

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 proposed acquisition of IAA, Inc. (“IAA”)
- our expected indebtedness in connection with the proposed acquisition of IAA
- 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 from 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 I, Item 1A: Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021, and in “Part II, Item 1A: Risk Factors” of our subsequent quarterly report on Form 10-Q, which are available on our website at <https://investor.ritchiebros.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.

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 (Please see pages 54-56).

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 \$5.5 billion of used equipment and other assets during 2021. Our expertise, unprecedented global reach, market insights, and trusted portfolio of brands provide us with a unique position within the used equipment market.

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.

Through our unreserved auctions, online marketplaces, listings, and private brokerage services, we sell a broad range of primarily used commercial and industrial assets as well as government surplus. Construction and commercial transportation assets comprise the majority of the equipment sold by GTV dollar value. 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 construction, commercial transportation, agriculture, energy, and natural resources.

We also provide our customers with a wide array of value added services aligned with our growth strategy to create a global marketplace for used equipment services and solutions. Our other services include access to equipment financing, asset appraisals and inspections, online equipment listing, logistical services, and ancillary services such as equipment refurbishment. 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. Additionally, we offer our customers an innovative technology platform that supports equipment lifecycle management and parts procurement integration with both original equipment manufacturers and dealers, as well as software as a service platform for end-to-end parts procurement and digital catalogs and diagrams.

We operate globally with locations in 12 countries, including the United States, Canada, the Netherlands, Australia, and the United Arab Emirates, and maintain a presence in 48 countries where customers are able to sell from their own yards. In addition, we employ more than 2,700 full-time employees worldwide.

Proposed Acquisition of IAA

On November 7, 2022, we entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) with IAA, Ritchie Bros. Holdings Inc., a Washington corporation and a direct and indirect wholly owned subsidiary of the Company (“US Holdings”), Impala Merger Sub I, LLC, a Delaware limited liability company and a direct wholly owned subsidiary of US Holdings (“Merger Sub 1”), and Impala Merger Sub II, LLC, a Delaware limited liability company and a direct wholly owned subsidiary of US Holdings (“Merger Sub 2”), providing for our acquisition of IAA for total consideration as of the date hereof of approximately \$7.3 billion, including the assumption of approximately \$1.0 billion of net debt. Upon completion of the acquisition, our stockholders will own approximately 59% of the common shares of the combined company on a fully diluted basis and IAA’s stockholders will own approximately 41%. During the three months and nine months ended September 30, 2022, we incurred a total of \$0.9 million and \$1.4 million, respectively, in acquisition-related costs related to the proposed acquisition, recognized in selling, general and administrative expenses. If completed, the acquisition of IAA will have a significant impact on our results of operations, financial condition and liquidity. For additional information regarding the proposed acquisition with IAA, see Note 24 to our condensed consolidated financial statements included in Part I – Item I of this report. Unless otherwise specifically noted, the following discussion and analysis of our results of operations and liquidity and capital resources focuses on our existing operations exclusive of the impact of the proposed acquisition of IAA, and any forward-looking statements contained herein do not take into account the impact of such proposed acquisition.

In connection with the proposed Mergers, on November 7, 2022, we entered into (A) a commitment letter (the “Commitment Letter”) with Goldman Sachs Bank USA (acting through such of its affiliates or branches as it deems appropriate, “GS Bank”), Bank of America, N.A. (“BANA”), BofA Securities, Inc. (or any of its designated affiliates, “BofA Securities”, and, together with BANA, “BofA”), Royal Bank of Canada (“Royal Bank”), RBC Capital Markets, LLC (“RBCCM”, and, together with Royal Bank through such of its affiliates and branches as it deems appropriate, “RBC”, and, together with GS Bank and BofA, each, an “Initial Lender”, and collectively, the “Initial Lenders”), pursuant to which the Initial Lenders are committing to provide (i) a backstop senior secured revolving credit facility in an aggregate principal amount of up to \$750 million (the “Backstop Revolving Facility”) and (ii) a senior secured 364-day bridge loan facility in an aggregate principal amount of up to \$2.8 billion (the “Bridge Loan Facility,” and together with the Backstop Revolving Facility, the “Facilities”) and (B) an engagement letter (the “Engagement Letter”) with Goldman, Sachs & Co. (acting through such of its affiliates or branches as it deems appropriate), BofA Securities and RBCCM (collectively, the “Investment Banks”), pursuant to which the Investment Banks agree, subject to the terms and conditions set forth in the Engagement Letter, to serve as lead arrangers and bookrunners in connection with an amendment to our existing credit facility, a Term Loan A facility, a Term Loan B facility and/or any other loan facilities, credit facilities, commercial bank financings or other bank or institutional facilities, and as lead placement agents for, or lead underwriters or initial purchasers of, any senior secured or unsecured

notes and any and all secured or unsecured debt, equity or equity-linked securities of the Company or any of our subsidiaries, in each case, incurred or issued to finance the proposed Mergers or refinance any amounts borrowed under the Bridge Loan Facility.

Impact of COVID-19 to our Business

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic (“COVID-19”).

In response, we transitioned all of our traditional live onsite auctions to online bidding utilizing our existing online bidding technology. As restrictions continue to ease, the health and welfare of our employees, customers and suppliers continues to be a top priority and we continue to operate with precautionary measures in place, as appropriate.

In the first nine months of 2022, our ability to move equipment to and from our auction sites and across borders has improved as travel restrictions and quarantine requirements continue to lift, but with certain countries within Asia still continuing to experience lockdowns. In the United States and Canada, COVID-19 has not materially impacted our ability to operate our businesses and move equipment. Globally, we continue to see heightened shipping, fuel and freight costs, partly attributable to the Russia-Ukraine conflict, combined with extended lead times, making equipment transportation more costly and challenging, negatively impacting the buying and selling behaviors of our customers. Additionally, COVID-19, in combination with various macro economic factors, impacted the supply chains of new equipment production, which in turn negatively affected the supply of used equipment being sold throughout our regions, most predominantly in North America.

For a further discussion of risks to our business and operating results arising from COVID-19, please refer to the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2021.

Impact of Russia-Ukraine conflict on our Business

On February 24, 2022, the geopolitical situation in Eastern Europe intensified with Russia’s invasion of Ukraine, sharply affecting economic and global financial markets. Subsequent economic sanctions on Russia have exacerbated ongoing economic challenges, including issues such as rising inflation, disruption to global supply chains and increases in hydrocarbon prices.

The rise in transportation costs, in part driven by higher fuel costs, has globally impacted both costs and timing of import and export of commercial assets between countries and has contributed to higher costs in operating our equipment. Further, increases in natural gas prices in Europe may also lead to a slowdown in its economy and as a result may negatively impact the import and export of equipment in Eastern Europe, which could affect our operations.

We do not have any operations in Russia or Ukraine, or any material operations in neighboring countries and only have a limited number of direct customers in the effected region. However, we cannot estimate the extent of the ongoing impacts of the conflict, other unforeseen conditions, future developments, including the continued evolvement of military activity and sanctions imposed with Russia’s invasion of Ukraine, which could adversely affect the domestic economy generally and our business specifically.

Impact of Inflation on our Business

We began to see inflation impacting our business operations in early 2022 with the rise of costs in freight, fuel, supplies, non-durable goods and consumables at our yards and in our operations. Travel costs have also increased partly due to higher travel activity post COVID-19 as well as due to inflation. In addition, we have seen an increase in labor costs with the labor market remaining fairly strong. We expect inflationary pressures to continue to drive up costs for the remainder of 2022.

The United States Federal Reserve is also continuing to raise interest rates, which has contributed to a stronger U.S. dollar, which has had an unfavorable impact on the translation of some of our operations to a U.S. dollar presentation currency, particularly in Canada, Europe and Australia.

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, 2021, 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. We offer equipment listing services under the RitchieList brand in North America and Mascus brand in Europe to make private selling more efficient and safe for customers, including a secure transaction management service, complete with invoicing. We also provide an innovative technology platform that supports customers' management of the equipment lifecycle and integrates parts procurement with both original equipment manufacturers and dealers.

Seasonality

Our GTV and resulting A&M segment revenue are affected by the seasonal nature of our business. GTV and our A&M segment revenue 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.

Revenue Mix Fluctuations

Our revenue is comprised of service revenue and inventory sales revenue. Service revenue from A&M segment activities includes 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 revenue from our Other Services 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 inventory sales revenue can have a significant impact on revenue growth percentages.

Performance Overview

Net income attributable to stockholders increased 33% to \$42.9 million, compared to \$32.3 million in the third quarter of 2021. Diluted earnings per share (“EPS”) attributable to stockholders increased 31% to \$0.38 per share in the third quarter of 2022 as compared to \$0.29 per share in the third quarter of 2021. Diluted adjusted EPS attributable to stockholders increased 18% to \$0.53 per share in the third quarter of 2022 compared to \$0.45 per share in the third quarter of 2021.

For the third quarter of 2022 as compared to the third quarter of 2021:

Consolidated results:

- Total revenue increased 25% to \$411.5 million
 - Service revenue increased 15% to \$246.7 million
 - Inventory sales revenue increased 43% to \$164.8 million
- Operating income increased 19% to \$64.0 million
- Adjusted operating income increased 13% to \$85.4 million
- Net income increased 33% to \$42.9 million
- Adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) increased 12% to \$102.5 million
- Cash provided by operating activities decreased 13% to \$263.9 million for the first nine months of 2022
- Cash on hand at the end of the third quarter of 2022 was \$515.1 million, of which \$438.8 million was unrestricted

Auctions & Marketplaces segment results:

- GTV increased 7% to \$1.4 billion and increased 10% when excluding the impact of foreign exchange
- A&M total revenue increased 22% to \$358.7 million
 - Service revenue increased 8% to \$193.9 million
 - Inventory sales revenue increased 43% to \$164.8 million

Other Services segment results:

- Other Services total revenue increased 49% to \$52.8 million
 - RBFS revenue increased 47% to \$16.6 million
 - SmartEquip revenue of \$5.2 million was recognized in the third quarter of 2022, which was its third full quarter since its acquisition in November 2021

In addition, the total number of organizations activated on our business inventory management system (“IMS”), a gateway into our marketplace, increased by 42% as compared to the second quarter of 2022.

Results of Operations

Financial overview

(in U.S. dollars \$000's, except EPS and percentages)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change 2022 over 2021	2022	2021	% Change 2022 over 2021
Service revenue:						
Commissions	\$ 108,238	\$ 110,275	(2)%	\$ 361,016	\$ 343,584	5 %
Fees	138,458	103,918	33 %	417,043	329,387	27 %
Total service revenue	246,696	214,193	15 %	778,059	672,971	16 %
Inventory sales revenue	164,783	115,489	43 %	511,887	384,627	33 %
Total revenue	411,479	329,682	25 %	1,289,946	1,057,598	22 %
Costs of services	41,521	35,108	18 %	125,575	114,275	10 %
Cost of inventory sold	147,253	102,993	43 %	455,006	344,763	32 %
Selling, general and administrative	133,193	106,508	25 %	404,077	330,307	22 %
Total operating expenses	347,858	277,131	26 %	1,071,786	871,271	23 %
Gain on disposition of property, plant and equipment	333	1,068	(69)%	170,499	1,311	12,905 %
Operating income	63,954	53,619	19 %	388,659	187,638	107 %
Operating income as a % of total revenue	15.5 %	16.3 %	(80)bps	30.1 %	17.7 %	1,240 bps
Adjusted operating income	85,442	75,735	13 %	302,281	240,483	26 %
Adjusted operating income as a % of total revenue	20.8 %	23.0 %	(220)bps	23.4 %	22.7 %	70 bps
Net income attributable to stockholders	42,909	32,336	33 %	274,368	121,273	126 %
Adjusted net income attributable to stockholders	59,853	49,780	20 %	193,889	160,320	21 %
Adjusted EBITDA	102,544	91,247	12 %	343,692	287,121	20 %
Diluted earnings per share attributable to stockholders	\$ 0.38	\$ 0.29	31 %	\$ 2.45	\$ 1.09	125 %
Diluted adjusted earnings per share attributable to stockholders	\$ 0.53	\$ 0.45	18 %	\$ 1.73	\$ 1.44	20 %
Effective tax rate	25.5 %	28.8 %	(330)bps	20.9 %	26.0 %	(510)bps
Total GTV	\$ 1,358,242	\$ 1,270,258	7 %	\$ 4,481,622	\$ 4,072,439	10 %
Service GTV	1,193,459	1,154,769	3 %	3,969,735	3,687,812	8 %
Service revenue as a % of total GTV	18.2 %	16.9 %	130 bps	17.4 %	16.5 %	90 bps
Inventory GTV	164,783	115,489	43 %	511,887	384,627	33 %
Inventory return	\$ 17,530	\$ 12,496	40 %	\$ 56,881	\$ 39,864	43 %
Inventory rate	10.6 %	10.8 %	(20)bps	11.1 %	10.4 %	70 bps
Service GTV as a % of total GTV - Mix	87.9 %	90.9 %	(300)bps	88.6 %	90.6 %	(200)bps
Inventory sales revenue as a % of total GTV - Mix	12.1 %	9.1 %	300 bps	11.4 %	9.4 %	200 bps

Certain amounts in the prior period have been reclassified from selling, general and administrative expenses to costs of services, refer to note 2(a) of our consolidated financial statements.

Total GTV

Total GTV increased 7% to \$1.4 billion in the third quarter of 2022 and increased 10% to \$4.5 billion in the first nine months of 2022. Total GTV increased 10% in the third quarter of 2022 and increased 13% in the first nine months of 2022, when excluding the impact of foreign exchange.

In the third quarter of 2022, GTV increased year-over-year driven by a rebound in lot volumes and continued strong pricing, partially offset by an unfavourable impact of foreign exchange and an unfavorable asset mix. In the United States, GTV increased due to strong execution by our strategic accounts team, particularly in the finance and rental sectors, as well as positive performances at several of our auctions. These increases were partially offset by the non-repeat of a large dispersal of \$99 million of pipeline construction equipment in a single-owner auction event in the third quarter of 2021. In Canada, we saw strong year-over-year performances at our auctions and agricultural events and higher GTV generated by RBFS via PurchaseSafe which provides escrow services for private brokered transactions. These increases were partially offset by the delay of our Truro, Nova Scotia auction to Q4 2022 as a result of the impact of Hurricane Fiona. In International, the decrease in GTV volume was due to an unfavourable foreign exchange impact. Excluding foreign exchange, we saw positive performance in Europe with higher activity, partially due to the shift of an auction from the second quarter of 2022 to the third quarter of 2022.

For the first nine months of 2022, total GTV increased 10% driven by strong pricing, aided by inflation, and higher lot counts, partially offset by an unfavourable impact of foreign exchange and an unfavorable asset mix. We saw growth across all regions. In Canada, GTV growth was driven by strong performances across several agricultural and auction events, strong execution by our Canadian strategic accounts teams, higher volume from RBFS, and a higher number of inventory packages sold. In the United States, GTV volume increased primarily from positive performances across numerous auctions and strong results from our strategic accounts. We also saw growth from several of our strategic initiatives, including from our local yards and investments made by our sales teams in Texas. These increases were partially offset by the non-repeat of a large dispersal pipeline construction equipment package as discussed above. In International, Australia has driven significant growth from improved market conditions and the lifting of border restrictions, as well as from a higher mix of inventory packages and strong performances at several auction events, including a new national auction, a new event in Corio, Victoria and at two agricultural events. These increases were partially offset by softer performances in Europe and an unfavorable foreign exchange impact.

Total revenue

Total revenue increased 25% to \$411.5 million in the third quarter of 2022, with total service revenue increasing by 15% and inventory sales revenue increasing by 43%. Total revenue increased 22% to \$1.3 billion for the first nine months of 2022, with total service revenue increasing by 16% and inventory sales revenue increasing by 33%.

Foreign currency fluctuation also had an unfavourable impact on our revenue primarily due to the depreciation of the Euro, the Australian dollar and the Canadian dollar relative to the U.S. dollar.

Service Revenue

Service revenue is comprised of 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, RB Asset Solutions and SmartEquip. In the third quarter of 2022, Service GTV increased 3% to \$1.2 billion mainly in Canada, and for the first nine months increased 8% to \$4.0 billion across all regions with increases most notably in Canada and the United States.

In the third quarter of 2022, total service revenue increased 15% with fees revenue increasing 33%, while commissions decreased by 2%. Fees revenue increased 33% with buyer fees growing faster than the GTV increase of 7%, reflecting the increase in certain buyer fee rates implemented in early 2022. Fees revenue also increased due to higher RBFS revenues on higher funded volumes, the inclusion of fees from SmartEquip since its acquisition on November 2, 2021 and higher revenue from our Rouse business. In addition, we also saw higher fees as a result of increased activity from our Ancillary services. Commissions revenue decreased 2%, despite a 3% increase in service GTV, primarily driven by lower straight commission rate performances in the United States attributable to a higher volume sold from our strategic accounts. Canada also saw lower commissions revenue from a higher proportion of GTV contributed by RBFS from facilitating financing arrangements. These decreases were partially offset by improved guarantee rate performances in the United States.

For the first nine months of 2022, total service revenue increased 16% with fees revenue increasing 27% and commissions revenue increasing 5%. Fees revenue increased 27% with buyer fees growing faster than GTV of 10% for the same reasons as discussed above. Commissions revenue increased 5%, slightly less than the 8% increase in service GTV, primarily for the same reason as discussed above, as well as the non-repeat of several high performing guarantee contracts in Canada.

Inventory Sales Revenue

Inventory sales revenue as a percentage of total GTV increased to 12.1% from 9.1% in the third quarter of 2022 and increased to 11.4% from 9.4% in the first nine months of 2022.

In the third quarter of 2022, inventory sales revenue increased 43% predominantly in the United States, with an increased number of inventory packages sourced from our strategic accounts group, primarily in the finance and rental sectors. We also saw increased volumes selling through our auctions as well as through our GovPlanet non-rolling and rolling stock contracts. In Canada, we saw improved year-over-year performances from inventory sold mainly in the construction sector. Partially offsetting these increases was softer year-over-year performances in International, primarily from the non-repeat of several inventory contracts in Europe and lower private treaty transactions in Australia.

For the first nine months of 2022, inventory sales revenue increased 33% predominantly in the United States partly due to a large dispersal of construction equipment in our Phoenix, Arizona auction as well as for the same reasons as discussed above. In addition, in

both the United States and Canada, we saw and a higher dollar amount of inventory sold across a number of our auctions. In International, we saw positive performances in Australia, offset by a lower volume of inventory sold in Europe.

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, as a percentage of total GTV, which include inventory and guarantee contracts, decreased to 17.0% in the third quarter of 2022 compared to 22.5% in the third quarter of 2021. For the first nine months of 2022, our underwritten contracts were 18.5% compared to 18.3% in the prior period.

Operating Income

For the third quarter of 2022, operating income increased 19% or \$10.3 million to \$64.0 million, primarily due to flow through from higher revenues partially offset by higher selling, general and administrative expenses. Selling, general and administrative expenses increased due to higher short-term incentive expenses driven by strong performance. Wages, salaries and benefits expenses also increased as a result of higher headcount to accelerate our growth initiatives and our transformational journey to become a trusted global marketplace and in part due to the acquisition of SmartEquip. Building, facilities and technology costs also increased mainly due to the amortization of the right-of-use asset of the Bolton property from the sale and lease back arrangement completed in the first quarter of 2022, as well as higher costs as we shift to cloud-based solutions to improve customer experiences. We also saw higher travel, advertising and promotion costs from increased activity and higher marketing costs to promote new initiatives. Share-based payments also increased as a result of higher expense relating to share-based awards issued to senior executives, and higher expense from the premium-priced options and PSU's with market conditions granted in late 2021. Inflation also resulted in higher personnel and travel costs.

For the first nine months of 2022, operating income increased 107% due to the inclusion of a gain of \$169.1 million on property, plant and equipment from the sale of the Bolton property in the first quarter of 2022. Operating income increased 17%, when excluding the impact of the gain, primarily due to flow through from higher revenue, partially offset by higher selling, general and administrative expenses mainly due the same reasons as discussed above, as well as higher professional fees primarily driven by our investment in new modern architecture to support our future marketplace and services strategy.

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 the third quarter of 2022, income tax expense increased 13% to \$14.7 million and our effective tax rate decreased 330 bps to 25.5% as compared to the third quarter of 2021. For the first nine months 2022, income tax expense increased 71% to \$72.6 million and our effective tax rate decreased 510 bps to 20.9% as compared to the first nine months of 2021.

The decrease in the effective tax rate for the third quarter of 2022 compared to the third quarter of 2021 was primarily due to a lower estimate of non-deductible expenses and lower income taxes related to tax uncertainties. Partially offsetting this decrease was higher estimated expenses related to the U.S. tax reform of 2017.

The decrease in the effective tax rate for the first nine months of 2022 compared to the first nine months of 2021 was primarily due to the non-taxable gain portion on the sale of the Bolton property and a lower estimate of non-deductible expenses. Partially offsetting this decrease was a higher estimate of income taxed in jurisdictions with higher tax rates and a lower tax deduction for PSU and RSU share unit expenses that exceeded the related compensation expense.

Net income

In the third quarter of 2022, net income attributable to stockholders increased 33% to \$42.9 million primarily due to higher operating income, higher interest income from a rise in interest rates, and a lower effective tax rate as discussed above. For the first nine months of 2022, net income attributable to stockholders increased 126% to \$274.4 million, primarily for the same reasons as noted above, partially offset by a higher interest expense from our 2021 Notes which included a loss on redemption.

Diluted EPS

Diluted EPS attributable to stockholders increased 31% to \$0.38 per share for the third quarter of 2022 and increased 125% to \$2.45 per share for the first nine months of 2022, in line with net income.

U.S. dollar exchange rate comparison

We conduct global operations in many different currencies, with our presentation currency being the U.S. 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	2022	2021	% Change 2022 over 2021
Period-end exchange rate - September 30,			
Canadian dollar	0.7227	0.7886	(8)%
Euro	0.9801	1.1581	(15)%
Australian dollar	0.6398	0.7231	(12)%
Average exchange rate - Three months ended September 30,			
Canadian dollar	0.7666	0.7942	(3)%
Euro	1.0081	1.1793	(15)%
Australian dollar	0.6837	0.7351	(7)%
Average exchange rate - Nine months ended September 30,			
Canadian dollar	0.7798	0.7992	(2)%
Euro	1.0655	1.1966	(11)%
Australian dollar	0.7075	0.7592	(7)%

For the third quarter of 2022, foreign exchange had an unfavourable impact on total revenue and a favourable impact on expenses. These impacts were primarily due to the fluctuations in the Euro, Australian dollar and Canadian dollar exchange rates relative to the U.S. dollar.

Key Operating Metrics

We regularly review a number of metrics, including the following key operating metrics, to evaluate our business, measure our performance, identify trends affecting our business, and make operating decisions. We believe these key operating metrics are useful to investors because management uses these metrics to assess the growth of our business and the effectiveness of our operational strategies.

We define our key operating metrics as follows:

Gross Transaction Value: Represents total proceeds from all items sold at the Company's auctions and online marketplaces. GTV is not a measure of financial performance, liquidity, or revenue, and is not presented in the Company's consolidated financial statements.

Inventory return: Inventory sales revenue less cost of inventory sold.

Inventory rate: Inventory return divided by inventory sales revenue.

Inventory Management System activations: Number of organizations activated on IMS. An organization is considered activated on IMS when a customer has signed an annual multi-channel contract and has an IMS instance setup to allow for equipment to be directed to one of our transaction solutions digitally.

Bids per lots 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. GovPlanet business metrics are excluded from this metric as management reviews industrial equipment auction metrics excluding GovPlanet.

Total lots sold: 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". GovPlanet business metrics are excluded from this metric as management reviews industrial equipment auction metrics excluding GovPlanet.

Non-GAAP Measures

As part of management's non-GAAP measures, we may eliminate the financial impact of certain items that we do not consider to be part of our normal operating results.

Adjusted net income attributed to stockholders increased 20% to \$59.9 million in the third quarter of 2022 and increased 21% to \$193.9 million for the first nine months of 2022.

Diluted adjusted EPS attributable to stockholders increased 18% to \$0.53 per share in the third quarter of 2022 and increased 20% to \$1.73 per share for the first nine months of 2022.

Adjusted EBITDA increased 12% to \$102.5 million in the third quarter of 2022 and increased 20% to \$343.7 million for the first nine months of 2022.

Debt at the end of the third quarter of 2022 represented 2.1 times net income at and for the twelve months ended September 30, 2022, compared to debt at the third quarter of 2021, which represented 3.8 times net income at and for the twelve months ended September 30, 2021. The adjusted net debt/adjusted EBITDA was 0.5 times at and for the twelve months ended September 30, 2022, compared to 0.7 times at and for the twelve months ended September 30, 2021.

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, 2021.

(in U.S. dollars \$000's)	Three months ended September 30, 2022			Nine months ended September 30, 2022		
	A&M	Other	Consolidated	A&M	Other	Consolidated
Service revenue:						
Commissions	\$ 108,238	\$ —	\$ 108,238	\$ 361,016	\$ —	\$ 361,016
Fees	85,689	52,769	138,458	268,906	148,137	417,043
Total service revenue	193,927	52,769	246,696	629,922	148,137	778,059
Inventory sales revenue	164,783	—	164,783	511,887	—	511,887
Total revenue	\$ 358,710	\$ 52,769	\$ 411,479	\$ 1,141,809	\$ 148,137	\$ 1,289,946
Ancillary and logistical service expenses	—	14,417	14,417	—	38,618	38,618
Other costs of services	24,601	2,503	27,104	79,160	7,797	86,957
Cost of inventory sold	147,253	—	147,253	455,006	—	455,006
Selling, general and administrative	116,337	16,856	133,193	350,684	53,393	404,077
Segment profit	\$ 70,519	\$ 18,993	\$ 89,512	\$ 256,959	\$ 48,329	\$ 305,288

(in U.S. dollars \$000's)	Three months ended September 30, 2021			Nine months ended September 30, 2021		
	A&M	Other	Consolidated	A&M	Other	Consolidated
Service revenue:						
Commissions	\$ 110,275	\$ —	\$ 110,275	\$ 343,584	\$ —	\$ 343,584
Fees	68,607	35,311	103,918	220,037	109,350	329,387
Total service revenue	178,882	35,311	214,193	563,621	109,350	672,971
Inventory sales revenue	115,489	—	115,489	384,627	—	384,627
Total revenue	\$ 294,371	\$ 35,311	\$ 329,682	\$ 948,248	\$ 109,350	\$ 1,057,598
Ancillary and logistical service expenses	—	11,433	11,433	—	38,521	38,521
Other costs of services	22,728	947	23,675	72,208	3,546	75,754
Cost of inventory sold	102,993	—	102,993	344,763	—	344,763
Selling, general and administrative	94,203	12,305	106,508	296,199	34,108	330,307
Segment profit	\$ 74,447	\$ 10,626	\$ 85,073	\$ 235,078	\$ 33,175	\$ 268,253

Auctions and Marketplaces Segment

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

(in U.S. dollars \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change	2022	2021	% Change
			2022 over 2021			2022 over 2021
Service revenue:						
Commissions	\$ 108,238	\$ 110,275	(2)%	\$ 361,016	\$ 343,584	5 %
Fees	85,689	68,607	25 %	268,906	220,037	22 %
Total service revenue	193,927	178,882	8 %	629,922	563,621	12 %
Inventory sales revenue	164,783	115,489	43 %	511,887	384,627	33 %
Total revenue	\$ 358,710	\$ 294,371	22 %	\$ 1,141,809	\$ 948,248	20 %
A&M service revenue as a % of total A&M revenue	54.1 %	60.8 %	(670)bps	55.2 %	59.4 %	(420)bps
Inventory sales revenue as a % of total A&M revenue	45.9 %	39.2 %	670 bps	44.8 %	40.6 %	420 bps
Costs of services	24,601	22,728	8 %	79,160	72,208	10 %
Cost of inventory sold	147,253	102,993	43 %	455,006	344,763	32 %
Selling, general and administrative	116,337	94,203	23 %	350,684	296,199	18 %
A&M segment expenses	288,191	219,924	31 %	884,850	713,170	24 %
Cost of inventory sold as a % of A&M expenses	51.1 %	46.8 %	430 bps	51.4 %	48.3 %	310 bps
A&M segment profit	\$ 70,519	\$ 74,447	(5)%	\$ 256,959	\$ 235,078	9 %
Total GTV	1,358,242	1,270,258	7 %	4,481,622	4,072,439	10 %
A&M service revenue as a % of total GTV - Rate	14.3 %	14.1 %	20 bps	14.1 %	13.8 %	30 bps

Gross Transaction Value

In response to COVID-19, in March 2020, we transitioned all our traditional onsite 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. In 2022, we began to return to live in-person onsite bidding at some of our auction events, offering both onsite and online bidding.

To facilitate the auction process, we have continued to enable equipment drop off at our physical yards, with buyers able to conduct inspections pre-auction and collect equipment post auction. In addition, we utilized Timed Auctioned Lots (“TAL”) solutions for nearly all our agricultural and International auctions and at several of our United States auction sites.

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

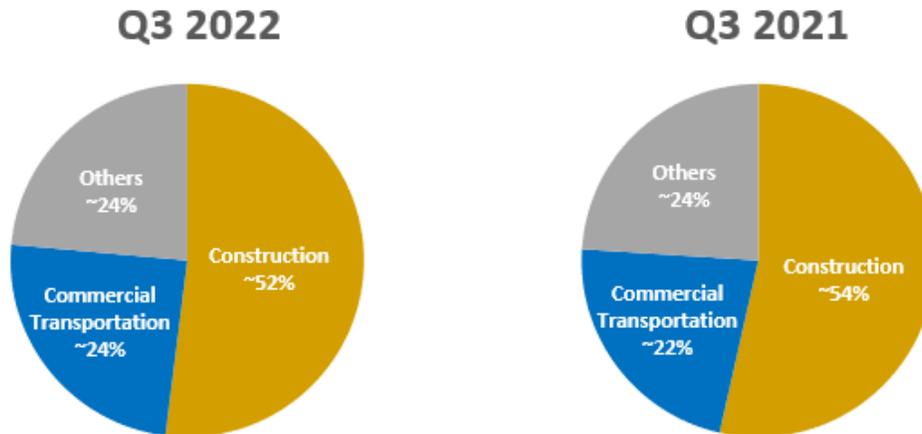
(in U.S. dollars \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change	2022	2021	% Change
			2022 over 2021			2022 over 2021
Total GTV by Geography						
United States	\$ 855,491	\$ 798,725	7 %	\$ 2,578,946	\$ 2,421,204	7 %
Canada	314,872	266,574	18 %	1,251,029	1,028,260	22 %
International	187,879	204,959	(8)%	651,647	622,975	5 %
Total GTV	\$ 1,358,242	\$ 1,270,258	7 %	\$ 4,481,622	\$ 4,072,439	10 %
Service GTV by Geography						
United States	\$ 753,203	\$ 761,483	(1)%	\$ 2,320,630	\$ 2,263,773	3 %
Canada	303,486	260,788	16 %	1,191,133	1,004,831	19 %
International	136,770	132,498	3 %	457,972	419,208	9 %
Total Service GTV ¹	\$ 1,193,459	\$ 1,154,769	3 %	\$ 3,969,735	\$ 3,687,812	8 %

GTV by Sector

The following pie charts illustrate the breakdown of total GTV by sector for the third quarter of 2022 compared to the third quarter of 2021.

The construction sector includes heavy equipment such as trucks, excavators, cranes and dozers. The commercial 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 the third quarter of 2022, total GTV mix compared to the third quarter of 2021 increased by 2 percentage points in the commercial transportation sector, offset by a 2 percentage point decrease in the construction sector.



Total Auction Metrics

	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>% Change 2022 over 2021</u>	<u>2022</u>	<u>2021</u>	<u>% Change 2022 over 2021</u>
Bids per lot sold *	29	26	12 %	28	27	4 %
Total lots sold *	125,661	107,825	17 %	375,595	372,290	1 %

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

The total number of bids per lot sold increased 12% to 29 in the third quarter of 2022 compared to the third quarter of 2021 and increased 4% to 28 for the first nine months of 2022, reflecting continued strong demand for used equipment from buyers in a tight supply market.

The total lots sold increased 17% to 125,661 in the third quarter of 2022 primarily driven by an increase in lot counts, as well as the shift to a higher proportion of high value lots sold in the United States. For the first nine months of 2022, the total lots sold increased 1%.

A&M revenue

Total A&M revenue increased 22% to \$358.7 million in the third quarter of 2022.

A&M revenue by geographical region are presented below:

(in U.S. dollars \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change 2022 over 2021	2022	2021	% Change 2022 over 2021
A&M Revenue by Geography						
United States						
Service revenue	\$ 128,749	\$ 120,391	7 %	\$ 394,938	\$ 356,779	11 %
Inventory sales revenue	102,288	37,242	175 %	258,316	157,431	64 %
A&M revenue - United States	231,037	157,633	47 %	653,254	514,210	27 %
Canada						
Service revenue	44,637	36,947	21 %	164,153	141,027	16 %
Inventory sales revenue	11,386	5,786	97 %	59,896	23,429	156 %
A&M revenue - Canada	56,023	42,733	31 %	224,049	164,456	36 %
International						
Service revenue	20,541	21,544	(5)%	70,831	65,815	8 %
Inventory sales revenue	51,109	72,461	(29)%	193,675	203,767	(5)%
A&M revenue - International	71,650	94,005	(24)%	264,506	269,582	(2)%
Total						
Service revenue	193,927	178,882	8 %	629,922	563,621	12 %
Inventory sales revenue	164,783	115,489	43 %	511,887	384,627	33 %
Total A&M revenue	\$ 358,710	\$ 294,371	22 %	\$ 1,141,809	\$ 948,248	20 %

United States

In the third quarter of 2022, service revenue increased 7% while service GTV decreased 1%. The increase in service revenue was primarily due to higher buyer fee rates implemented in early 2022. In addition, we saw higher fees on a higher proportion of low value lots, higher document fees from the harmonization of online document fees, and positive rate performances in our guarantee commission contracts. These increases were partially offset by softer straight commission rate performance due to a higher proportion of GTV sourced from strategic accounts.

For the first nine months of 2022, service revenue increased 11% while Service GTV increased 3% primarily due to higher buyer fee rates implemented in early 2022, and higher straight commission rates on a lower proportion of GTV sourced from strategic accounts. These increases were partially offset by lower buyer fees on a lower proportion of small value lots and lower fees associated with online inspections driven by lower online lot counts.

In the third quarter of 2022, inventory sales revenue increased 175% primarily due to higher volume of inventory selling through our strategic accounts in both the finance and rental sectors, and higher volumes sold at several of our auctions. We also saw increased volumes selling through our GovPlanet business from our non-rolling and rolling stock contracts.

For the first nine months of 2022, inventory sales revenue increased 64% primarily due to the same reasons as discussed above. In addition, we saw higher inventory sales revenue, driven by a large dispersal of construction equipment in our Phoenix, Arizona auction.

Canada

In the third quarter of 2022, service revenue increased 21%, primarily due to the 16% increase in Service GTV. The remaining increase was a result of higher buyer fee rates implemented in early 2022, partially offset by lower commissions from lower rates contributed by a higher proportion of GTV in RBFS.

For the first nine months of 2022, service revenue increased 16% while Service GTV increased 19%. Service revenue growth was lower than the increase in Service GTV primarily due to the impact of lower rates on GTV generated in RBFS, the non-repeat of several high performing guarantee contracts, as well as lower buyer fees on a lower proportion of small value lots. These were partially offset by an increase in fees primarily due to higher buyer fee rates implemented in early 2022.

In the third quarter of 2022, inventory sales revenue increased 97% primarily driven by higher performing inventory contracts mainly in the construction sector.

For the first nine months of 2022, inventory sales revenue increased 156% primarily for the same reason and from strong performances from two large inventory contracts in the commercial transportation sector.

International

In the third quarter of 2022, service revenue decreased 5% while Service GTV increased 3%. The decrease was primarily due to lower buyer fees in Europe and Australia as a result of discounts provided on fees in online transactions.

For the first nine months of 2022, service revenue increased 8% primarily in line with 9% increase in Service GTV.

In the third quarter of 2022, inventory sales revenue decreased 29% mainly due to softer year-over-year performances in Europe from the non-repeat of several contracts and a decreased number of private treaty transactions in Australia.

For the first nine months of 2022, inventory sales revenue decreased 5% primarily for the same reasons as discussed above. Offsetting these were strong performances in Australia from a higher amount of inventory sales and a few new auction events.

Costs of services

A&M costs of services increased 8% to \$24.6 million in the third quarter of 2022 compared to the third quarter of 2021 in line with total GTV increase of 7%.

For the first nine months of 2022, A&M costs of services increased 10% to \$79.2 million, primarily in line with total GTV increase of 10%. We incurred higher building, facilities and technology expenses to support our flagship Orlando event and other events, which returned to live in-person onsite bidding. We also incurred additional fees paid to third parties in connection with profit sharing arrangements on inventory contracts.

Cost of inventory sold

A&M cost of inventory sold increased 43% to \$147.3 million in the third quarter of 2022 compared to the third quarter of 2021 primarily in line with 43% increase in inventory sales revenue.

For the first nine months of 2022, A&M cost of inventory sold increased 32% to \$455.0 million primarily in line with the 33% increase in inventory sales revenue.

Selling, general and administrative

A&M selling, general and administrative increased 23% to \$116.3 million in the third quarter of 2022 compared to the third quarter of 2021. This increase was primarily due to higher short-term incentive expenses driven by strong performance. Building, facilities and technology costs also increased mainly due to the amortization of the right-of-use asset of the Bolton property from the sale and lease back arrangement completed in the first quarter of 2022, as well as higher costs as we shift to cloud-based solutions to improve customer experiences. Share-based payments also increased as a result of higher expense relating to share-based awards issued to senior executives, and higher expense from the premium-priced options and PSU's with market conditions granted in late 2021. In addition, we saw higher travel, advertising and promotion costs from increased activity in global travel, and higher marketing expenses to promote new initiatives. We also saw higher wages, salaries and benefits expenses, as well as higher headcount to accelerate our growth initiatives and our transformational journey to become a trusted global marketplace. Inflation has also driven higher personnel and travel costs. These increases were partially offset by a favourable impact of foreign exchange.

For the first nine months of 2022, A&M selling, general and administrative increased 18% to \$350.7 million primarily due to higher short-term incentive expenses, higher building, facilities and technology costs, higher share-based payments, higher wages, salaries and benefits expenses and higher travel, advertising and promotion for the same reasons as discussed above. We also saw higher professional fees driven by our investment in new modern architecture to support our future marketplace and services strategy.

Other Services Segment

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

(in U.S. dollars \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change 2022 over 2021	2022	2021	% Change 2022 over 2021
Service revenue	\$ 52,769	\$ 35,311	49 %	\$ 148,137	\$ 109,350	35 %
Ancillary and logistical service expenses	14,417	11,433	26 %	38,618	38,521	0 %
Other costs of services	2,503	947	164 %	7,797	3,546	120 %
Selling, general and administrative	16,856	12,305	37 %	53,393	34,108	57 %
Other services profit	\$ 18,993	\$ 10,626	79 %	\$ 48,329	\$ 33,175	46 %

In the third quarter of 2022, Other Services revenue increased 49% to \$52.8 million primarily due to higher RBFS revenues of \$5.3 million and SmartEquip of \$5.2 million, being the third full quarter revenue recognized since the acquisition on November 2, 2021. In addition, ancillary revenue increased \$4.2 million as a result of higher activity for value-added services and higher revenue from our Rouse business.

In the first nine months of 2022, Other Services revenue increased 35% to \$148.1 million primarily due to higher RBFS revenues of \$20.0 million, \$14.9 million of revenue from SmartEquip and \$3.2 million of revenue from Rouse.

Ancillary and logistical service expenses increased 26% to \$14.4 million in the third quarter of 2022, in line with higher ancillary revenue, and remained flat at \$38.6 million in the first nine months of 2022. Other costs of services increased 164% to \$2.5 million in the third quarter of 2022 and increased 120% to \$7.8 million in the first nine months of 2022 mainly due to the inclusion of SmartEquip since its acquisition on November 2, 2021. Selling, general and administrative increased 37% to \$16.9 million in the third quarter of 2022 and increased 57% to \$53.4 million in the first nine months of 2022, primarily due to the inclusion of SmartEquip, higher wages, salaries and benefits expenses due to the growth in our RBFS business, and higher headcount in Rouse to support our growth initiatives.

RBFS revenue increased 47% in the third quarter of 2022 and increased 62% in the first nine months of 2022, driven by higher funded volumes and improved rate on fees earned from facilitating financing arrangements. In the third quarter of 2022, our funded volume, which represents the amount of lending brokered by RBFS, increased 38% to \$243.7 million, and increased 43% when excluding the impact of foreign exchange. In the first nine months of 2022, our funded volume increased 49% to \$775.0 million, and increased 53% when excluding the impact of foreign exchange.

In the third quarter of 2022 and in the first nine months of 2022, Other Services profit increased 79% to \$19.0 million and increased 46% to \$48.3 million primarily driven by our RBFS business.

Additionally, in the first quarter of 2021, we launched a business version of our IMS, which offers our customers 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 2022, the number of organizations activated on our IMS increased by 42% compared to the second quarter of 2022.

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 2022, customers that used this service disposed of \$22.5 million of assets, which is a decrease of 33% from the third quarter of 2021 primarily driven by an unfavourable supply environment. For the first nine months of 2022, this service facilitated transactions of \$90.8 million, a 19% decrease as compared to the prior year for the same reason mentioned above.

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.

We believe that our existing working capital and availability under our credit facilities are sufficient to satisfy our present operating requirements and contractual obligations. Our material short-term cash requirements include (i) inventory purchases, (ii) capital expenditures for intangible assets and property, plant and equipment (iii) payment of quarterly dividends on an as-declared basis, (iv) settlement of contracts with consignors and other suppliers, (v) personnel expenditures, with a majority of bonuses paid annually in the first quarter following each fiscal period, (vi) income tax payments, primarily paid in quarterly installments, (vii) lease payments, and (viii) principal payments on short-term and current portions of long-term debt, (ix) interest payments related to our current debt obligations, and (x) any transaction costs related to the proposed acquisition of IAA. We also have inventory purchase commitments, related to our GovPlanet business, which is described in Note 23 of our consolidated financial statements.

During the first quarter of 2022, we completed the sale and leaseback of the Bolton property for a total sale consideration and net proceeds of approximately \$165.0 million. The proceeds from the sale were used to repay our revolving credit facilities. We have also leased back the Bolton property while we complete the acquisition and development of a replacement property and auction site located in Amaranth, Ontario over the next two to three years. We intend to fund the material cash requirement for the acquisition and development of the Amaranth property from cash flows from ongoing operations.

During the second quarter of 2022, as a result of the Company's decision to discontinue the phase 2 review by the United Kingdom's Competition and Markets Authority ("CMA"), the Company redeemed all of the 2021 Notes, which were held in escrow, at a redemption price equal to 100% of the original offering price of the notes, plus accrued and unpaid interest. As such, on May 4, 2022, the Company paid net proceeds of approximately \$931 million to its bondholders.

Other long-term cash requirements include long-term debt principal repayments, which are disclosed according to maturity date in Note 21 in our Annual Report on Form 10-K for the year ended December 31, 2021, as well as interest payments related to our non-current debt obligations. We are also committed under various letters of credit and provide certain guarantees in the normal course of business.

If we were to consider further acquisitions to deliver on our strategic growth drivers, we may seek financing through equity markets or additional debt markets. The issuance of equity securities may result in dilution to our shareholders. Issuance of preferred equity securities could provide for rights, preferences or privileges senior to those of our common stock. Further, this additional capital may not be available on reasonable terms, or at all.

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 debt. We believe our principal sources of liquidity, which include cash flow from operations, our current unused capacity under our revolving credit facilities of \$691 million, is sufficient to fund our current operating activities and future growth strategies.

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.

On November 7, 2022, we entered into the Merger Agreement providing for our acquisition of IAA. We have agreed to various covenants and agreements, including, among others, agreements to use reasonable best efforts to conduct our business in the ordinary course in all material respects between the execution of the Merger Agreement and the closing of the transaction and not to take certain actions described in the Merger Agreement. We do not believe that these provisions will prevent us from meeting our ongoing costs of operations, working capital needs or capital expenditure requirements. In addition, if the Merger Agreement is terminated in certain circumstances, we or IAA, as applicable, would be required to pay the other a termination fee of \$189 million.

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.

In connection with the proposed acquisition of IAA, on November 7, 2022, we entered into a Commitment Letter pursuant to which the Initial Lenders thereunder are committing to provide (i) the Backstop Revolving Facility and (ii) the Bridge Loan Facility. We expect to replace the Bridge Loan Facility prior to the closing of the acquisition of IAA with permanent financing, which may include the issuance of debt securities and/or one or more senior term loan facilities. Taking on additional indebtedness in connection with the proposed acquisition, as a result of the borrowings under the Bridge Loan Facility and/or other permanent financing that replaces such facility, would increase the cash outlays to service our debt in future periods.

Cash flows

(in U.S. dollars \$000's, except percentages)	Nine months ended September 30,		
	2022	2021	% Change
Cash provided by (used in):			
Operating activities	\$ 263,906	\$ 304,118	(13)%
Investing activities	108,340	(32,376)	(435)%
Financing activities	(1,194,004)	(103,256)	1,056 %
Effect of changes in foreign currency rates	(25,620)	(7,027)	265 %
Net (decrease) increase in cash, cash equivalents, and restricted cash	\$ (847,378)	\$ 161,459	(625)%

Net cash provided by operating activities decreased \$40.2 million in the first nine months of 2022, mainly due to lower cash inflows from the change in operating assets and liabilities, partially offset by the increase in our net income, which contributed to an increase in cash provided by operating activities. The reduction in cash inflow from the change in operating assets and liabilities arose primarily due to the timing, size and number of auctions. We also saw a net higher outflows for inventory purchases. These outflows were offset by the deferral of cash tax relating to the taxable gain portion on the sale of our Bolton property made in the first quarter of 2022 and lower-income tax payments as a result of timing of instalments. We also saw a positive net cash flow impact from prepaying in the fourth quarter of 2021 the first quarter of 2022 interest on the 2021 Notes held in escrow and from lower bonus payments.

Net cash provided by investing activities increased \$140.7 million in the first nine months of 2022. This increase was primarily due to the sale of our Bolton property for total net cash proceeds of approximately \$165.0 million, offset by an increase in purchases of property plant and equipment of \$19.2 million primarily as a result of the purchase of our Maltby auction site in the United Kingdom.

Net cash used in financing activities increased \$1.1 billion in the first nine months of 2022, primarily due to the \$931 million repayment of long-term debt as a result of the redemption of our 2021 Notes on May 4, 2022. We also made a \$164.0 million repayment of debt on our long-term revolving credit facilities from the proceeds from the sale of the Bolton property in the first quarter of 2022. In addition, we also saw higher dividends of \$9.1 million paid to our stockholders and lower proceeds of \$8.2 million from the exercise of stock options compared to the comparative period in 2021. Offsetting these, we had lower cash outflows in the third quarter ended September 30, 2021 when we paid \$5.6 million to acquire the remaining 25% membership interest in Xcria, LLC. We also saw positive impacts from lower withholding tax payments on the issuance of shares of \$5.3 million and lower net draws of \$5.1 million on our short-term debt compared to the comparative period in 2021.

Dividend information

We declared a dividend of \$0.25 per common share for each of the quarter ended September 30, 2021, December 31, 2021, and March 31, 2022. We declared a dividend of \$0.27 per common share for the quarter ended June 30, 2022. We have declared, but not yet paid, a dividend of \$0.27 per common share for the quarter ended September 30, 2022. All dividends that we pay are “eligible dividends” for Canadian income tax purposes unless indicated otherwise.

Return on average invested capital

During the quarter ended September 30, 2022, we updated our calculation of return on average invested capital (“ROIC”) and adjusted ROIC. Refer to the non-GAAP measures section below, specifically our Adjusted Return and Adjusted ROIC Reconciliation, for further information.

ROIC increased 680 bps to 17.0% for the twelve months period ending September 30, 2022 from 10.2% for the twelve months period ending September 30, 2021. This increase is primarily due to an increase in net income attributable to stockholders over the comparative period, mainly driven by the gain from the sale of the Bolton property. This increase was offset by a higher average invested capital over the comparative period as a result of the senior notes issued into escrow on December 21, 2021. Adjusted return

on average invested capital increased 100 bps to 15.8% during the twelve months ended September 30, 2022 compared to 14.8% in 2021, primarily due to a higher adjusted return as a result of higher operating income.

Credit facilities

We have a credit agreement which is comprised of multicurrency revolving facilities (the “Revolving Facilities”) and a delayed-draw term loan facility (the “DDTL Facility”, together with the Revolving Facilities, the “Facilities”). The credit agreement was most recently amended in September 2021, which, 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 \$1.0 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 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, the Company 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 earlier of when the remaining \$205.0 million is drawn or third quarter of 2022. The Company did not draw on the remaining \$205.0 million before it expired on June 28, 2022 and, therefore, mandatory principal repayments began in the third quarter of 2022. The principal payments are subject to an annual amortization rate of 5%, payable in quarterly installments, with the balance payable at maturity.

Credit facilities at September 30, 2022 and December 31, 2021 were as follows:

(in U.S. dollars \$000's, except percentages)	September 30, 2022	December 31, 2021	% Change
<i>Committed</i>			
DDTL Facility	\$ 84,848	\$ 298,284	(72)%
Revolving credit facilities	750,000	750,000	— %
<i>Uncommitted</i>			
Revolving credit facilities	10,000	10,000	— %
Total credit facilities	<u>\$ 844,848</u>	<u>\$ 1,058,284</u>	<u>(20)%</u>
<i>Unused</i>			
DDTL Facility	\$ —	\$ 205,000	(100)%
Revolving credit facilities	691,171	525,581	32 %
Total credit facilities unused	<u>\$ 691,171</u>	<u>\$ 730,581</u>	<u>(5)%</u>

Debt covenants

We were in compliance with all financial and other covenants applicable to our credit facilities at September 30, 2022.

Our ability to borrow under our syndicated revolving credit facility is subject to compliance with financial covenants of a consolidated leverage ratio and a consolidated interest coverage ratio. 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 evaluate courses of action to maintain current levels of liquidity and compliance with our debt covenants.

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 and related circumstances. At September 30, 2022, other than the estimates in accounting for the sale and leaseback transaction related to the sale of our Bolton property in the first quarter of 2022, as described below, 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, 2021, 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 October 1, 2021, we early adopted ASU 2021-08, Business Combinations (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The update primarily addresses the accounting for contract assets and contract

liabilities from revenue contracts with customers acquired in a business combination. An entity that early adopts in an interim period should apply the amendments (i) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (ii) prospectively to all business combinations that occur on or after the date of initial application. We have applied the amendments to the SmartEquip acquisition, which was completed on November 2, 2021.

Significant items subject to estimates and judgements during the nine month period ended September 30, 2022 were made in accounting for the completed sale and leaseback transaction of our Bolton property. We determined the following estimates in calculating the gain on sale: the present value of market rental payments of the Bolton property sold, the expected lease term in the leaseback arrangement and our incremental borrowing rate based on information available at the commencement date of the lease.

For a discussion of our new and amended accounting standards, refer to Note 2(b) 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.

Adjusted Operating Income Reconciliation

We believe that 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. Adjusted operating income enhances our ability to evaluate and understand ongoing operations, underlying business profitability, and facilitate the allocation of resources.

Adjusted operating income eliminates the financial impact of adjusting items from operating income, 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”.

In 2021, we updated the calculation of 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. We have also adjusted for certain non-recurring advisory, legal and restructuring costs. These adjustments have been applied retrospectively to all periods presented, as applicable.

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

(in U.S. dollars \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change 2022 over 2021	2022	2021	% Change 2022 over 2021
Operating income	\$ 63,954	\$ 53,619	19 %	\$ 388,659	\$ 187,638	107 %
Share-based payments expense	8,806	5,627	56 %	27,833	16,945	64 %
Acquisition-related costs	2,031	10,255	(80)%	15,067	16,226	(7)%
Amortization of acquired intangible assets	8,227	6,622	24 %	25,185	20,065	26 %
Loss (Gain) on disposition of property, plant and equipment and related costs	930	(1,068)	(187)%	(167,737)	(1,311)	12,695 %
Loss on redemption of the 2021 Notes and certain related interest expense	—	—	— %	9,664	—	100 %
Change in fair value of derivatives	—	—	— %	(1,263)	—	(100)%
Non-recurring advisory, legal and restructuring costs	1,494	680	120 %	4,873	920	430 %
Adjusted operating income	<u>\$ 85,442</u>	<u>\$ 75,735</u>	<u>13 %</u>	<u>\$ 302,281</u>	<u>\$ 240,483</u>	<u>26 %</u>

- (1) Please refer to pages 54-56 for a summary of adjusting items during the three and nine months ended September 30, 2022 and September 30, 2021.
- (2) Adjusted operating income represents operating income excluding the effects of adjusting items.

Adjusted Net Income Attributable to Stockholders and Diluted Adjusted EPS Attributable to Stockholders Reconciliation

We believe that 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. Diluted adjusted EPS attributable to stockholders eliminates the financial impact of adjusting items from net income attributable to stockholders 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”.

In 2021, we updated the calculation of diluted adjusted EPS attributable to stockholders to add-back certain adjustments that have been applied retrospectively to all periods presented, as applicable (refer to adjusted operating income reconciliation above).

The following table reconciles adjusted net income attributable to stockholders and 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 financial statements.

(in U.S. dollars \$000's, except share and per share data, and percentages)

	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change 2022 over 2021	2022	2021	% Change 2022 over 2021
Net income attributable to stockholders	\$ 42,909	\$ 32,336	33 %	\$ 274,368	\$ 121,273	126 %
Share-based payments expense	8,806	5,627	56 %	27,833	16,945	64 %
Acquisition-related costs	2,031	10,255	(80)%	15,067	16,226	(7)%
Amortization of acquired intangible assets	8,227	6,622	24 %	25,185	20,065	26 %
Loss (Gain) on disposition of property, plant and equipment and related costs	930	(1,068)	(187)%	(167,737)	(1,311)	12,695 %
Loss on redemption of the 2021 Notes and certain related interest expense	—	—	— %	9,664	—	100 %
Change in fair value of derivatives	—	—	— %	(1,263)	—	(100)%
Non-recurring advisory, legal and restructuring costs	1,494	680	120 %	4,873	920	430 %
Related tax effects of the above	(4,544)	(4,672)	(3)%	5,899	(13,798)	(143)%
Adjusted net income attributable to stockholders	\$ 59,853	\$ 49,780	20 %	\$ 193,889	\$ 160,320	21 %
Weighted average number of dilutive shares outstanding	112,209,535	111,391,396	1 %	111,858,095	111,333,247	0 %
Diluted earnings per share attributable to stockholders	\$ 0.38	\$ 0.29	31 %	\$ 2.45	\$ 1.09	125 %
Diluted adjusted earnings per share attributable to stockholders	\$ 0.53	\$ 0.45	18 %	\$ 1.73	\$ 1.44	20 %

- (1) Please refer to pages 54-56 for a summary of adjusting items during the three and nine months ended September 30, 2022 and September 30, 2021.
- (2) Adjusted net income attributable to stockholders represents net income attributable to stockholders excluding the effects of adjusting items.
- (3) Diluted adjusted EPS attributable to stockholders is calculated by dividing adjusted net income attributable to stockholders, net of the effect of dilutive securities, by the weighted average number of dilutive shares outstanding.

Adjusted EBITDA

We believe adjusted EBITDA provides useful information about the growth or decline of our net income when compared between different financial periods. We use adjusted EBITDA as a key performance measure because we believe it facilitates operating performance comparisons from period to period and it provides management with the ability to monitor its controllable incremental revenues and costs.

In 2021, we updated the calculation of adjusted EBITDA to add-back certain adjustments which have been applied retrospectively to all periods presented, as applicable (refer to adjusted operating income reconciliation above).

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

(in U.S. dollars \$000's, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change 2022 over 2021	2022	2021	% Change 2022 over 2021
Net income	\$ 42,924	\$ 32,357	33 %	\$ 274,436	\$ 121,277	126 %
Add: depreciation and amortization	24,290	21,907	11 %	72,813	64,912	12 %
Add: interest expense	9,199	8,807	4 %	48,348	26,620	82 %
Less: interest income	(1,827)	(375)	387 %	(3,242)	(1,009)	221 %
Add: income tax expense	14,697	13,057	13 %	72,564	42,541	71 %
EBITDA	89,283	75,753	18 %	464,919	254,341	83 %
Share-based payments expense	8,806	5,627	56 %	27,833	16,945	64 %
Acquisition-related costs	2,031	10,255	(80)%	15,067	16,226	(7)%
Loss (Gain) on disposition of property, plant and equipment and related costs	930	(1,068)	(187)%	(167,737)	(1,311)	12,695 %
Change in fair value of derivatives	—	—	— %	(1,263)	—	(100)%
Non-recurring advisory, legal and restructuring costs	1,494	680	120 %	4,873	920	430 %
Adjusted EBITDA	<u>\$ 102,544</u>	<u>\$ 91,247</u>	<u>12 %</u>	<u>\$ 343,692</u>	<u>\$ 287,121</u>	<u>20 %</u>

- (1) Please refer to pages 54-56 for a summary of adjusting items during the three and nine months ended September 30, 2022 and September 30, 2021.
- (2) Adjusted EBITDA is calculated by adding back depreciation and amortization, interest expense, income tax expense, and subtracting interest income from net income, as well as adding back share-based payments expense, acquisition-related costs, loss (gain) on disposition of property, plant and equipment, terminated and ongoing transaction costs, and excluding the effects of any non-recurring or unusual adjusting items.

Adjusted Net Debt and Adjusted Net Debt/Adjusted EBITDA Reconciliation

We believe that comparing adjusted net debt/adjusted EBITDA on a trailing twelve months 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 adjusted net debt to debt, adjusted EBITDA to net income, and adjusted net debt/ 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. dollars \$millions, except percentages)	As at and for the twelve months ended September 30,		
	2022	2021	% Change 2022 over 2021
Short-term debt	\$ 1.6	\$ 18.5	(91)%
Long-term debt	637.3	633.7	1 %
Debt	638.9	652.2	(2)%
Less: cash and cash equivalents	(438.8)	(362.6)	21 %
Adjusted net debt	200.1	289.6	(31)%
Net income	\$ 305.0	\$ 170.2	79 %
Add: depreciation and amortization	95.8	84.3	14 %
Add: interest expense	58.7	35.4	66 %
Less: interest income	(3.6)	(1.6)	125 %
Add: income tax expense	83.4	59.3	41 %
EBITDA	539.3	347.6	55 %
Share-based payments expense	34.0	21.5	58 %
Acquisition-related costs	29.0	22.2	31 %
Loss (Gain) on disposition of property, plant and equipment and related costs	(167.9)	(1.3)	12,815 %
Change in fair value of derivatives	—	—	— %
Non-recurring advisory, legal and restructuring costs	7.5	0.9	733 %
Adjusted EBITDA	\$ 441.9	\$ 390.9	13 %
Debt/net income	2.1 x	3.8 x	(45)%
Adjusted net debt/adjusted EBITDA	0.5 x	0.7 x	(29)%

- (1) Please refer to pages 54-56 for a summary of adjusting items during the trailing twelve months ended September 30, 2022 and September 30, 2021.
- (2) Adjusted EBITDA is calculated by adding back depreciation and amortization, interest expense, income tax expense, and subtracting interest income from net income, as well as adding back share-based payments expense, acquisition-related costs, loss (gain) on disposition of property, plant and equipment, terminated and ongoing transaction costs, and excluding the effects of any non-recurring or unusual adjusting items.
- (3) Adjusted net debt is calculated by subtracting cash and cash equivalents from short and long-term debt.
- (4) Adjusted net debt/Adjusted EBITDA is calculated by dividing adjusted net debt by adjusted EBITDA.

Operating Free Cash Flow (“OFCF”) Reconciliation

We believe OFCF, when compared on a trailing twelve months 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. dollars \$millions, except percentages)	Twelve months ended September 30,		
	2022	2021	% Change 2022 over 2021
Cash provided by operating activities	\$ 277.4	\$ 296.7	(7)%
Property, plant and equipment additions	29.1	11.4	155 %
Intangible asset additions	36.3	34.6	5 %
Proceeds on disposition of property plant and equipment	(165.4)	(1.8)	9,089 %
Net capital spending	\$ (100.0)	\$ 44.2	(326)%
OFCF	\$ 377.4	\$ 252.5	49 %

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

Adjusted Return and Adjusted ROIC Reconciliation

We believe that comparing adjusted ROIC on a trailing twelve months basis for different financial periods provides useful information about the after-tax return generated by our investments. Adjusted ROIC is a measure used by management to determine how productively the Company uses its long-term capital to gauge investment decisions.

Previously, we calculated ROIC as net income attributable to stockholders divided by average invested capital. During the quarter ended September 30, 2022, we updated our calculation of ROIC to better align to industry standards. ROIC is now calculated as reported return divided by average invested capital. Reported return is defined as net income attributable to stockholders excluding the impact of net interest expense, tax effected at the Company's adjusted annualized effective tax rate. We also updated the calculation of average invested capital to include average short term debt.

Similarly, we updated our calculation of adjusted ROIC. Adjusted ROIC is calculated as adjusted return divided by adjusted average invested capital. Adjusted return is defined as reported return, updated as noted above, and adjusted for items that we do not consider to be part of our normal operating results, tax effected at the applicable tax rate. Adjusted average invested capital is calculated as average invested capital, updated as noted above, but excludes any long-term debt in escrow.

These changes have been applied retrospectively to all periods presented, as applicable. Accordingly, the Company will no longer report adjusted ROIC excluding escrowed debt as one of our non-GAAP measures as previously labeled.

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

(in U.S. dollars \$millions, except percentages)	As at and for the twelve months ended September 30,		
	2022	2021	% Change 2022 over 2021
Net income attributable to stockholders	\$ 305.0	\$ 170.1	79 %
Add:			
Interest expense	58.7	35.4	66 %
Interest income	(3.6)	(1.6)	125 %
Interest, net	55.1	33.8	63 %
Tax on interest, net	(14.6)	(8.8)	66 %
Reported return	\$ 345.5	\$ 195.1	77 %
Add:			
Share-based payments expense	34.0	21.5	58 %
Acquisition-related costs	29.0	22.2	31 %
Amortization of acquired intangible assets	33.1	25.7	29 %
Loss (Gain) on disposition of property, plant and equipment and related costs	(167.9)	(1.3)	12,815 %
Non-recurring advisory, legal and restructuring costs	7.5	0.9	733 %
Related tax effects of the above	1.9	(20.0)	(110)%
Change in uncertain tax provision - tax effect	—	1.5	(100)%
Adjusted return	\$ 283.1	\$ 245.6	15 %
Short-term debt - opening balance	\$ 18.5	\$ 20.3	(9)%
Short-term debt - ending balance	1.6	18.5	(91)%
Average short-term debt	10.1	19.4	(48)%
Long-term debt - opening balance	633.7	632.6	0 %
Long-term debt - ending balance	637.3	633.7	1 %
Average long-term debt	635.5	633.2	0 %
Stockholders' equity - opening balance	1,061.9	959.5	11 %
Stockholders' equity - ending balance	1,238.8	1,061.9	17 %
Average stockholders' equity	1,150.4	1,010.7	14 %
Average invested capital	\$ 1,796.0	\$ 1,663.3	8 %
Adjusted average invested capital	\$ 1,796.0	\$ 1,663.3	8 %
ROIC	17.0 %	10.2 %	680 bps
Adjusted ROIC	15.8 %	14.8 %	100 bps

(1) Please refer to pages 54-56 for a summary of adjusting items during the trailing twelve months ended September 30, 2022 and September 30, 2021.

- (2) ROIC is calculated as net income attributable to stockholders divided by average invested capital. We calculate average invested capital as the average short-term, long-term debt and average stockholders' equity over a trailing twelve months period.
- (3) Adjusted ROIC is calculated as adjusted return divided by adjusted 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.

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

(in U.S. dollars \$millions, except percentages)	As at and for the twelve months ended									
	September 30 2022	June 30 2022	March 31 2022	December 31 2021	September 30 2021	June 30 2021	March 31 2021	December 31 2020	September 30 2020	
Net income attributable to stockholders	\$ 305.0	\$ 294.4	\$ 301.8	\$ 151.9	\$ 170.1	\$ 183.2	\$ 175.7	\$ 170.0	\$ 172.8	
Add:										
Interest expense	58.7	58.3	48.7	37.0	35.4	35.3	35.3	35.6	37.1	
Interest income	(3.6)	(2.2)	(1.6)	(1.4)	(1.6)	(1.7)	(1.8)	(2.3)	(3.1)	
Interest, net	55.1	56.1	47.1	35.6	33.8	33.6	33.5	33.3	34.0	
Tax on interest, net	(14.6)	(14.8)	(12.3)	(9.1)	(8.8)	(8.8)	(9.0)	(9.1)	(8.9)	
Reported return	\$ 345.5	\$ 335.7	\$ 336.6	\$ 178.4	\$ 195.1	\$ 208.0	\$ 200.2	\$ 194.2	\$ 197.9	
Add:										
Share-based payments expense	34.0	30.8	24.7	23.1	21.5	24.4	23.3	21.9	17.6	
Acquisition-related costs	29.0	37.3	36.9	30.2	22.2	12.0	8.9	6.0	-	
Amortization of acquired intangible assets	33.1	31.5	29.9	28.0	25.7	24.1	22.2	21.1	21.0	
Loss (Gain) on disposition of property, plant and equipment and related costs	(167.9)	(169.9)	(171.2)	(1.4)	(1.3)	(0.5)	(1.6)	(1.6)	(1.6)	
Change in fair value of derivatives	-	-	-	1.2	-	-	-	-	-	
Non-recurring advisory, legal and restructuring costs	7.5	6.6	5.8	3.5	0.9	4.2	3.9	3.9	3.9	
Related tax effects of the above	1.9	1.8	3.2	(20.3)	(20.0)	(23.3)	(23.7)	(20.5)	(17.2)	
Change in uncertain tax provision - tax effect	-	-	-	-	1.5	1.5	7.8	7.8	6.2	
Adjusted return	\$ 283.1	\$ 273.8	\$ 265.9	\$ 242.7	\$ 245.6	\$ 250.4	\$ 241.0	\$ 232.8	\$ 227.8	
Short-term debt - opening balance	\$ 18.5	\$ 35.2	\$ 25.9	\$ 29.1	\$ 20.3	\$ 22.0	\$ 33.1	\$ 4.7	\$ 5.8	
Short-term debt - ending balance	1.6	8.6	22.1	6.1	18.5	35.2	25.9	29.1	20.3	
Average short-term debt	10.1	21.9	24.0	17.6	19.4	28.6	29.5	16.9	13.1	
Long-term debt - opening balance	633.7	636.5	636.7	636.7	632.6	632.0	630.5	645.5	689.3	
Long-term debt - ending balance	637.3	644.4	1,582.0	1,737.4	633.7	636.5	636.7	636.7	632.6	
Less: long-term debt in escrow	-	-	(939.8)	(933.5)	-	-	-	-	-	
Adjusted ending long-term debt	637.3	644.4	642.2	803.9	633.7	636.5	636.7	636.7	632.6	
Average long-term debt	635.5	640.5	1,109.4	1,187.1	633.2	634.3	633.6	641.1	661.0	
Adjusted average long-term debt	635.5	640.5	639.5	720.3	633.2	634.3	633.6	641.1	661.0	
Stockholders' equity - opening balance	1,061.9	1,056.3	1,005.5	1,007.2	959.5	899.1	839.8	901.8	838.2	
Stockholders' equity - ending balance	1,238.8	1,244.1	1,225.0	1,070.7	1,061.9	1,056.3	1,005.5	1,007.2	959.5	
Average stockholders' equity	1,150.4	1,150.2	1,115.3	1,039.0	1,010.7	977.7	922.7	954.5	898.9	
Average invested capital	\$ 1,796.0	\$ 1,812.6	\$ 2,248.7	\$ 2,243.7	\$ 1,663.3	\$ 1,640.6	\$ 1,585.8	\$ 1,612.5	\$ 1,573.0	
Adjusted average invested capital	\$ 1,796.0	\$ 1,812.6	\$ 1,778.8	\$ 1,776.9	\$ 1,663.3	\$ 1,640.6	\$ 1,585.8	\$ 1,612.5	\$ 1,573.0	
ROIC	17.0 %	16.2 %	13.4 %	6.8 %	10.2 %	11.2 %	11.1 %	10.5 %	11.0 %	
Adjusted ROIC	15.8 %	15.1 %	14.9 %	13.7 %	14.8 %	15.3 %	15.2 %	14.4 %	14.5 %	

- (1) Please refer to pages 54-56 for a summary of adjusting items during the trailing twelve months for each quarter presented above.
- (2) ROIC is calculated as net income attributable to stockholders divided by average invested capital. We calculate average invested capital as the average short-term, long-term debt and average stockholders' equity over a trailing twelve months period.
- (3) Adjusted ROIC is calculated as adjusted return divided by adjusted 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

In 2021, we began adjusting for share-based payment expenses, amortization of acquired intangible assets and all gains or losses on disposition of property, plant and equipment, which we did not consider to be part of our normal operating results. These adjustments in 2021 have been applied retrospectively to all periods presented.

Adjusting items during the trailing twelve months ended September 30, 2022 were:

Recognized in the third quarter of 2022

- \$8.8 million share based payments expense.
- \$2.0 million of acquisition-related costs primarily relating to the share-based continuing employment costs for the acquisitions of Rouse and SmartEquip.
- \$8.2 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet, SmartEquip, and Rouse.
- \$0.9 million loss on disposition of property, plant and equipment and related costs includes a \$1.3 million non-cash cost in the quarter relating to the adjustment made to recognize the Bolton property sale proceeds at fair value when calculating the \$169.0 million gain on the Bolton property in the first quarter of 2022, offset by \$0.3 million gain on disposition of property, plant and equipment in the quarter.
- \$1.5 million of non-recurring advisory, legal and restructuring costs, which include \$1.1 million of terminated and ongoing transaction and legal costs relating to mergers and acquisition activity, \$0.3 million of severance and retention costs in connection with the restructuring of our information technology team during the first quarter of 2022, driven by our strategy to build a new digital technology platform, and \$0.1 million of advisory costs relating to a cybersecurity incident detected in the fourth quarter of 2021.

Recognized in the second quarter of 2022

- \$13.6 million share based payments expense.
- \$3.4 million of acquisition-related costs related to the proposed acquisition of Euro Auctions and the completed acquisitions of SmartEquip and Rouse.
- \$8.4 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet, SmartEquip, and Rouse.
- \$1.2 million gain on disposition of property, plant and equipment and related costs includes a \$1.3 million non-cash cost in the quarter relating to the adjustment made to recognize the Bolton property sale proceeds at fair value when calculating the \$169.0 million gain on the Bolton property in the first quarter of 2022, and \$0.1 million gain on disposition of property, plant and equipment in the quarter.
- \$9.7 million loss on redemption of the 2021 Notes and certain related interest expense includes (a) \$4.8 million of loss on redemption of the 2021 Notes due to a difference between the reacquisition price of the 2021 Notes and the net carrying amount of the extinguished debt (primarily the write off of the unamortized debt issuance costs), (b) \$0.7 million of deferred debt issuance costs written off due to the expiry of the undrawn \$205.0 million DDTL Facility in the quarter, and (c) non-recurring interest expense of \$4.2 million incurred in the quarter relating to the 2021 Notes, which were redeemed as a result of the discontinued Euro Auctions acquisition in April 2022.
- \$1.1 million of non-recurring advisory, legal and restructuring costs, which include \$0.6 million of terminated and ongoing transaction and legal costs relating to mergers and acquisition activity, \$0.3 million of severance and retention costs in connection with the restructuring of our information technology team driven by our strategy to build a new digital technology platform, and \$0.2 million of advisory costs relating to a cybersecurity incident detected in the fourth quarter of 2021.

Recognized in the first quarter of 2022

- \$5.4 million share based payments expense.
- \$8.5 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet, SmartEquip, and Rouse.
- \$169.8 million gain recognized on the disposition of property, plant and equipment of which \$169.1 million related to the sale of a property located in Bolton, Ontario.
- \$9.6 million of acquisition-related costs related to the proposed acquisition of Euro Auctions and the completed acquisitions of SmartEquip and Rouse.
- \$1.3 million gain due to the change in fair value of derivatives to manage our exposure to foreign currency exchange rate fluctuations on the purchase consideration for the proposed acquisition of Euro Auctions.
- \$2.3 million of non-recurring advisory, legal and restructuring costs, which include \$0.9 million related to severance and retention costs in connection with the restructuring of our information technology team driven by our strategy to build a new digital technology platform, \$0.5 million of terminated and ongoing transaction and legal costs relating to mergers and acquisition activity, \$0.4 million of SOX remediation costs, and \$0.6 million of advisory costs relating to a cybersecurity incident detected in the fourth quarter of 2021.

Recognized in the fourth quarter of 2021

- \$6.2 million share based payments expense.
- \$7.9 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet, SmartEquip, and Rouse.
- \$14.0 million of acquisition-related costs related to the proposed acquisition of Euro Auctions and the completed acquisitions of SmartEquip and Rouse.
- \$0.1 million gain recognized on the disposition of property, plant and equipment
- \$1.3 million loss due to the change in fair value of derivatives to manage our exposure to foreign currency exchange rate fluctuations on the purchase consideration for the proposed acquisition of Euro Auctions.
- \$2.6 million of non-recurring advisory, legal and restructuring costs, which include \$1.4 million of terminated and ongoing transaction and legal costs relating to mergers and acquisition activity, \$0.7 million of SOX remediation costs relating to our efforts to remediate the material weaknesses identified in 2020, and \$0.5 million of advisory costs relating to a cybersecurity incident detected in the fourth quarter of 2021.

Adjusting items during the trailing twelve months ended September 30, 2021 were:

Recognized in the third quarter of 2021

- \$5.6 million share based payments expense.
- \$6.6 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet and Rouse.
- \$10.3 million of acquisition-related costs related to the acquisitions of Rouse, and SmartEquip and proposed acquisition of Euro Auctions.
- \$1.1 million gain recognized on the sale of a property in Denver, Colorado.
- \$0.7 million of non-recurring advisory, legal and restructuring costs related to SOX remediation costs relating to our efforts to remediate the material weaknesses identified in 2020, which has been retrospectively applied to the third quarter of 2021.

Recognized in the second quarter of 2021

- \$7.5 million share based payments expense.
- \$6.8 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet and Rouse.
- \$3.0 million of acquisition-related costs related to the acquisition of Rouse.
- \$0.2 million gain recognized on the disposition of property, plant and equipment
- \$0.2 million of non-recurring advisory, legal and restructuring costs related to SOX remediation costs relating to our efforts to remediate the material weaknesses identified in 2020, which has been retrospectively applied to the second quarter of 2021.

Recognized in the first quarter of 2021

- \$3.8 million share based payments expense.
- \$6.6 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet and Rouse.
- \$2.9 million of acquisition-related costs related to the acquisition of Rouse.

Recognized in the fourth quarter of 2020

- \$4.6 million share based payments expense.
- \$5.6 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet and Rouse.
- \$6.0 million of acquisition-related costs related to the acquisition of Rouse.
- \$1.5 million of current income tax expense recognized related to an unfavourable adjustment to reflect final regulations published in the second quarter of 2020 regarding hybrid financing arrangements.

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, 2022 from those disclosed in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2021, 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, 2022. 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 of September 30, 2022, the disclosure controls are 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 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.

On November 2, 2021, the Company completed the acquisition of SmartEquip. SEC guidance permits management to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition. The Company is in the process of incorporating SmartEquip into its system of internal control over financial reporting. SmartEquip’s total assets and revenues constituted 7.0% and 1.3%, respectively, of the Company’s total assets and revenues as shown in its consolidated financial statements for the three month period ended September 30, 2022.

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, 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.