users (such as construction companies), equipment dealers, original equipment manufacturers (“OEMs”) and other equipment owners (such as rental companies). Our customers participate in a variety of sectors, including heavy construction, transportation, agriculture, energy, and mining.

We also provide our customers with a wide array of other services aligned with our growth strategy to create a global marketplace for used equipment services and solutions. Our other services include equipment financing, asset appraisals and inspections, online equipment listing, logistical services, and ancillary services such as equipment refurbishment. Additionally, we offer our customers asset technology solutions to manage the end-to-end disposition process of their assets and provide market data intelligence to make more accurate and reliable business decisions.

We operate globally with locations in more than 12 countries, including the U.S., Canada, Australia, the United Arab Emirates, and the Netherlands, and employ more than 2,600 full time employees worldwide.

Proposed acquisition of Euro Auctions

On August 9, 2021, through our indirect, wholly owned subsidiary Ritchie Bros UK. Holdings Ltd, we entered into a Sale and Purchase Agreement (“SPA”) pursuant to which we have agreed to purchase Euro Auctions Limited and its subsidiaries, William Keys & Sons Holdings Limited and its subsidiaries, Equipment & Plant Services Ltd, and Equipment Sales Ltd. (collectively, “Euro Auctions”), each being private limited companies incorporated in Northern Ireland (the “Euro Auctions Acquisition”).

Under the terms of the SPA, we will acquire all of the outstanding shares of Euro Auctions from their existing shareholders for approximately £775,000,000 (approximately \$1.04 billion) cash consideration, to be paid on closing. The Euro Auctions acquisition is subject to regulatory clearances and the satisfaction of other customary closing conditions, including obtaining of antitrust clearance in the United Kingdom. Euro Auctions are providers of unreserved auction services in the commercial assets space with strong international expertise, presence and brand, with operations in the United Kingdom, the United Arab Emirates, Australia and the United States.

In connection with the execution of the SPA, we also obtained a financing commitment letter (“Commitment Letter”), dated August 8, 2021 from Goldman Sachs Bank USA (“GS Bank”) pursuant to which GS Bank and certain other financial institutions committed to provide a \$530 million senior secured revolving credit facility and a \$100 million senior secured term loan facility (together, the “Bank Commitments”), and a senior unsecured bridge loan facility up to \$1,150 million (the “Bridge Commitment”). On September 21, 2021, we amended our existing Credit Agreement and thereby cancelled the Bank Commitments. Further, the Bridge Commitment was reduced by \$200 million. The remaining aggregate principal amount of the total financing commitment from GS Bank was reduced from \$1,150 million to \$950 million.

GS Bank is also acting as our financial adviser with respect to the Euro Auctions Acquisition. Consideration of \$15,000,000 is payable to GS Bank in respect of such services, contingent on consummation of the acquisition. GS Bank also agrees to credit (or, at GS Bank’s option, refund) \$2,000,000 of the transaction fee, to the extent paid, against any further transaction fee that becomes payable to GS Bank in connection with it acting in connection with a financing transaction as described above. These costs have not been recognized as at September 30, 2021. The fee of \$15,000,000 (or \$13,000,000, net of any amounts credited) will be expensed as acquisition related costs when it is recognized.

The acquisition of Euro Auctions is aligned with our accelerated growth efforts and with our strategy of becoming the trusted global marketplace for insights, services and transaction solutions for commercial assets. Euro Auctions will enhance our international presence and accelerate our international growth by offering diversified choice to customers around the world, facilitate better price discovery and more equipment selection. In addition, both companies will achieve synergy by unlocking value for Euro Auctions customers post acquisition through adoption of our inventory management system platform.

Acquisition of SmartEquip

On September 24, 2021, we entered into an Agreement and Plan of Merger (“Merger Agreement”) to acquire SmartEquip, a Delaware, United States corporation. SmartEquip has a multi-manufacturer platform that provides customers with real-time service and diagnostic support, dynamically customized, via serial number, to each asset in their fleet, and enables the electronic procurement of parts from original equipment manufacturers and their dealers.

On November 2, 2021, we closed the acquisition of SmartEquip and issued a total of 63,971 common shares to certain of the former shareholders of SmartEquip.

Under the terms of the Merger Agreement, we acquired all of the issued and outstanding common shares of SmartEquip for \$175,000,000, subject to certain adjustments, including for working capital, indebtedness, and SmartEquip's transaction expenses. The purchase price was paid in cash, with the exception of a portion of the consideration payable to certain of SmartEquip's shareholders who are entering into employment agreements with the Company, which was paid in common shares of the Company.

The acquisition of SmartEquip will enable and accelerate adoption of parts and service sales on behalf of our dealer and original equipment manufacturer partners by providing a seamless experience for end users, and will deepen our inventory management system connectivity and will further enable digital solutions at scale around inspections and ancillary services, while enabling better optimization of search and advertising revenue streams. The acquisition further aligns to our execution strategy of becoming a trusted global marketplace for insights, services and transaction solutions for commercial assets.

Impact of COVID-19 to our Business

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which quickly spread throughout the world, resulting in significant global economic disruption that materially impacted several countries and regions in which we operate, including the United States, Canada, Europe, the Middle East, Australia and Asia. It has resulted in travel restrictions, economic uncertainty, and business slowdowns or shutdowns in affected areas and has negatively disrupted global manufacturing and workforce participation, including our own.

In Q3 2021, our ability to move equipment to and from our auction sites, and across borders continues to vary regionally with Asia and Australia continuing to be negatively impacted as regional governments continue to enforce heavy travel restrictions and quarantine requirements. In these regions, the restrictions have also resulted in some challenges in customer interactions and challenges for our customers to complete equipment inspections. In our International region, travel and quarantine restrictions are slowly being lifted as people become vaccinated, which is slowly driving up our auction volumes as equipment can be moved between borders more easily. In the United States and Canada, COVID-19 has not materially impacted our ability to operate our businesses and move equipment. Globally, we continued to see surges in shipping and freight costs combined with extended lead times, making transportation of equipment both more costly and more challenging which is negatively impacting the buying and selling behaviours of our customers. Additionally, COVID-19 in combination with various macro economic factors is still impacting the supply chains of new equipment production, which is negatively affecting the supply of used equipment being sold throughout our regions, most predominantly in North America.

Our top priority regarding the COVID-19 pandemic remains the health and welfare of our employees, customers, suppliers and others with whom we partner to run our business activities. We continue to adhere to all local government and jurisdictional safety guidelines, and, in some instances, we are applying additional over-and-above safety measures. Many of our employees continue to work from home on a temporary basis and travel continues to be limited given ongoing travel restrictions.

Since the beginning of the COVID-19 pandemic, we continue to be able to operate and serve our customers' equipment and immediate liquidity needs through our platform of auction technology solutions and online auction capabilities. In addition to running our IronPlanet weekly featured online auction, our online Marketplace-E solution and our GovPlanet online auctions, we modified our operations in March 2020 to transition all of our traditional live on site industrial auctions and events to online bidding. Buyers are generally still able to visit our auction sites in advance of the auctions to conduct inspections and pick up equipment post auction, but we have not been holding live auction events in our theatres. As restrictions ease in the US and elsewhere, we will be considering a transition back to some measure of in-person attendance at our on site auction events.

Our priority is to continue to support our employees, and we are actively monitoring the situation and changing dynamics in each of our respective regions and adjusting our operations as necessary. As of September 30, 2021, layoffs or furlough activities related to the COVID-19 pandemic have been limited in scope.

The extent of the ongoing impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives, will depend on future developments, including the duration and spread of the pandemic in light of new variants, timing of mass vaccine distribution, and any related restrictions implemented by governments in various jurisdictions, as well as supply and demand impacts driven by our consignor and buyer base, all of which are uncertain and cannot be easily predicted. Although as of September 30, 2021, we continue to operate our auctions in all regions, there is no assurance that our operations could not be impacted in the future.

We continue to actively monitor the evolving impact COVID-19 is having in the world and remain ready to take further actions or adjust our response based on any new governmental guidance or recommendations. It is unknown how long the pandemic will last, or whether we will see a resurgence of cases as new variants develop or spread, how many people are ultimately going to be affected by it, and the long-term implications to local or global economies. Equally, the effects of the COVID-19 pandemic on equipment supply, buyer demand, and potential pricing volatility, or the potential impact on our buyers' ability to pay or secure financing are still not

readily discernable. Additionally, there is a level of uncertainty about the long-term impact of the COVID-19 pandemic on our third party vendors, partners and the service providers with whom we currently do business with today. As such, given the ongoing nature of the COVID-19 pandemic, we are not currently able to reasonably estimate the future impacts on our business operations, results of operations, cash flows, financial performance or our ability to pay dividends.

Service Offerings

We offer our equipment seller and buyer customers multiple distinct, complementary, multi-channel brand solutions that address the range of their needs. Our global customer base has a variety of transaction options, breadth of services, and the widest selection of used equipment available to them. For a complete listing of channels and brand solutions available under our Auctions & Marketplace ("A&M") segment, as well as our Other Services segment, please refer to our Annual Report on Form 10-K for the year ended December 31, 2020, which is available on our website at www.rbauction.com, on EDGAR at www.sec.gov, or on SEDAR at www.sedar.com.

Contract options

We offer consignors several contract options to meet their individual needs and sale objectives. Through our A&M business, options include:

- Straight commission contracts, where the consignor receives the gross proceeds from the sale less a pre-negotiated commission rate;
- Guarantee contracts, where the consignor receives a guaranteed minimum amount plus an additional amount if proceeds exceed a specified level; and
- Inventory contracts, where we purchase, take custody, and hold used equipment and other assets before they are resold in the ordinary course of business.

We collectively refer to guarantee and inventory contracts as underwritten or "at-risk" contracts.

Value-added services

We also provide a wide array of value-added services to make the process of selling and buying equipment convenient for our customers, including repair and refurbishment services, financial services through Ritchie Bros. Financial Services ("RBFS"), logistical services through RB Logistics, end-to-end asset management and disposition services through RB Asset Solutions, as well as other services such as appraisals, insights, data intelligence and performance benchmarking solutions.

Seasonality

Our GTV and associated A&M segment revenues are affected by the seasonal nature of our business. GTV and A&M segment revenues tend to increase during the second and fourth calendar quarters, during which time we generally conduct more business than in the first and third calendar quarters. Given the operating leverage inherent in our business model, the second and fourth quarter also tend to produce higher operating margins, given the higher volume and revenue generated in those quarters.

The restrictions imposed and effects of the overall economic environment as a result of the COVID-19 pandemic may continue to impact these trends.

Revenue Mix Fluctuations

Our revenue is comprised of service revenue and inventory sales revenue. Service revenue from A&M segment activities include commissions earned at our auctions, online marketplaces, and private brokerage services, and various auction-related fees, including listing and buyer transaction fees. We also recognize revenues from our Other Segment as fees within service revenue. Inventory sales revenue is recognized as part of our A&M activities and relates to revenues earned through our inventory contracts.

Inventory sales revenue can fluctuate significantly, as it changes based on whether our customers sell using a straight or guarantee commission contract, or an inventory contract at time of selling. Straight or guarantee commission contracts will result in the commission being recognized as service revenue, while inventory contracts will result in the gross transaction value of the equipment sold being recorded as inventory sales revenue with the related cost recognized in cost of inventory sold. As a result, a change in the revenue mix between service revenues and revenue from inventory sales can have a significant impact on revenue growth percentages.

Performance Overview

Net income attributable to stockholders decreased 29% to \$32.3 million, compared to \$45.4 million in Q3 2020. Diluted earnings per share (“EPS”) attributable to stockholders decreased 29% to \$0.29 per share in Q3 2021 as compared to \$0.41 per share in Q3 2020. Non-GAAP diluted adjusted EPS attributable to stockholders* decreased 10% to \$0.44 per share in Q3 2021 compared to \$0.49 per share in Q3 2020.

Beginning in the third quarter of 2021, we updated the calculation of our non-GAAP diluted adjusted EPS attributable to stockholders* to add-back share-based payments expense, all acquisition-related costs, amortization of acquired intangible assets, and gain or loss on disposition of property, plant and equipment. These adjustments have been applied retrospectively to all periods presented.

For the third quarter of 2021 as compared to the third quarter of 2020:

Consolidated results:

- Total revenue in Q3 2021 decreased 1% to \$329.7 million
 - Service revenue in Q3 2021 decreased 4% to \$214.2 million
 - Inventory sales revenue in Q3 2021 increased 6% to \$115.5 million
- Total selling, general and administrative expenses (“SG&A”) in Q3 2021 decreased 1% to \$108.6 million
- Operating income in Q3 2021 decreased 20% to \$53.6 million
- Non-GAAP adjusted operating income* in Q3 2021 decreased 11% to \$75.1 million
- Non-GAAP adjusted Earnings Before Interest, Taxes, Depreciation and Amortization* (“EBITDA) in Q3 2021 decreased 9% to \$90.6 million
- Net income in Q3 2021 decreased 29% to \$32.4 million
- Cash provided by operating activities was \$304.1 million for the first nine months of 2021
- Cash on hand at the end of Q3 2021 was \$468.4 million, of which \$362.6 million was unrestricted

Auctions & Marketplaces segment results:

- GTV in Q3 2021 decreased 4% to \$1.3 billion and decreased 5% when excluding the impact of foreign exchange
- A&M total revenue in Q3 2021 decreased 1% to \$293.8 million
 - Service revenue in Q3 2021 decreased 6% to \$178.3 million
 - Inventory sales revenue in Q3 2021 increased 6% to \$115.5 million

Other Services segment results:

- Other Services total revenue in Q3 2021 increased 6% to \$35.8 million
 - RBFS revenue in Q3 2021 increased 55% to \$11.3 million
 - Rouse revenue of \$6.5 million was recognized in Q3 2021, which was its third full quarter since its acquisition on December 8, 2020

In addition, total number of organizations activated on our Business Inventory Management System (“IMS”), a gateway into our marketplace, increased by 141% as compared to Q2 2021.

Other Company developments:

- On September 8, 2021, the Company appointed its Chief Operating Officer, James Kessler, to the additional role of President of the Company.
- On October 6, 2021, Sharon Driscoll, the Company’s Chief Financial Officer, announced that she intends to retire within two years. As part of an effective succession process, Ms. Driscoll will continue to serve as CFO until her successor has been appointed and will then assume a role as an Executive Vice President serving as an advisor to the Company.

Results of Operations

Financial overview

(in U.S. \$000's, except EPS and percentages)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change 2021 over 2020	2021	2020	% Change 2021 over 2020
Service revenue:						
Commissions	\$ 110,275	\$ 112,762	(2)%	\$ 343,584	\$ 331,711	4 %
Fees	103,918	109,917	(5)%	329,387	308,230	7 %
Total service revenue	214,193	222,679	(4)%	672,971	639,941	5 %
Inventory sales revenue	115,489	108,863	6 %	384,627	353,906	9 %
Total revenue	329,682	331,542	(1)%	1,057,598	993,847	6 %
Costs of services	33,038	39,223	(16)%	108,107	118,026	(8)%
Cost of inventory sold	102,993	96,253	7 %	344,763	320,972	7 %
Selling, general and administrative expenses	108,578	110,186	(1)%	336,475	309,203	9 %
Operating expenses	276,063	264,158	5 %	869,960	803,581	8 %
Operating income	53,619	67,384	(20)%	187,638	190,266	(1)%
Operating income as a % of total revenue	16.3 %	20.3 %	(400)bps	17.7 %	19.1 %	(140)bps
Non-GAAP adjusted operating income*	75,055	84,588	(11)%	239,563	225,454	6 %
Net income attributable to stockholders	32,336	45,387	(29)%	121,273	121,239	0 %
Non-GAAP adjusted net income attributable to stockholders*	49,276	54,592	(10)%	159,638	148,266	8 %
Diluted earnings per share attributable to stockholders	\$ 0.29	\$ 0.41	(29)%	\$ 1.09	\$ 1.10	(1)%
Non-GAAP diluted adjusted EPS attributable to stockholders*	\$ 0.44	\$ 0.49	(10)%	\$ 1.43	\$ 1.35	6 %
Effective tax rate	28.8 %	25.3 %	350 bps	26.0 %	28.6 %	(260)bps
Total GTV	1,270,258	1,321,379	(4)%	4,072,439	3,962,386	3 %
Service GTV	1,154,769	1,212,516	(5)%	3,687,812	3,608,480	2 %
Service revenue as a % of total GTV	16.9 %	16.9 %	— bps	16.5 %	16.2 %	30 bps
Inventory GTV	115,489	108,863	6 %	384,627	353,906	9 %
Service revenue as a % of total revenue	65.0 %	67.2 %	(220)bps	63.6 %	64.4 %	(80)bps
Inventory sales revenue as a % of total revenue	35.0 %	32.8 %	220 bps	36.4 %	35.6 %	80 bps
Cost of inventory sold as a % of operating expenses	37.3 %	36.4 %	90 bps	39.6 %	39.9 %	(30)bps
Service GTV as a % of total GTV - Mix	90.9 %	91.8 %	(90)bps	90.6 %	91.1 %	(50)bps
Inventory sales revenue as a % of total GTV - Mix	9.1 %	8.2 %	90 bps	9.4 %	8.9 %	50 bps

Total GTV

Total GTV decreased 4% to \$1.3 billion in Q3 2021 and increased 3% to \$4.1 billion in the first nine months of 2021. Total GTV decreased 5% in Q3 2021 and increased 3% in the first nine months of 2021, when excluding the impact of foreign exchange.

In Q3 2021, GTV decreased primarily in International and Canada, and remained relatively flat in the US. GTV volume decreased primarily driven by an unfavourable supply environment across all regions, as well as auction calendar shifts of \$34 million from the impact of the COVID-19 pandemic that were shifted from the first half of 2020 into Q3 2020 that did not repeat in Q3 2021. These decreases were partially offset by the continued strong price performance experienced across all regions due to high demand for used equipment, predominantly in the construction and transportation sectors. In International, the decreased volumes were driven by the auction shifts of (1) Moerdijk, Netherlands, (2) Polotitlan, Mexico and (3) Ocana, Spain auctions in Q3 2020 and lower volumes selling through our online channels driven by an unfavourable supply environment. These decreases were partially offset by positive year-over-year performances in Australia, including a new agricultural event. In Canada, GTV volume decreased due to the tight supply market which led to an unfavourable year-over-year performance mainly in our Western region, partially offset by an increased volume from providing escrow services for private brokered transactions in RBFS. In the US, GTV volumes remained flat despite a large dispersal of \$99 million of pipeline construction equipment in a single-owner auction event in New Mexico and Texas, and higher volumes selling through our GovPlanet business from the new non-rolling and rolling stock contracts effective June 1, 2021. Offsetting these, the US saw lower supply from our US strategic accounts in the rental and finance sectors which had grown significantly in the prior year.

For the first nine months of 2021, total GTV increased 3% due to strong pricing partially offset by an unfavourable tight supply environment impacting all regions. We saw higher volumes in International and Canada, partially offset by relatively flat volumes in the US. In International, GTV increases were driven by the lifting of border restrictions, improved economic climate and higher activity in Australia. We also saw strong performances at our auctions in Europe with the addition of several new auctions and satellite yards as well as positive impact from foreign exchange. In Canada, we primarily benefited from a favourable foreign exchange impact, and also saw increased volumes across a number of our auctions, most notably in Toronto and within the Canadian agricultural market, and a significant increase in volumes in our RBFS business as discussed above, offset by softer performances in Western Canada. In the US, GTV remained flat mainly for the same reasons as discussed above, as well, the Orlando and Las Vegas, US auctions and the non-repeat of a collector car event, contributed to lower volumes, offset by positive online performance.

Total revenue

Total revenue decreased 1% to \$329.7 million in Q3 2021, with total service revenue decreasing by 4%, offset by an increase in inventory sales revenue by 6%. Total revenue increased 6% to \$1.1 billion for the first nine months of 2021.

Foreign currency fluctuation also had a favourable impact on our revenue primarily due to the appreciation of the Canadian dollar, the Australian and the Euro dollar relative to the US dollar.

Service Revenue

Q3 2021

In Q3 2021, total service revenue decreased 4% with fees revenue decreasing 5% and commissions revenue decreasing 2%. Service revenues comprise commissions that are earned on Service GTV, and Fees which are earned on total GTV as well as from our other services such as Ancillary Services, RBFS, Rouse, Mascus, RB Logistics and RB Asset Solutions.

Service GTV decreased 5% to \$1.2 billion primarily due to the unfavourable supply environment which impacted our volumes across all regions despite continued strong pricing. In International, lower year-over-year performances across Europe combined with auction calendar shifts contributed to lower Service GTV, partially offset by higher volumes in Australia combined with a new agricultural event. In Canada, lower Service GTV was primarily due to softer year-over-year performances in Edmonton and Grand Prairie, partially offset by an increase in escrow services provided by RBFS for private brokered transactions through our Marketplace-E platform. In the US, Service GTV remained flat despite a very large dispersal of \$99 million of pipeline construction equipment in a single-owner auction event. In addition, in the prior year, the US benefited from a strong execution by the US strategic accounts and regional sales teams driving growth. Softer performances in our Fort Worth and Houston auctions also contributed to lower volumes.

Fees revenue decreased 5%, primarily due to lower fees on mix of lower proportion of small value lots across all regions, and lower fees from our Ancillary services as some sellers have elected to forgo paint or repair services driven by a strong market demand for used equipment and lower unit of volumes in the construction and transportation end markets. In the US, we also saw lower listing fees in line with lower online volumes, and lower document fees due to a decline in the total number of titled lots sold. These decreases were partially offset by higher fee revenue from the acquisition of Rouse, higher funded volume in RBFS, as well as higher buyer fees from the implementation of the revised global buyer fee structure on May 1, 2021 and from the higher buyer fee structure in Australia. In addition, we also benefited from the re-instatement of fees at the Canadian on-the-farm auctions which were waived in Q3 2020 as part of our COVID-19 pandemic response.

Commissions revenue decreased 2%, partly due to the decrease in Service GTV of 5%, offset by higher rate performance in the US attributable to a lower volume of US strategic accounts, and stronger straight commission rate performance in our GovPlanet business driven by favourable mix of contracts.

First nine months of 2021

For the first nine months of 2021, total service revenue increased 5% with fees revenue increasing 7% and commissions revenue increasing 4%.

Service GTV increased 2% to \$3.7 billion with increases in Canada and International while performances in the US remained relatively flat. In Canada, positive year-over-year performances in Toronto and in our Canadian agricultural market, and an increase in escrow services provided by our RBFS business contributed to higher Service GTV, which was partially offset by softer performances in Grand Prairie and Edmonton. International saw higher service GTV as a result of increased activity in Australia combined with a new agricultural event, and higher activity in Europe as a result of improved market economic conditions and the ease of restrictions from the gradual recovery of the COVID-19 pandemic. Service GTV remained flat in the US as discussed above. In addition, softer performances at our Orlando, Las Vegas, and regional combined auctions and the non-repeat of a collector car event contributed to lower volume partially offset by higher Service GTV sold through our online platform.

Fees revenue increased 7%, mainly due to fee revenue earned from the acquisition of Rouse, higher fees driven by higher funded volume in RBFS, and higher buyer fees in line with higher GTV of 3%. We also implemented our revised global buyer-fee structure on May 1, 2021, and re-instated fees at the Canadian on-the-farm auctions at the beginning of the year, which contributed to higher buyer fees. In addition, Australia and our GovPlanet business have higher buyer fee structures, which also led to higher buyer fees. These increases were partially offset by lower fees on mix of lower proportion of small value lots across all regions and lower fees from our Ancillary services as discussed above, and lower fees from the non-repeat of a collector car event in the US.

Commissions revenue increased 4%, largely driven by the increase in Service GTV of 2%. The remaining increase in commission revenue was driven by improved rates on straight commission contracts in Canada and within our GovPlanet business.

Inventory Sales Revenue

Inventory sales revenue as a percentage of total GTV increased to 9.1% from 8.2% in Q3 2021 and increased to 9.4% from 8.9% in the first nine months of 2021.

Q3 2021

In Q3 2021, inventory sales revenue increased 6% primarily in International, offset by the US and Canada. The improved year-over-year performance in our International region was driven by an increased activity in Australia combined with a new agricultural event. In the US, an unfavourable supply environment combined with the non-repeat of several inventory contracts led to lower inventory sales revenue. These decreases were primarily offset by increased volumes sold through our GovPlanet business from the new non-rolling and rolling stock contracts effective June 1, 2021 as well as higher activity following the government shut down in response to COVID-19 in prior year. In Canada, the tight supply market contributed to lower volumes across Western Canada.

First nine months of 2021

For the first nine months of 2021, inventory sales revenue increased 9% primarily due to a higher mix of inventory contracts, as well as higher activity in Australia and across various countries in Europe partly due to the overall improved economic conditions from the gradual recovery of the COVID-19 pandemic and the addition of several new auctions. We also saw higher volumes in our GovPlanet business, partially offset by softer performances in both the US and Canada, as discussed above.

Underwritten Contracts

We offer our customers the opportunity to use underwritten commission contracts to serve their disposition strategy needs, entering into such contracts where the risk and reward profile of the terms are agreeable. Our underwritten contracts, which include inventory and guarantee contracts increased to 22.5% in Q3 2021 compared to 15.4% in Q3 2020. For the first nine months of 2021, our underwritten contracts were 18.3% compared to 18.7% in the prior period.

Operating Income

For Q3 2021, operating income decreased 20% or \$13.8 million to \$53.6 million, primarily due to a 4% decrease in service revenues, coupled with a 5% increase in total operating expenses. Operating expenses included \$10.3 million in acquisition-related costs for the proposed acquisitions of Euro Auctions and SmartEquip, and continuing acquisition related costs incurred for the acquisition of Rouse in Q4 2020, as well as incremental depreciation and amortization of the intangible assets acquired in Rouse. In terms of ongoing operations, cost of services and selling and general administrative expenses were lower. For the first nine months of 2021, operating income decreased 1% or \$2.6 million to \$187.6 million primarily due to higher operating expenses due to the same reasons noted above, partially offset by higher service revenues and flow through from inventory sales.

Income tax expense and effective tax rate

At the end of each interim period, we estimate the effective tax rate expected to be applicable for the full fiscal year. The estimate reflects, among other items, management's best estimate of operating results. It does not include the estimated impact of foreign exchange rates or unusual and/or infrequent items, which may cause significant variations in the customary relationship between income tax expense and income before income taxes.

For Q3 2021, income tax expense decreased 15% to \$13.1 million and our effective tax rate increased 350 bps to 29% as compared to Q3 2020. For the nine months ended September 30, 2021, income tax expense decreased 13% to \$42.5 million and our effective tax rate decreased 260 bps to 26%, as compared to the nine months ended September 30, 2020.

Increase in the effective tax rate for Q3 2021 was primarily due a decrease in deductible stock options exercised and a greater estimate of non-deductible expenses. Partially offsetting this increase was lower income taxes related to tax uncertainties.

Decrease in the first nine months of 2021 was primarily due to a decrease in the estimate of non-deductible expenses, higher tax deduction for share unit expenses in excess of compensation expense and lower income taxes related to tax uncertainties. Partially offsetting this decrease was a higher estimate of income taxed in jurisdictions with higher tax rates and lower deduction for stock options exercised.

On April 8, 2020, the United States Department of Treasury and the Internal Revenue Service (“IRS”) clarified income tax benefits related to hybrid financing arrangements would not be deductible (“Hybrid Interest”). The lower estimate of non-deductible expenses is primarily due to the net income tax benefits of approximately \$6.2 million in the twelve months ended December 31, 2019 which were no longer deductible and accordingly were reversed in the nine months ended September 30, 2020.

Net income

In Q3 2021, net income attributable to stockholders decreased 29% to \$32.3 million primarily related to lower operating income. For the first nine months of 2021, net income attributable to stockholders remained flat at \$121.3 million, primarily due to lower operating income, partially offset by lower tax expense.

Diluted EPS

Diluted EPS attributable to stockholders decreased 29% to \$0.29 per share for Q3 2021 and decreased 1% to \$1.09 per share for the first nine months of 2021. This decrease is primarily due to the decrease in net income attributable to stockholders, combined with an increase in the weighted average number of dilutive shares outstanding over the same comparative period.

US dollar exchange rate comparison

We conduct global operations in many different currencies, with our presentation currency being the US dollar. The following table presents the variance in select foreign exchange rates over the comparative reporting periods:

Value of one local currency to U.S dollar	2021	2020	<u>% Change</u> <u>2021 over</u> <u>2020</u>
Period-end exchange rate			
Canadian dollar	0.7886	0.7514	5 %
Euro	1.1581	1.1732	(1)%
Australian dollar	<u>0.7231</u>	<u>0.7171</u>	<u>1 %</u>
Average exchange rate -Three months ended September 30,			
Canadian dollar	0.7942	0.7506	6 %
Euro	1.1793	1.1686	1 %
Australian dollar	<u>0.7351</u>	<u>0.7148</u>	<u>3 %</u>
Average exchange rate -Nine months ended September 30,			
Canadian dollar	0.7992	0.7391	8 %
Euro	1.1966	1.1242	6 %
Australian dollar	<u>0.7592</u>	<u>0.6764</u>	<u>12 %</u>

For Q3 2021, foreign exchange had a favourable impact on total revenue and an unfavourable impact on expenses. These impacts were primarily due to the fluctuations in the Canadian dollar, Australian dollar, and the Euro exchange rates relative to the US dollar.

Non-GAAP Measures

As part of management's non-GAAP measures, we may eliminate the financial impact of adjusting items which are after-tax effects of significant recurring and non-recurring items that we do not consider to be part of our normal operating results.

Beginning in Q3 2021, we updated our calculation of non-GAAP measures and included the impact of share-based payments expense, all acquisition-related costs, amortization of acquired intangible assets and gain or loss of disposition of property, plant and equipment. These adjustments have been applied retrospectively to all periods presented.

Non-GAAP adjusted net income attributed to stockholders decreased 10% to \$49.3 million in Q3 2021 and increased 8% to \$159.6 million for the first nine months of 2021.

Non-GAAP diluted Adjusted EPS attributable to stockholders decreased 10% to \$0.44 per share in Q3 2021 and increased 6% to \$1.43 per share for the first nine months of 2021.

Non-GAAP adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") decreased 9% to \$90.6 million in Q3 2021 and increased 6% to \$286.2 million for the first nine months of 2021.

Debt at the end of Q3 2021 represented 3.8 times net income as at and for the 12 months ended September 30, 2021, consistent with the debt at Q3 2020, which represented 3.8 times net income as at and for the 12 months ended September 30, 2020. The non-GAAP adjusted net debt/non-GAAP adjusted EBITDA was 0.7 times as at and for the 12 months ended September 30, 2021, compared to 0.5 times as at and for the 12 months ended September 30, 2020.

Segment Performance

We provide our customers with a wide array of services. The following table presents a breakdown of our consolidated results between the A&M segment and Other Services segment. A complete listing of channels and brand solutions under the A&M segment, as well as our Other Services segment, is available in our Annual Report on Form 10-K for the year ended December 31, 2020.

(in U.S \$000's)	Three months ended September 30, 2021			Nine months ended September 30, 2021		
	A&M	Other	Consolidated	A&M	Other	Consolidated
Service revenue	\$ 178,344	\$ 35,849	\$ 214,193	\$ 560,573	\$ 112,398	\$ 672,971
Inventory sales revenue	115,489	—	115,489	384,627	—	384,627
Total revenue	293,833	35,849	329,682	945,200	112,398	1,057,598
Ancillary and logistical service expenses	—	11,433	11,433	—	38,521	38,521
Other costs of services	19,751	1,854	21,605	63,326	6,260	69,586
Cost of inventory sold	102,993	—	102,993	344,763	—	344,763
SG&A expenses	96,194	12,384	108,578	301,956	34,519	336,475
Segment profit	\$ 74,895	\$ 10,178	\$ 85,073	\$ 235,155	\$ 33,098	\$ 268,253

(in U.S \$000's)	Three months ended September 30, 2020			Nine months ended September 30, 2020		
	A&M	Other	Consolidated	A&M	Other	Consolidated
Service revenue	\$ 188,949	\$ 33,730	\$ 222,679	\$ 543,340	\$ 96,601	\$ 639,941
Inventory sales revenue	108,863	—	108,863	353,906	—	353,906
Total revenue	297,812	33,730	331,542	897,246	96,601	993,847
Ancillary and logistical service expenses	—	16,550	16,550	—	45,368	45,368
Other costs of services	21,733	940	22,673	69,018	3,640	72,658
Cost of inventory sold	96,253	—	96,253	320,972	—	320,972
SG&A expenses	103,933	6,253	110,186	290,077	19,126	309,203
Segment profit	\$ 75,893	\$ 9,987	\$ 85,880	\$ 217,179	\$ 28,467	\$ 245,646

Auctions and Marketplaces Segment

Results of A&M segment operations are presented below for the comparative reporting periods.

(in U.S. \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change 2021 over 2020	2021	2020	% Change 2021 over 2020
Service revenue	\$ 178,344	\$ 188,949	(6)%	\$ 560,573	\$ 543,340	3 %
Inventory sales revenue	115,489	108,863	6 %	384,627	353,906	9 %
Total revenue	293,833	297,812	(1)%	945,200	897,246	5 %
A&M service revenue as a % of total A&M revenue	60.7 %	63.4 %	(270)bps	59.3 %	60.6 %	(130)bps
Inventory sales revenue as a % of total A&M revenue	39.3 %	36.6 %	270 bps	40.7 %	39.4 %	130 bps
Costs of services	19,751	21,733	(9)%	63,326	69,018	(8)%
Cost of inventory sold	102,993	96,253	7 %	344,763	320,972	7 %
SG&A expenses	96,194	103,933	(7)%	301,956	290,077	4 %
A&M segment expenses	\$ 218,938	\$ 221,919	(1)%	\$ 710,045	\$ 680,067	4 %
Cost of inventory sold as a % of A&M expenses	47.0 %	43.4 %	360 bps	48.6 %	47.2 %	140 bps
A&M segment profit	\$ 74,895	\$ 75,893	(1)%	\$ 235,155	\$ 217,179	8 %
Total GTV	1,270,258	1,321,379	(4)%	4,072,439	3,962,386	3 %
A&M service revenue as a % of total GTV- Rate	14.0 %	14.3 %	(30)bps	13.8 %	13.7 %	10 bps

Gross Transaction Value

In response to the COVID-19 pandemic, in March 2020, we transitioned all our traditional live on site auctions to online bidding utilizing our existing online bidding technology and simultaneously ceased almost all public attendance at our live auction theaters. Our core online auction channels (IronPlanet.com, GovPlanet.com, Marketplace-E) continued to operate as usual.

To facilitate the live auction process transition to a virtual platform and under strict safety guidelines, we enabled equipment drop off at our physical yards prior to the online event, with buyers able to conduct inspections pre-auction and collect equipment post auction. In addition, where auctioneers were not able to attend a physical site, we used Time Auctioned Lots (“TAL”) solutions for selected International and on-the-farm agriculture events.

We believe it is meaningful to consider revenue in relation to GTV. Total GTV and Service GTV by geographical regions, as well as GTV by sector, are presented below for the comparative reporting period.

GTV by Geography

(in U.S. \$000's)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change 2021 over 2020	2021	2020	% Change 2021 over 2020
Total GTV by Geography						
United States	\$ 798,725	\$ 796,111	0 %	\$ 2,421,204	\$ 2,451,003	(1)%
Canada	266,574	281,639	(5)%	1,028,260	960,382	7 %
International	204,959	243,629	(16)%	622,975	551,001	13 %
Total GTV	1,270,258	1,321,379	(4)%	4,072,439	3,962,386	3 %
Service GTV by Geography						
United States	761,483	755,712	1 %	2,263,773	2,281,460	(1)%
Canada	260,788	273,914	(5)%	1,004,831	925,336	9 %
International	132,498	182,890	(28)%	419,208	401,684	4 %
Total Service GTV ¹	1,154,769	1,212,516	(5)%	3,687,812	3,608,480	2 %

¹ Service GTV is calculated as total GTV less inventory sales revenue.

GTV by Sector

The following pie charts illustrate the breakdown of total GTV by sector for Q3 2021 compared to Q3 2020.

The construction sector includes heavy equipment such as trucks, excavators, cranes and dozers. The transportation sector includes vehicles, buses, trailers and trucks that are used for transport. The other sector primarily includes equipment sold in the agricultural, forestry and energy industries.

In Q3 2021, total GTV mix compared to Q3 2020 decreased by 1% in the transportation sector and by 2% in the construction sector.



Total Auction Metrics

We review a number of metrics including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions.

Number of auction sales days. We define auction sales days as the number of auction days per auction event. Each day an auction is held is an auction sales day. An auction can have multiple auction sales days.

Bids per lot sold. Each bid is completed electronically through our real-time online bidding system. A lot is defined as a single asset to be sold, or a group of assets bundled for sale as one unit. This metric calculates the total number of bids received for a lot divided by the total number of lots sold.

Total lots sold. We define a lot as a single asset to be sold, or a group of assets bundled for sale as one unit. Low value assets are sometimes bundled into a single lot, collectively referred to as “small value lots”.

	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>% Change 2021 over 2020</u>	<u>2021</u>	<u>2020</u>	<u>% Change 2021 over 2020</u>
Number of auction sales days	128	120	7 %	461	433	6 %
Bids per lot sold *	26	25	4 %	27	24	13 %
Total lots sold *	107,825	142,472	(24)%	372,290	392,234	(5)%

* Management reviews industrial equipment auction metrics excluding GovPlanet; as a result, GovPlanet business metrics are excluded from these metrics

The number of auction sales days increased 7% to 128 in Q3 2021. Auction sales days increased despite a decrease in total GTV of 4% mainly due to supply constraints which resulted in less average GTV sold per sale day. For the first nine months of 2021, the number of auction sales days increased 6% to 461; despite the increase in days, GTV only increased 3% reflecting the negative impact of supply constraints.

The total number of bids per lot sold increased 4% to 26 in Q3 2021 and increased 14% to 27 for the first nine months of 2021 driven by higher demand for used equipment from buyers in a tight supply market and partly due to our increased marketing efforts and higher online activity.

The total lots sold decreased by 24% to 107,825 in Q3 2021 mainly due to a tight equipment supply environment. For the first nine months of 2021, the total lots sold decreased 5% to 372,290 primarily impacted by the tight supply market, and the shift to a lower proportion of small value lots sold across all regions, partially offset by higher average selling prices.

Online Bidding

Across all channels, 100% of total GTV was purchased by online buyers in Q3 2021 and Q3 2020 which is a direct impact of the COVID-19 pandemic as we pivoted to 100% online bidding from our traditional live on site auctions where on site attendance was not permitted. The Company had considered returning to in-person attendance at select events at our larger live events in the US in Q3 2021; however, this decision has been postponed given the resurgence of COVID-19. We will continue to monitor the evolving impact of the COVID-19 pandemic going forward and consider when a transition back to some measure of in-person attendance at our on site auction events is safe.

Productivity

The majority of our business continues to be generated by our A&M segment operations. Sales Force Productivity within this segment is an operational statistic that we believe provides a gauge of the effectiveness of our Revenue Producers in increasing GTV. Revenue Producers is a term used to describe our revenue-producing sales personnel. This definition includes Regional Sales Managers and Territory Managers.

Our Sales Force Productivity for the trailing 12-month period ended September 30, 2021 was \$14.3 million per Revenue Producer compared to \$13.0 million per Revenue Producer for the trailing 12-month period ended September 30, 2020.

A&M revenue

Total A&M revenue decreased 1% to \$293.8 million in Q3 2021 and increased 5% to \$945.2 million for the first nine months of 2021.

A&M revenue by geographical region are presented below:

(in U.S. \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change 2021 over 2020	2021	2020	% Change 2021 over 2020
A&M Revenue by Geography						
United States						
Service revenue	119,871	121,810	(2)%	\$ 353,828	\$ 357,944	(1)%
Inventory sales revenue	37,242	40,399	(8)%	157,431	169,543	(7)%
A&M revenue- United States	157,113	162,209	(3)%	511,259	527,487	(3)%
Canada						
Service revenue	36,929	40,591	(9)%	140,930	126,508	11 %
Inventory sales revenue	5,786	7,725	(25)%	23,429	35,046	(33)%
A&M revenue- Canada	42,715	48,316	(12)%	164,359	161,554	2 %
International						
Service revenue	21,544	26,548	(19)%	65,815	58,888	12 %
Inventory sales revenue	72,461	60,739	19 %	203,767	149,317	36 %
A&M revenue- International	94,005	87,287	8 %	269,582	208,205	29 %
Total						
Service revenue	178,344	188,949	(6)%	560,573	543,340	3 %
Inventory sales revenue	115,489	108,863	6 %	384,627	353,906	9 %
A&M total revenue	293,833	297,812	(1)%	945,200	897,246	5 %

United States

In Q3 2021, service revenue decreased 2% while service GTV remained relatively flat. The decrease was primarily due to lower fees on a lower proportion of small value lots, lower listing fees driven by lower online volumes and lower document fees driven by a decline in the total number of titled lots sold. These decreases were partially offset by higher buyer fees from the implementation of a revised global buyer-fee structure on May 1, 2021 and positive rate performances in our straight commission contracts driven by a lower proportion of GTV sourced from strategic accounts and from our GovPlanet business due to favourable mix.

For the first nine months of 2021, service revenue decreased 1% in line with a 1% decrease in Service GTV for the same reasons as discussed above, as well as lower fees earned from the non-repeat of a collector car event in Q1 2020, partially offset by improved rates on our guarantee contracts.

In Q3 2021, inventory sales revenue decreased 8% due to lower volumes of inventory contracts sourced at our combined regional events, and at several of our other auctions primarily in Fort Worth driven by a lower mix of and the non-repeat of inventory contracts and the tight supply market environment, despite higher pricing. These decreases were partially offset by higher volumes sold through our GovPlanet business as a result of the new non-rolling and rolling stock contracts effective June 1, 2021 and higher volumes due to the government shutdowns in the prior year in response to COVID-19 pandemic.

For the first nine months of 2021, inventory sales revenue decreased 7% primarily due to the same reasons as discussed above. In addition, we saw lower volumes of inventory contracts at our Orlando auctions, partially offset by positive performance in Houston.

Canada

In Q3 2021, service revenue decreased 9%, partially due to the 5% decrease in Service GTV. The remaining decrease was due to lower fees from a lower proportion of small value lots, partially offset by higher buyer fees from the implementation of the new buyer fee structure in May 1, 2021 and the re-instatement of fees waived at the Canadian on-the-farm auctions in Q3 2020 as part of our COVID-19 pandemic response.

For the first nine months of 2021, service revenue increased 11%, partially due to the 9% increase in Service GTV and higher fees earned for the same reasons as discussed above, as well as improved commission rates on both our guarantee and straight commission contracts.

In Q3 2021, inventory sales revenue decreased 25%, primarily due to equipment supply constraints contributing to lower year-over-year performances in our Western Canada region.

For the first nine months of 2021, inventory sales revenue decreased 33%, primarily due to lower mix of inventory contracts and the equipment supply constraints in the energy sector contributing to lower year-over-year performance at our Edmonton auction, lower rate performances and the non-repeat of several large inventory contracts.

International

In Q3 2021, service revenue decreased 19%, primarily due to the 28% decrease in Service GTV. Offsetting this were higher buyer fees from the higher buyer fee structure in Australia and from the implementation of the revised buyer fees structure on May 1, 2021.

For the first nine months of 2021, service revenue increased 12%, partly due to the 4% increase in Service GTV. The remaining increase was due to the higher buyer fees as discussed above.

In Q3 2021, inventory sales revenue increased 19%, primarily driven by positive year-over-year performance from higher volumes of inventory contracts sourced in Australia combined with a new agricultural event.

For the first nine months of 2021, inventory sales revenue increased 36%, primarily for the same reasons as discussed above, as well as higher private treaty deals in Australia, strong performances at our auctions in Europe with the addition of several new auctions and satellite yards, and higher inventory volumes from the improved economic conditions from the gradual recovery of the COVID-19 pandemic in Australia, Europe and Middle East.

Costs of services

A&M costs of services decreased 9% to \$19.8 million in Q3 2021 compared to Q3 2020. This decrease was primarily driven by lower activity in line with lower GTV contributing to cost reductions in online inspection and advertising expenses, partially offset by higher costs to support our GovPlanet business growth.

For the first nine months of 2021, A&M costs of services decreased 8% to \$63.3 million primarily for the same reasons noted above and cost savings from the implementation of travel restrictions due to the COVID-19 pandemic. The decrease was further driven by cost reductions in building, facilities and technology expenses due to the non-repeat of costs incurred to support our Q1 2020 collector car event. These decreases were partially offset by an unfavourable impact of foreign exchange, and higher employee compensation expenses to support our growth strategy and to support increased activity in our GovPlanet business.

Cost of inventory sold

A&M cost of inventory sold increased 7% to \$103.0 million in Q3 2021 compared to Q3 2020, primarily in line with the 6% increase in inventory sales revenue. Cost of inventory sold increased at a higher rate than the increase in inventory sales revenue, indicating a slight decrease in the revenue rates, primarily in our US region.

For the first nine months of 2021, A&M cost of inventory sold increased 7% to \$344.8 million, primarily in line with the 9% increase in inventory sales revenue. Cost of inventory sold increased at a lower rate than the increase in inventory sales revenue, indicating an increase in the revenue rates, primarily in our GovPlanet business and the US region, partially offset by the International region. The unfavourable impact of foreign exchange also contributed to an increase in cost of inventory sold.

SG&A expenses

A&M SG&A expenses decreased 7% to \$96.2 million in Q3 2021 compared to Q3 2020. The decrease was primarily due to lower short-term and long-term incentive costs driven by our softer performance, the non-repeat of prior year one-time \$4.3 million severance costs related to the realignment of leadership to support the new global operations organization, and lower share-based payment expenses. These decreases were partially offset by higher wages, salaries and benefit expenses driven by higher headcount to support our growth initiatives, higher building, facilities and technology costs primarily in our GovPlanet business as a result of the new non-rolling and rolling stock contracts effective June 1, 2021, an unfavourable foreign exchange impact and higher professional fees related to SOX compliance, consulting and legal costs.

For the first nine months of 2021, A&M segment SG&A expenses increased 4% to \$302.0 million primarily for the same reasons as discussed above and due to an unfavourable impact of foreign exchange. The increases were offset by the non-repeat of a prior year one-time incentive accrual to employees during the COVID-19 pandemic and lower travel, advertising and entertainment expenses, as travel restrictions largely remained in place since the beginning of Q2 2020.

Other Services Segment

Results of Other Services segment operations are presented below for the comparative reporting periods.

(in U.S. \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change 2021 over 2020	2021	2020	% Change 2021 over 2020
Service revenue	\$ 35,849	\$ 33,730	6 %	\$ 112,398	\$ 96,601	16 %
Ancillary and logistical service expenses	11,433	16,550	(31)%	38,521	45,368	(15)%
Other costs of services	1,854	940	97 %	6,260	3,640	72 %
SG&A expenses	12,384	6,253	98 %	34,519	19,126	80 %
Other services profit	\$ 10,178	\$ 9,987	2 %	\$ 33,098	\$ 28,467	16 %

In Q3 2021, Other Services revenue increased 6% to \$35.8 million primarily due to the inclusion of Rouse of \$6.5 million and higher RBFS revenues of \$4.0 million, partially offset by lower ancillary revenue of \$7.1 million as some sellers have elected to forgo paint or repair services driven by a strong market demand for used equipment and lower unit of volumes in the construction and transportation end markets.

In the first nine months of 2021, Other Services revenue increased 16% to \$112.4 million due to the increase in revenue from Rouse of \$18.4 million and higher RBFS revenues of \$9.2 million, partially offset by lower ancillary revenue of \$12.0 million for the same reason as noted above and lower revenue of \$2.2 million from our asset appraisal services.

Ancillary and logistical service expenses decreased 31% to \$11.4 million in Q3 2021 and decreased 15% to \$38.5 million in the first nine months of 2021, in line with lower ancillary revenue. Other costs of services increased 97% to \$1.9 million in Q3 2021 and increased 72% to \$6.3 million in the first nine months of 2021 mainly due to the inclusion of Rouse as this is the third full quarter of costs recognized since acquisition. SG&A expense increased 98% to \$12.4 million in Q3 2021 and increased 80% to \$34.5 million, primarily due to growth in our RBFS business and the inclusion of Rouse.

RBFS revenue increased 55% in Q3 2021, and increased 40% in the first nine months of 2021 driven by higher funded volume and improved rate on fees earned from facilitating financing arrangements as well as the growth in our PurchaseSafe service to provide escrow services to private brokered transactions. Some of the positive performance in RBFS also benefited from the favourable impact of foreign exchange fluctuation, as well as from a larger dedicated sales team driving increase volumes compared to the first nine months of 2020. In Q3 2021, our funded volume, which represents the amount of lending brokered by RBFS, increased 51% to \$176.4 million, and increased 42% when excluding the impact of foreign exchange. In the first nine months of 2021, our funded volume increased 39% to \$520.4 million, and increased 28% when excluding the impact of foreign exchange.

In Q3 2021, Other Services profit increased 2% to \$10.2 million driven by our Rouse and RBFS operations, offset by lower margins in ancillary and asset appraisal services. In the first nine months of 2021, Other Services profit increased 16% to \$33.1 million, primarily due to the same reasons.

Additionally, in the first quarter of 2021, we launched a business version of our inventory management system (“IMS”), which offers our customers end-to-end asset management and disposition services, data analytics, dashboards, branded e-commerce sites and multiple external sales channels to help our customers achieve optimal returns. We continue to grow the number of organizations activated on IMS. During the third quarter of 2021, the number of organizations activated on our IMS increased by 141% compared to the second quarter of 2021.

As we evolve to a marketplace, we also facilitate retail and peer-to-peer auction events and equipment sale transactions via our online technology in exchange for hosting fees. During the third quarter of 2021, customers that used this service disposed of \$33.4 million of assets, which is an increase of 43% from Q3 2020. For the first nine months of 2021, this service facilitated transactions of \$112.7 million, an 80% increase as compared to prior year.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash provided by operating activities and borrowings from our revolving credit facilities, which we renewed on September 21, 2021.

In the first nine months of 2021, our operational liquidity was not materially impacted by the COVID-19 pandemic. We believe that our existing working capital and availability under our credit facilities is sufficient to satisfy our present operating requirements and contractual obligations. With future uncertainty due to COVID-19, we will continue to evaluate the nature and extent of any impacts to our liquidity as events unfold. Our future growth strategies continue to include but are not limited to the development of our A&M, RBFS, Rouse, and Mascus operating segments, as well as other growth opportunities like mergers and acquisitions, including the acquisition of the Euro Auctions and SmartEquip. The execution of these growth strategies may affect our financing needs and ability to make payments on our debt, fund our other liquidity needs and make planned capital expenditures. Upon sale of our Bolton, Ontario property the company intends to relocate to a replacement auction site in Amaranth, Ontario; the proceeds of the sale will be used to largely repay debt while the replacement property will be funded from cashflow from ongoing operations.

We assess our liquidity based on our ability to generate cash and secure credit to fund operating, investing, and financing activities. Our liquidity is primarily affected by fluctuations in cash provided by operating activities, significant acquisitions of businesses, payment of dividends, share repurchases, our net capital spending¹, and voluntary repayments of our Delayed-Draw Term Loan Facility (“DDTL Facility”). We believe our principal sources of liquidity, combined with the senior unsecured bridge loan facility provided by GS Bank and other financial institutions, the new upsized DDTL Facility of \$205.0 million, and approximately \$170.0 million (\$210.0 million CAD) of anticipated proceeds on the sale of our Bolton, Ontario, property are sufficient to fund our current operating activities and future growth strategies, including the proposed acquisitions of Euro Auctions and SmartEquip.

Cash provided by operating activities can fluctuate significantly from period to period due to factors such as differences in the timing, size and number of auctions during the period, the volume of our inventory contracts, the timing of the receipt of auction proceeds from buyers and of the payment of net amounts due to consignors, as well as the location of the auction with respect to restrictions on the use of cash generated therein.

As previously discussed, we have agreed pursuant to the SPA (subject to anti-trust and other customary closing conditions) to purchase Euro Auctions for £775.0 million (approximately \$1.04 billion). On September 21, 2021, we amended our existing Credit Agreement, increasing our DDTL Facility to \$295.0 million, of which \$205.0 million remains undrawn at September 30, 2021 and available to fund the acquisition of Euro Auctions. Concurrently, we cancelled the commitment for the senior secured revolving facility and the senior secured term loan facility. Further, the senior unsecured bridge facility commitment was reduced by \$200.0 million. The remaining aggregate principal amount of the total financing commitment from GS Bank was reduced from \$1,150.0 million to \$950.0 million.

Cash flows

(in U.S. \$000's, except percentages)	Nine months ended September 30,		
	2021	2020	% Change 2021 over 2020
Cash provided by (used in):			
Operating activities	\$ 304,118	\$ 265,551	15 %
Investing activities	(32,376)	(10,192)	218 %
Financing activities	(103,256)	(91,142)	13 %
Effect of changes in foreign currency rates	(7,027)	5,826	(221)%
Net increase in cash, cash equivalents, and restricted cash	\$ 161,459	\$ 170,043	(5)%

Net cash provided by operating activities increased \$38.6 million in the first nine months of 2021 mainly due to higher net cash inflow from the change in operating assets and liabilities. This change was primarily due to a net positive movement in our trade receivables related to the timing, size, and number of auctions with lower GTV in the month of September 2021 versus September 2020, as well as net inflows from inventory with lower investments in Australia and higher sales in Europe. These increases were partially offset by negative cash flows driven by larger bonus payments and the timing of payments related to local payroll, consumption and income taxes over the comparative period.

¹ We calculate net capital spending as property, plant and equipment additions plus intangible asset additions less proceeds on disposition of property, plant and equipment.

Net cash used in investing activities increased \$22.2 million in the first nine months of 2021. This change was primarily due to lower cash proceeds from land sales and equity investments in the first nine months of 2021 compared to the first nine months of 2020. In the comparative period, we recognized net proceeds of \$15.5 million on the sale of land in the United States, \$4.2 million of proceeds on the distribution of equity investments, and \$1.7 million of proceeds on contingent consideration from equity investments.

Net cash used in financing activities increased \$12.1 million in the first nine months of 2021. This increase was primarily due to the following changes over the comparative period:

- A \$26.3 million decrease in cash generated from the issuance of share capital on exercise of stock options;
- A net \$16.9 million decrease in borrowings;
- \$8.5 million more dividends paid to shareholders; and
- \$5.6 million paid in Q3 2021 to acquire the remaining 25% membership interest in Xcira, LLC.

Partially offsetting this change was the fact that we did not effect any share repurchases in the first nine months of 2021, whereas we spent \$53.2 million on share repurchases in Q1 2020.

Dividend information

We declared a dividend of \$0.22 per common share for each of the quarters ended September 30, 2020, December 31, 2020, and March 31, 2021. We declared a dividend of \$0.25 per common share for the quarter ended June 30, 2021. We have declared, but not yet paid, a dividend of \$0.25 per common share for the quarter ended September 30, 2021. All dividends that we pay are “eligible dividends” for Canadian income tax purposes unless indicated otherwise.

Return on average invested capital

Our return on average invested capital is calculated as net income attributable to stockholders divided by our average invested capital. We calculate average invested capital over a trailing 12-month period by adding the average long-term debt over that period to the average stockholders’ equity over that period.

Return on average invested capital decreased 80 bps to 10.3% for the 12-month period ending September 30, 2021 from 11.1% for the 12-month period ending September 30, 2020. This change was primarily due to an increase in the average stockholders’ equity over the comparative period, which was driven by net income growth and stock option exercises, partially offset by dividends paid during the 12-month period ending September 30, 2021. Return on invested capital (“ROIC”) (non-GAAP measure) increased 40 bps to 13.4% during the 12 months ended September 30, 2021 compared to 13.0% for the 12 months period ending September 30, 2020.

Credit facilities

On August 14, 2020, we entered into an amendment of the Credit Agreement dated October 27, 2016 totaling US\$630.0 million with a syndicate of lenders comprising:

- (1) Multicurrency revolving facilities of up to US\$530.0 million (the “Revolving Facilities”); and
- (2) A delayed-draw term loan facility of up to US\$100.0 million (the “DDTL Facility” and together with the Revolving Facilities, the “Facilities”).

On September 21, 2021, we entered into another amendment of the Credit Agreement. The amendment, among other things, (i) extended the maturity date of the Facilities from October 27, 2023 to September 21, 2026, (ii) increased the total size of the Facilities provided under the Credit Agreement to up to \$1.045 billion, including \$295.0 million of commitments under the DDTL Facility, (iii) reduced the applicable margin for base rate loans and LIBOR loans at each pricing tier level, (iv) reduced the applicable percentage per annum used to calculate the commitment fee in respect of the unused commitments under the Revolving Facilities at each pricing tier level and (v) included customary provisions to provide for the eventual replacement of LIBOR as a benchmark interest rate.

Immediately prior to the amendment, the aggregate principal amount outstanding under the DDTL Facility was \$90.0 million (\$118.9 million CAD). In connection with the amendment, we refinanced that amount with the proceeds from a borrowing under the DDTL Facility. There are no mandatory principal repayments of borrowings under the DDTL Facility until the remaining \$205.0 million is drawn. Once the DDTL Facility is fully drawn, borrowings are subject to mandatory principal repayments at an annual amortization rate of 5%, payable in quarterly installments, with the balance payable at maturity.

Credit facilities at September 30, 2021 and December 31, 2020 were as follows:

(in U.S. \$000's, except percentages)	September 30, 2021	December 31, 2020	% Change
<i>Committed</i>			
Term loan facility	\$ 298,762	\$ 98,420	204 %
Revolving credit facilities	760,000	540,000	41 %
Total credit facilities	\$ 1,058,762	\$ 638,420	66 %
<i>Unused</i>			
Term loan facility	\$ 205,000	\$ —	0 %
Revolving credit facilities	686,313	455,124	51 %
Total credit facilities unused	\$ 891,313	\$ 455,124	96 %

As previously discussed, pursuant to the Commitment Letter, GS Bank has committed to provide the remaining Bridge Loan Facility to support the Euro Auctions acquisition. Prior to the closing of the Euro Auctions acquisition, the Company will seek to replace all or a portion of the Bridge Loan Facility with senior unsecured debt securities or certain other bank loan facilities.

Debt covenants

We were in compliance with all financial and other covenants applicable to our credit facilities at September 30, 2021. Our debt covenants did not change as a result of amending our Credit Agreement.

Our ability to borrow under our syndicated revolving credit facility is subject to compliance with a consolidated leverage ratio covenant and a consolidated interest coverage ratio covenant. In the event of sustained deterioration of global markets and economies, we expect the covenants pertaining to our leverage ratio would be the most restrictive to our ability to access funding under our credit agreement. We continue to assess the impact of the COVID-19 pandemic on our business and evaluate courses of action to maintain current levels of liquidity and compliance with our debt covenants.

Share repurchase program

On August 5, 2020, our Board of Directors authorized a share repurchase program for the repurchase of up to \$100.0 million worth of our common shares, approved by the Toronto Stock Exchange, over a period of 12 months, ending August 23, 2021. No share repurchases were made during the nine months ended September 30, 2021.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, financial performance, liquidity, capital expenditures or capital resources.

Critical Accounting Policies, Judgments, Estimates and Assumptions

In preparing our consolidated financial statements in conformity with US GAAP, we must make decisions that impact the reported amounts and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of the relevant circumstances and historical experience, which take into consideration the impact of COVID-19 pandemic and related circumstances. As of September 30, 2021, there were no material changes in our critical accounting policies, judgments, estimates and assumptions from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020, or in the notes to our consolidated financial statements included in “Part I, Item 1: Consolidated Financial Statements” in this Quarterly Report on Form 10-Q.

Effective January 1, 2020, we adopted Topic 848, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and in March 2020, the FASB issued an update to the standard. The standard provides relief for companies preparing for the discontinuation of reference rates such as LIBOR. This guidance is effective March 12, 2020 through to December 31, 2022. The adoption of the ASU and the recent updates have not and are not expected to have a material impact on our consolidated financial statements.

For a discussion of our new and amended accounting standards, refer to Note 2 of the Consolidated Financial Statements, Significant Accounting Policies.

Non-GAAP Measures

We reference various non-GAAP measures throughout this Quarterly Report on Form 10-Q. These measures do not have a standardized meaning and are, therefore, unlikely to be comparable to similar measures presented by other companies. The presentation of this financial information, which is not prepared under any comprehensive set of accounting rules or principles, is not intended to be considered in isolation of, or as a substitute for, the financial information prepared and presented in accordance with US

GAAP. Non-GAAP financial measures included in this Quarterly Report on Form 10-Q are labeled as “non-GAAP measure” or designated as such with an asterisk (*).

Non-GAAP Adjusted Operating Income* Reconciliation

We believe that non-GAAP adjusted operating income* provides useful information about the growth or decline of our operating income for the relevant financial period and eliminates the financial impact of adjusting items we do not consider to be part of our normal operating results.

Adjusting operating income* eliminates the financial impact of adjusting items which are significant recurring and non-recurring items that we do not consider to be part of our normal operating results, such as share-based payments expense, acquisition-related costs, amortization of acquired intangible assets, management reorganization costs, and certain other items, which we refer to as ‘adjusting items’.

Beginning in the third quarter of 2021, we updated the calculation of non-GAAP adjusted operating income* to add-back share-based payments expense, all acquisition-related costs (including any share based continuing employment costs recognized in acquisition-related costs), amortization of acquired intangible assets, and gain or loss on disposition of property, plant and equipment. These adjustments have been applied retrospectively to all periods presented.

The following table reconciles non-GAAP adjusted operating income* to operating income, which is the most directly comparable GAAP measure in our consolidated income statements.

(in U.S. \$000's, except percentages)	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	2021	2020	<u>% Change</u> 2021 over 2020	2021	2020	<u>% Change</u> 2021 over 2020
Operating income	\$ 53,619	\$ 67,384	(20)%	\$ 187,638	\$ 190,266	(1)%
Share-based payments expense	5,627	8,568	(34)%	16,945	17,329	(2)%
Acquisition-related costs	10,255	—	100 %	16,226	—	100 %
Amortization of acquired intangible assets	6,622	4,993	33 %	20,065	15,476	30 %
Gain on disposition of property, plant and equipment	(1,068)	(276)	287 %	(1,311)	(1,536)	(15)%
Severance	—	3,919	(100)%	—	3,919	(100)%
Non-GAAP adjusted operating income*	<u>\$ 75,055</u>	<u>\$ 84,588</u>	<u>(11)%</u>	<u>\$ 239,563</u>	<u>\$ 225,454</u>	<u>6 %</u>

- (1) Please refer to pages 59-60 for a summary of adjusting items during the three and nine months ended September 30, 2021 and September 30, 2020.
- (2) Non-GAAP adjusted operating income* represents operating income excluding the effects of adjusting items.

Non-GAAP Adjusted Net Income Attributable to Stockholders* and Non-GAAP Diluted Adjusted EPS Attributable to Stockholders* Reconciliation

We believe that non-GAAP adjusted net income attributable to stockholders* provides useful information about the growth or decline of our net income attributable to stockholders for the relevant financial period and eliminates the financial impact of adjusting items we do not consider to be part of our normal operating results. Non-GAAP diluted Adjusted EPS attributable to stockholders* eliminates the financial impact of adjusting items which are after-tax effects of significant non-recurring or recurring items that we do not consider to be part of our normal operating results, such as share-based payments expense, acquisition-related costs, amortization of acquired intangible assets, management reorganization costs, and certain other items, which we refer to as 'adjusting items'.

Beginning in the third quarter of 2021, we updated the calculation of non-GAAP diluted adjusted EPS attributable to stockholders* to add-back share-based payments expense and all acquisition-related costs (including any share based continuing employment costs recognized in acquisition-related costs), amortization of acquired intangible assets, and gain or loss on disposition of property, plant and equipment. These adjustments have been applied retrospectively to all periods presented.

The following table reconciles non-GAAP adjusted net income attributable to stockholders* and non-GAAP diluted adjusted EPS attributable to stockholders* to net income attributable to stockholders and diluted EPS attributable to stockholders, which are the most directly comparable GAAP measures in our consolidated income statements.

(in U.S. \$000's, except share and per share data, and percentages)	Three months ended September 30,			Nine months ended September 30,		
			% Change			% Change
	2021	2020	2021 over 2020	2021	2020	2021 over 2020
Net income attributable to stockholders	\$ 32,336	\$ 45,387	(29)%	\$ 121,273	\$ 121,239	0 %
Share-based payments expense	5,627	8,568	(34)%	16,945	17,329	(2)%
Acquisition-related costs	10,255	—	100 %	16,226	—	100 %
Amortization of acquired intangible assets	6,622	4,993	33 %	20,065	15,476	30 %
Gain on disposition of property, plant and equipment	(1,068)	(276)	287 %	(1,311)	(1,536)	(15)%
Severance	—	3,919	(100)%	—	3,919	(100)%
Related tax effects of the above	(4,496)	(7,999)	(44)%	(13,560)	(14,389)	(6)%
Change in uncertain tax provision - tax effect	—	—	— %	—	6,228	(100)%
Non-GAAP adjusted net income attributable to stockholders*	\$ 49,276	\$ 54,592	(10)%	\$ 159,638	\$ 148,266	8 %
Weighted average number of dilutive shares outstanding	111,391,396	110,369,718	1 %	111,333,247	110,060,712	1 %
Diluted earnings per share attributable to stockholders	\$ 0.29	\$ 0.41	(29)%	\$ 1.09	\$ 1.10	(1)%
Non-GAAP diluted adjusted EPS attributable to Stockholders*	\$ 0.44	\$ 0.49	(10)%	\$ 1.43	\$ 1.35	6 %

- (1) Please refer to pages 59-60 for a summary of adjusting items during the three and nine months ended September 30, 2021 and September 30, 2020.
- (2) Non-GAAP adjusted net income attributable to stockholders* represents net income attributable to stockholders excluding the effects of adjusting items.
- (3) Non-GAAP diluted adjusted EPS attributable to stockholders* is calculated by dividing non-GAAP adjusted net income attributable to stockholders*, net of the effect of dilutive securities, by the weighted average number of dilutive shares outstanding.

Non-GAAP Adjusted EBITDA*

We believe non-GAAP adjusted EBITDA* provides useful information about the growth or decline of our net income when compared between different financial periods. We use non-GAAP adjusted EBITDA as a key performance measure because we believe it facilitates operating performance comparisons from period to period.

Beginning in the third quarter of 2021, we updated the calculation of non-GAAP adjusted EBITDA* to add-back share-based payments expense and all acquisition-related costs (including any share based continuing employment costs recognized in acquisition-related costs), and gain or loss on disposition of property, plant and equipment. These adjustments have been applied retrospectively to all periods presented.

The following table reconciles non-GAAP adjusted EBITDA* to net income, which is the most directly comparable GAAP measure in, or calculated from, our consolidated income statements:

(in U.S. \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change 2021 over 2020	2021	2020	% Change 2021 over 2020
Net income	\$ 32,357	\$ 45,490	(29)%	\$ 121,277	\$ 121,438	(0)%
Add: depreciation and amortization expenses	21,907	18,436	19 %	64,912	55,586	17 %
Add: interest expense	8,807	8,737	1 %	26,620	26,801	(1)%
Less: interest income	(375)	(510)	(26)%	(1,009)	(1,775)	(43)%
Add: income tax expense	13,057	15,437	(15)%	42,541	48,741	(13)%
EBITDA	75,753	87,590	(14)%	254,341	250,791	1 %
Share-based payments expense	5,627	8,568	(34)%	16,945	17,329	(2)%
Acquisition-related costs	10,255	—	100 %	16,226	—	100 %
Gain on disposition of property, plant and equipment	(1,068)	(276)	287 %	(1,311)	(1,536)	(15)%
Severance	—	3,919	(100)%	—	3,919	(100)%
Non-GAAP adjusted EBITDA*	\$ 90,567	\$ 99,801	(9)%	\$ 286,201	\$ 270,503	6 %

- (1) Please refer to pages 59-60 for a summary of adjusting items during the three and nine months ended September 30, 2021 and September 30, 2020.
- (2) Non-GAAP adjusted EBITDA* is calculated by adding back depreciation and amortization expenses, interest expense, income tax expense, and subtracting interest income from net income, as well as adding back share-based payments expense, acquisition-related costs, and excluding the effects of any non-recurring or unusual adjusting items.

Non-GAAP Adjusted Net Debt* and Non-GAAP Adjusted Net Debt/Non-GAAP Adjusted EBITDA* Reconciliation

We believe that comparing non-GAAP adjusted net debt/non-GAAP adjusted EBITDA* on a trailing 12-month basis for different financial periods provides useful information about the performance of our operations as an indicator of the amount of time it would take us to settle both our short and long-term debt. We do not consider this to be a measure of our liquidity, which is our ability to settle only short-term obligations, but rather a measure of how well we fund liquidity. Measures of liquidity are noted under “Liquidity and Capital Resources”.

The following table reconciles non-GAAP adjusted net debt* to debt, non-GAAP adjusted EBITDA* to net income, and non-GAAP adjusted net debt*/ non-GAAP adjusted EBITDA* to debt/ net income, respectively, which are the most directly comparable GAAP measures in, or calculated from, our consolidated financial statements.

(in U.S. \$millions, except percentages)	As at and for the 12 months ended September 30,		
	2021	2020	% Change 2021 over 2020
Short-term debt	\$ 18.5	\$ 20.3	(9)%
Long-term debt	633.7	632.6	0 %
Debt	652.2	652.9	(0)%
Less: Cash and cash equivalents	(362.6)	(470.3)	(23)%
Non-GAAP adjusted net debt*	289.6	182.6	59 %
Net income	\$ 170.2	\$ 173.0	(2)%
Add: depreciation and amortization expenses	84.3	74.2	14 %
Add: interest expense	35.4	37.1	(5)%
Less: interest income	(1.6)	(3.1)	(48)%
Add: income tax expense	59.3	61.6	(4)%
EBITDA	347.6	342.8	1 %
Share-based payments expense	21.5	17.6	22 %
Acquisition-related costs	22.2	—	100 %
Gain on disposition of property, plant and equipment	(1.3)	(1.6)	(19)%
Severance	—	3.9	(100)%
Non-GAAP adjusted EBITDA*	\$ 390.0	\$ 362.7	8 %
Debt/net income	3.8 x	3.8 x	0 %
Non-GAAP adjusted net debt*/Non-GAAP adjusted EBITDA*	0.7 x	0.5 x	40 %

- (1) Please refer to pages 59-60 for a summary of adjusting items during the trailing 12-months ended September 30, 2021 and September 30, 2020.
- (2) Non-GAAP adjusted EBITDA* is calculated by adding back depreciation and amortization expenses, interest expense, income tax expense, and subtracting interest income from net income, as well as adding back share-based payments expense, acquisition-related costs, gain/ loss on disposition of property, plant and equipment, and excluding the effects of any non-recurring or unusual adjusting items.
- (3) Non-GAAP adjusted net debt* is calculated by subtracting cash and cash equivalents from short and long-term debt.
- (4) Non-GAAP adjusted net debt*/Non-GAAP adjusted EBITDA* is calculated by dividing non-GAAP adjusted net debt* by non-GAAP adjusted EBITDA*.

Operating Free Cash Flow* (“OFCF”) Reconciliation

We believe OFCF*, when compared on a trailing 12-month basis to different financial periods, provides an effective measure of the cash generated by our business and provides useful information regarding cash flows remaining for discretionary return to stockholders, mergers and acquisitions, or debt reduction. Our balance sheet scorecard includes OFCF* as a performance metric. OFCF* is also an element of the performance criteria for certain annual short-term and long-term incentive awards.

The following table reconciles OFCF* to cash provided by operating activities, which is the most directly comparable GAAP measure in, or calculated from, our consolidated statements of cash flows:

(in U.S. \$ millions, except percentages)	12 months ended September 30,		
	2021	2020	% Change 2021 over 2020
Cash provided by operating activities	\$ 296.7	\$ 289.2	3 %
Property, plant and equipment additions	11.4	16.5	(31)%
Intangible asset additions	34.6	28.9	20 %
Proceeds on disposition of property plant and equipment	(1.8)	(16.6)	(89)%
Net capital spending	\$ 44.2	\$ 28.8	53 %
OFCF*	\$ 252.5	\$ 260.4	(3)%

(1) OFCF* is calculated by subtracting net capital spending from cash provided by operating activities.

Non-GAAP Adjusted Net Income Attributable to Stockholders* and ROIC* Reconciliation

We believe that comparing ROIC* on a trailing 12-month basis for different financial periods, provides useful information about the after-tax return generated by our investments.

Beginning in the third quarter of 2021, we updated the calculation of non-GAAP diluted adjusted EPS attributable to stockholders* to add-back share-based payments expense and all acquisition-related costs (including any share based continuing employment costs recognized in acquisition-related costs), amortization of acquired intangible assets, and gain or loss on disposition of property, plant and equipment. These adjustments have been applied retrospectively to all periods presented.

The following table reconciles non-GAAP adjusted net income attributable to stockholders* and ROIC* to net income attributable to stockholders and return on average invested capital which are the most directly comparable GAAP measures in, or calculated from, our consolidated financial statements:

	<u>As at and for the 12 months ended September 30,</u>		
(in U.S. \$millions, except percentages)	2021	2020	% Change 2021 over 2020
Net income attributable to stockholders	\$ 170.1	\$ 172.8	(2)%
Share-based payments expense	21.5	17.6	22 %
Acquisition-related costs	22.2	—	100 %
Amortization of acquired intangible assets	25.7	21.0	22 %
Gain on disposition of property, plant and equipment	(1.3)	(1.6)	(19)%
Severance	—	3.9	(100)%
Related tax effects of the above	(19.7)	(17.2)	15 %
Change in uncertain tax provision - tax effect	1.5	6.2	(76)%
Non-GAAP adjusted net income attributable to stockholders*	\$ 220.0	\$ 202.7	9 %
Opening long-term debt	\$ 632.6	\$ 689.3	(8)%
Ending long-term debt	633.7	632.6	0 %
Average long-term debt	633.2	661.0	(4)%
Opening stockholders' equity	\$ 959.5	\$ 838.2	14 %
Ending stockholders' equity	1,061.9	959.5	11 %
Average stockholders' equity	1,010.7	898.9	12 %
Average invested capital	\$ 1,643.9	\$ 1,559.9	5 %
Return on average invested capital	10.3 %	11.1 %	(80)bps
ROIC*	13.4 %	13.0 %	40 bps

- (1) Please refer to pages 59-60 for a summary of adjusting items during the trailing 12-months ended September 30, 2021 and September 30, 2020.
- (2) Return on average invested capital is calculated as net income attributable to stockholders divided by average invested capital. We calculate average invested capital as the average long-term debt and average stockholders' equity over a trailing 12-month period.
- (3) ROIC* is calculated as non-GAAP adjusted net income attributable to stockholders* divided by average invested capital.
- (4) Leases (Topic 842) requires lessees to recognize almost all leases, including operating leases, on the balance sheet through a right-of-use asset and a corresponding lease liability. The lease liability is not included in the calculation of debt.

Adjusting Items Non-GAAP Measures

Beginning in the third quarter of 2021, we began adjusting for the following items that we do not consider to be part of our normal operating results. These have been applied retrospectively to all periods presented. The following describes the nature of these adjusting items recognized in each period:

- Share-based payments expense - includes stock option compensation expense, and compensation expense for equity classified share units, liability classified share units, and employer contributions related to our employee share purchase plan.
- Amortization of acquired intangible assets – includes amortization of all intangible assets acquired primarily from the acquisitions of IronPlanet, Rouse and Mascus.
- Gain or loss on disposition of property, plant and equipment – includes any gain or loss recognized for the difference between the sales proceeds and the carrying amount of the disposed property, plant and equipment.

The following are additional adjusting items during the trailing 12 month periods which we do not consider to be part of our normal operating results.

Additional adjusting items during the trailing 12-months ended September 30, 2021 were:

Recognized in the third quarter of 2021

- \$10.3 million (\$8.3 million after tax, or \$0.07 per diluted share) of acquisition-related costs related to the acquisitions of Rouse, Euro Auctions and SmartEquip.

Recognized in the second quarter of 2021

- There were no adjusting items recognized in the second quarter of 2021.

Recognized in the first quarter of 2021

- There were no adjusting items recognized in the first quarter of 2021.

Recognized in the fourth quarter of 2020

- \$5.2 million (\$3.9 million after tax, or \$0.04 per diluted share) of acquisition-related costs related to the acquisition of Rouse.
- \$1.5 million (\$0.01 per diluted share) of current income tax expense recognized related to an unfavourable adjustment to reflect final regulations published in Q2 2020 regarding hybrid financing arrangements.

Additional adjusting items during the trailing 12-months ended September 30, 2020 were:

Recognized in the third quarter of 2020

- \$4.3 million (\$3.2 million after tax, or \$0.03 per diluted share) of severance costs related to the realignment of leadership to support the new global operations organization, in line with strategic growth priorities led by the new CEO, of which \$364,000 has been retrospectively recognized within share-based payments expense as an adjusting item.

Recognized in the second quarter of 2020

- \$6.2 million (\$0.06 per diluted share) tax expense related to an unfavourable adjustment to reflect final regulations published regarding hybrid financing arrangements, of which \$0.8 million relates to current income tax expense.

Recognized in the first quarter of 2020

- There were no adjusting items recognized in the first quarter of 2020.

Recognized in the fourth quarter of 2019

- \$4.1 million (\$3.4 million after tax, or \$0.03 per diluted share) in share-based payment expense recovery related to the departure of our former CEO, which has been included in share-based payments expense adjusting item retrospectively.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk during the nine months ended September 30, 2021 from those disclosed in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2020, which is available on our website at www.rbauction.com, on EDGAR at www.sec.gov, or on SEDAR at www.sedar.com.

ITEM 4: CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management of the Company, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), have evaluated the effectiveness of the Company’s disclosure controls and procedures as at September 30, 2021. The term “disclosure controls and procedures” means controls and other procedures established by the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based upon their evaluation of the Company’s disclosure controls and procedures, the CEO and the CFO concluded that, as at September 30, 2021, as a result of the material weaknesses described in Item 9A of the Form 10-K filed with the SEC on February 18, 2021 not having been remediated by the third quarter of 2021, the disclosure controls are not effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are not effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

The Company completed the acquisition of Rouse on December 8, 2020 and Rouse’s total assets and revenues constituted 10.1% and 1.7%, respectively, of the Company’s total assets and revenues as shown in its consolidated financial statements as of and for the nine month period ended September 30, 2021. As the acquisition occurred in the fourth quarter of 2020, the Company excluded Rouse from the scope of its assessment over the effectiveness of its internal control over financial reporting. This exclusion is in accordance with the guidance issued by the Staff of the Securities and Exchange Commission that an assessment of a recently-acquired business may be omitted from its scope in the year of acquisition, if specified conditions are satisfied.

Remediation Plan and Status of Material Weaknesses in Internal Control Over Financial Reporting

As previously disclosed in the Company’s Annual Report on Form 10-K filed with the SEC for the year ending December 31, 2020, the Company identified a material weakness over the review of the recording of manual journal entries in one of its geographies; specifically, controls were not operating effectively to ensure that journal entries were prepared with appropriate supporting documentation. Additionally, the Company identified a material weakness over the completeness and accuracy of key reports used in the performance of controls to address the occurrence and measurement of revenue.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

The Company is committed to maintaining a strong internal control environment. In order to address the material weaknesses in internal control over financial reporting noted above, management with oversight and direction from the Audit Committee and the Board of Directors, have implemented remediation steps and initiatives in 2021 to remediate the material weaknesses. These efforts have included the following actions:

- engaged a third-party advisor, hired a Senior Sarbanes-Oxley (SOX) Consultant, and created a SOX program Steering Committee to support management with performing a root-cause analysis and implementing a remediation plan;
- provided training over the execution and review of manual journal entries across all geographies, which included a focus on ensuring that accurate and appropriate documentation is retained to support the journal entry;
- conducted a series of revenue learning sessions to thoroughly review the business processes surrounding the occurrence and measurement of revenue, including the use of key reports, to drive the design and implementation of improved processes and controls;

- implemented a series of new tools, checklists and control owner certifications, and improved our controls documentation, to enhance accountability and execution of controls;
- designed, implemented and are testing improved processes and controls over the recording of manual journal entries, as well as over the completeness and accuracy of key reports used in the performance of controls to address the occurrence and measurement of revenue;
- increased capacity and resources by hiring additional experienced accounting personnel and making changes to certain control owners impacted by the material weaknesses; and
- implemented additional monitoring procedures over the controls impacted

As we continue to develop and implement our remediation plan, additional remediation steps will be identified and adopted. We have also performed additional post-closing procedures and financial statement analysis while our disclosure controls and procedures are not effective.

We will consider the material weaknesses remediated after the applicable controls operate for a sufficient period of time, and management has concluded, through testing, that the controls are operating effectively.

As part of our continuous control improvement initiatives, and with the support of our advisors, we are also in the process of re-assessing and re-evaluating the design of our internal controls over financial reporting, which includes identifying ways in which we can automate some of our current manual processes.

The Company, including its CEO and CFO, does not expect that its internal controls and procedures will prevent or detect all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control over Financial Reporting

Management, with the participation of the CEO and CFO, concluded that there were no changes in our internal control over financial reporting during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We are continuing to take steps to remediate the material weaknesses in our internal control over financial reporting, as discussed above.