

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 may include, among others, statements relating to:

- our future strategy, objectives, targets, projections and performance;
- potential growth and market opportunities;
- potential future mergers and acquisitions;
- our ability to integrate acquisitions (including IAA, Inc. ("IAA"));
- 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, 2022, and in "Part II, Item 1A: Risk Factors" of our quarterly report on Form 10-Q for the period ended March 31, 2023, which are available on our website at <https://investor.rbglobal.com>, on EDGAR at www.sec.gov, or on SEDAR at www.sedar.com, are among those that we consider may affect our performance materially or could cause our actual financial and operational results to differ significantly from our expectations. Except as required by applicable securities law and regulations of relevant securities exchanges, we do not intend to update publicly any forward-looking statements, even if our expectations have been affected by new information, future events or other developments.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles ("US GAAP"). Except for Gross Transaction Value ("GTV")¹, which is a measure of operational performance and not a measure of financial performance, liquidity, or revenue, the amounts discussed below are based on our consolidated financial statements.

Unless otherwise indicated, all amounts in the following tables are in millions, except share and per share amounts.

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 U.S. 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 U.S. GAAP financial measures are included either with the first use thereof or in the Non-GAAP Measures section within this document (refer to pages 49-55).

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

Overview

RB Global, Inc., formerly known as Ritchie Bros. Auctioneers Incorporated and its subsidiaries (collectively referred to as the “RB Global”, 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 for commercial assets, used equipment, automotive and other assets. Our expertise, unprecedented global reach, market insights, and trusted portfolio of brands provide us with a unique position within the asset resale market.

Through our unreserved and reserved auctions, online marketplaces, listings, and private brokerage services, we sell a broad range of primarily used commercial and industrial assets, vehicles as well as government surplus assets. Construction and commercial transportation assets and vehicles comprise the majority of the assets sold based on GTV dollar value, though we sell a wide variety of assets. Customers selling equipment through our sales channels include end users (such as construction companies), insurance companies, vehicle and equipment dealers, fleet lease companies, original equipment manufacturers (“OEMs”) and other asset owners (such as rental companies). Our customers participate in a variety of sectors, including construction, commercial transportation, automotive, 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 asset services and solutions. Our other services include equipment financing, asset appraisals and inspections, online equipment listing, transportation and logistical services, and ancillary services such as equipment refurbishment, towing, and title and liens processing. 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 vehicle merchandising, asset lifecycle management and 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 13 countries, including the United States, Canada, the United Kingdom, Australia, the United Arab Emirates, and the Netherlands, and maintain a presence in 42 countries where customers can sell from their own yards. In addition, with the acquisition of IAA, we now employ more than 7,900 full-time employees worldwide.

Recent Developments

Acquisition of IAA

On March 20, 2023, we completed the acquisition of IAA, a leading global digital marketplace connecting vehicle buyers and sellers with operations throughout the United States, Canada, and the United Kingdom. IAA facilitates the marketing and sale of total loss, damaged and low-value vehicles for a full spectrum of sellers, including insurance companies, dealerships, fleet lease and rental car companies and charitable organizations. Additionally, IAA serves a global buyer base with vehicles, vehicle rebuild requirements, replacement part inventory or scrap demand.

On November 7, 2022, we entered into an Agreement and Plan of Merger and Reorganization with IAA, which was subsequently amended on January 22, 2023 (the “Merger Agreement”). Pursuant to the terms of the Merger Agreement, IAA stockholders received \$12.80 per share in cash and 0.5252 shares of the Company for each share of IAA common stock they owned (the “Exchange Ratio”). As such, we paid approximately \$1.7 billion in cash consideration and issued 70.3 million shares of its common stock. In addition, we repaid approximately \$1.2 billion of IAA’s net debt, including repayment of outstanding principal and associated accrued interest and prepayment costs under IAA’s credit agreement, and \$500.0 million principal amount of IAA’s senior notes, at a redemption price equal to 102.75% of the principal amount plus accrued and unpaid interest.

Further information regarding the transaction is described in “Item 1 – Financial Statements: Note 5 Business Combinations.”

We expect that the acquisition of IAA will accelerate our journey to become the trusted global marketplace for insights, services and transaction solutions, as well as diversify our customer base by providing us with a significant presence in the automotive vertical, an industry with strong fundamentals and proven secular growth. We expect that the combination will accelerate our growth and strategic vision to create a next-generation global marketplace for commercial assets and vehicles, supported by advanced technologies and data analytics. Additionally, our management team has extensive experience in the automotive and insurance ecosystem, which we expect will help shape the customer experience going forward. With enhanced scale and an expanded addressable market, we expect to be able to drive additional GTV growth through our platforms and auction sites, in turn generating more insights for our customers and expanding the adoption of our other high-margin tech-enabled services.

Acquisition of VeriTread

On January 3, 2023, we acquired a majority interest in VeriTread LLC (“VeriTread”), a leading transportation technology company that provides an online marketplace solution for open deck transport, connecting shippers and service providers. We acquired 8,889,766 units of VeriTread for approximately \$25.2 million cash consideration from its existing unitholders and acquired another 1,056,338 units for \$3.0 million cash. As a result, we increased our investment in VeriTread from 11% to 75% and obtained control of VeriTread, pursuant to an amended operating agreement on January 18, 2023.

VeriTread adds to our suite of services, supporting the needs of equipment owners throughout the equipment lifecycle by integrating transportation solutions directly into our new marketplace technology. We expect that the acquisition, in combination with our satellite yards, will allow us to further scale and accelerate our hybrid marketplace model through increased capacity optimization and seamless customer experiences.

Series A Senior Preferred Shares

In January 2023, the Company entered into a securities purchase agreement with Starboard Value LP and certain affiliates (together, “Starboard”) pursuant to which Starboard agreed to purchase \$485.0 million of participating preferred stock convertible into common shares of the Company at an initial conversion price of \$73.00 per share (“Series A Senior Preferred Shares”), and \$15.0 million of common shares of the Company. The transaction closed on February 1, 2023.

The Series A Senior Preferred Shares carry an initial 5.5% preferred dividend, which is payable quarterly, and are entitled to participate on an as-converted basis in the Company’s regular quarterly common share dividends, subject to a \$0.27 per share per quarter floor. Holders will have the right to increase the preferred dividend on the fourth and ninth anniversary of the issue date, and upon any such dividend demand increase the Company will have the right to redeem all or any portion of the Series A Senior Preferred Shares then outstanding at a price equal to 100% of the face amount, plus any accrued and unpaid dividends thereon. This right is subject to certain conditions, and upon 45 days’ notice to the holder from the Company.

Impact of Inflation on Our Business

While inflation rates continue to slow across our major geographic regions globally, we continue to experience elevated costs across our business operations as a result of inflation in 2023.

Service Offerings

We offer our customers multiple distinct, complementary, multi-channel brand solutions that address the range of their buying and selling needs for equipment, vehicles and other types of assets. Our global customer base has a variety of transaction options, breadth of services, and the widest selection of used assets available to them. For a complete listing of channels and brand solutions available subsequent to the acquisitions of IAA and VeriTread, please refer to our quarterly report on Form 10-Q for the period ended March 31, 2023, which is available on our website at <https://investor.rbglobal.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 on our onsite and online marketplaces for selling used equipment or vehicles, which include:

- Straight commission contracts, where the consignor receives the gross proceeds from the sale less a pre-negotiated commission rate;
- Fixed commission contracts, where the consignor receives the gross proceeds from the sale less a pre-negotiated fixed commission fee;
- Guarantee commission 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 and vehicles convenient for our customers, including refurbishment services such as repair, paint and make-ready services, and parts services to connect equipment owners with parts manufacturers, inspection and appraisals, financial services through Ritchie Bros. Financial Services

("RBFS") and loan payoff services through IAA, end-to-end transportation and logistics services, as well as other services such as insights, data intelligence, performance benchmarking solutions, and title and liens processing. We offer equipment listing services under the RitchieList brand in North America and Mascus brand in Europe to make private selling more efficient and safer for customers, including a secure transaction management service, complete with invoicing. We also provide an innovative technology platform that supports customers' vehicle merchandising, manages the asset life cycle and integrates procurement with both original equipment manufacturers ("OEM") and dealers.

Seasonality

Our operations are both seasonal and event driven and can fluctuate from quarter to quarter. The volume of assets sold through our auctions and marketplaces is driven by the supply of assets available for sale, as well as changes in severe weather conditions. During the third quarter, supply of assets is generally low as commercial and transportation equipment is actively being used and mild weather conditions and decreases in traffic volume can contribute to a decline in available supply of vehicles.

Revenue Mix Fluctuations

Our revenue is comprised of service revenue and inventory sales revenue. Service revenue includes: (1) commissions where a pre-negotiated commission or fixed fee is earned from our consignors or sellers, (2) buyer fees earned at our auctions, online marketplaces, and private brokerage services, and (3) marketplace services fees earned from various services provided to buyers and sellers, which include ancillary, parts, data, towing, logistics, inspection, appraisal, online listing, financing and title and liens processing services, as well as auction-related services such as documentation and title search services. Inventory sales revenue relates to revenue earned through our inventory contracts and is recognized at the GTV of the assets sold, with the related cost recognized in cost of inventory sold.

Our revenue can fluctuate significantly, depending on the mix of sales arrangements completed during each period. Completed straight commission, fixed commission or guarantee commission contracts result in the commission being recognized as service revenue based on a percentage of gross transaction value or based on a fixed value, while completed inventory contracts result in the full GTV of the assets sold being recorded as inventory sales revenue. As a result, a change in the revenue mix between service revenue and revenue from inventory sales can have a significant impact on our revenue growth percentages.

Performance Overview and Consolidated Results

Net income available to common stockholders for the third quarter of 2023 increased 28% to \$54.7 million, compared to \$42.9 million income for the third quarter of 2022. Diluted earnings per share ("EPS") available to common stockholders decreased 21% to \$0.30 per share in the third quarter of 2023 as compared to \$0.38 per share in the third quarter of 2022. Diluted adjusted EPS available to common stockholders increased 36% to \$0.72 per share in the third quarter of 2023 compared to \$0.53 per share in the third quarter of 2022.

For the third quarter of 2023, as compared to the third quarter of 2022:

- Total GTV increased 185% to \$3.9 billion mainly due to the inclusion of \$2.2 billion from IAA.
- Total revenue increased 148% to \$1.0 billion, mainly due to the inclusion of \$557.4 million from IAA.
 - Service revenue increased 214% to \$773.8 million, mainly due to the inclusion of \$478.3 million from IAA.
 - Inventory sales revenue increased 49% to \$246.0 million, mainly due to the inclusion of \$79.1 million from IAA.
- Net income increased 47% to \$63.2 million.
- Adjusted EBITDA increased 179% to 285.8 million.
- Cash on hand was \$559.2 million, of which \$428.3 million was unrestricted.

Other Company Developments

- In October 2023, the Company, along with Nations Capital, LLC ("Nations"), received bankruptcy court approval to be the agent and liquidator of Yellow Corporation's transportation assets. The Company and Nations intend to utilize the expansive footprint of RB Global to manage the relocation, transportation, refurbishment, inventory, storage and sale of the rolling stock assets, including approximately 60,000 units of trucks, trailers and miscellaneous equipment located across the United States and Canada at over 300 terminal locations. The Company and Nations intend to implement a multi-faceted sales strategy, including private treaty and strategic bulk sales, as well as live and fully digital formats.
- In October 2023, the Company received notice from one of IAA's customers, which comprised approximately 4% of GTV, 5% of lot volumes and 3% of total consolidated revenues on an annual run-rate basis, that they would be shifting their assignment volume away from IAA. We expect the assignment volume shift to begin in the fourth quarter of 2023, with the majority of the impact on revenues beginning in the first quarter of 2024.

Results of Operations

The following table summarizes key components of our results of operations for the periods indicated:

(in U.S. dollars in millions, except EPS and percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over 2022			2023 over 2022
Commissions	\$ 211.0	\$ 108.2	95 %	\$ 574.8	\$ 361.0	59 %
Buyer fees	457.6	74.5	514 %	1,062.2	237.1	348 %
Marketplace services revenue	105.2	64.0	64 %	286.4	179.9	59 %
Total service revenue	773.8	246.7	214 %	1,923.4	778.0	147 %
Inventory sales revenue	246.0	164.8	49 %	715.3	511.9	40 %
Total revenue	1,019.8	411.5	148 %	2,638.7	1,289.9	105 %
Costs of services	316.8	41.5	663 %	680.5	125.6	442 %
Cost of inventory sold	230.0	147.3	56 %	673.4	455.0	48 %
Selling, general and administrative	203.5	133.2	53 %	546.2	404.1	35 %
Acquisition-related and integration costs	23.1	2.0	1,055 %	195.6	15.1	1,195 %
Total operating expenses	874.5	348.3	151 %	2,342.6	1,072.6	118 %
Gain on disposition of property, plant and equipment	0.5	0.3	67 %	4.4	170.5	(97)%
Operating income	145.8	63.5	130 %	300.5	387.8	(23)%
Net income	63.2	42.9	47 %	121.8	274.4	(56)%
Net income available to common stockholders	54.7	42.9	28 %	99.1	274.4	(64)%
Adjusted net income available to common stockholders	132.7	59.8	122 %	351.5	194.0	81 %
Adjusted EBITDA	285.8	102.5	179 %	725.4	343.7	111 %
Diluted earnings per share available to common stockholders	\$ 0.30	\$ 0.38	(21)%	\$ 0.61	\$ 2.45	(75)%
Diluted adjusted earnings per share available to common stockholders	\$ 0.72	\$ 0.53	36 %	\$ 2.16	\$ 1.73	25 %
Effective tax rate	26.8 %	25.5 %	130bps	27.6 %	20.9 %	670bps
Total GTV	\$ 3,875.4	\$ 1,358.2	185 %	\$ 9,918.6	\$ 4,481.6	121 %
Service GTV	3,629.4	1,193.5	204 %	9,203.3	3,969.7	132 %
Total service revenue take rate	20.0 %	18.2 %	180bps	19.4 %	17.4 %	200bps
Inventory GTV	246.0	164.8	49 %	715.3	511.9	40 %
Inventory return	\$ 16.0	\$ 17.5	(9)%	\$ 41.9	\$ 56.9	(26)%
Inventory rate	6.5 %	10.6 %	(410)bps	5.9 %	11.1 %	(520)bps

The following table presents the selected results of RBA and IAA.

(in U.S. dollars in millions)	Three months ended September 30, 2023			Nine months ended September 30, 2023		
	RBA	IAA	Total	RBA	IAA *	Total
Commissions	\$ 124.6	\$ 86.4	\$ 211.0	\$ 389.3	\$ 185.5	\$ 574.8
Buyer fees	95.8	361.8	457.6	286.8	775.4	1,062.2
Marketplace services revenue	75.1	30.1	105.2	225.3	61.1	286.4
Total service revenue	295.5	478.3	773.8	901.4	1,022.0	1,923.4
Inventory sales revenue	166.9	79.1	246.0	539.6	175.7	715.3
Total revenue	\$ 462.4	\$ 557.4	\$ 1,019.8	\$ 1,441.0	\$ 1,197.7	\$ 2,638.7
Service GTV	\$ 1,506.5	\$ 2,123.0	\$ 3,629.4	\$ 4,619.3	\$ 4,584.0	\$ 9,203.3
Inventory GTV	166.9	79.0	246.0	539.6	175.7	715.3
Total GTV	1,673.4	2,202.0	3,875.4	5,158.9	4,759.7	9,918.6
Total service revenue take rate	17.7 %	21.7 %	20.0 %	17.5 %	21.5 %	19.4 %

* Includes financial results of IAA in our consolidated financial statements during the three- and nine-month periods ending September 30, 2023 since its acquisition on March 20, 2023.

Total GTV

Total GTV increased 185% to \$3.9 billion in the third quarter of 2023 and increased 121% to \$9.9 billion in the first nine months of 2023, of which IAA accounted for 88% of the increases in each period. Excluding IAA, total GTV increased 23% to \$1.7 billion in the third quarter of 2023 and increased 15% to \$5.2 billion in the first nine months of 2023.

In the third quarter of 2023, total GTV increased year-over-year, partly driven by the inclusion of IAA. IAA contributed \$2.2 billion, or 57%, of total GTV, generating strong volumes in the automotive sector primarily across North America. Excluding IAA, the increase in total GTV was driven by higher lot volumes primarily from rental and transportation customers as supply chain has continued to normalize, partially offset by lower prices and an unfavorable asset mix. Total GTV increased across all regions, most notably in the United States where we saw strong execution by both our strategic accounts and regional sales teams generating positive year-over-year performances at our regional events. In Canada, we also saw improved year-over-year performances at our auction events, benefiting from higher performance from our regional sales team, as well as increased imports from Asia Pacific. In International, GTV increased mainly due to the favorable impact of foreign exchange, primarily in Europe.

For the first nine months of 2023, total GTV increased year-over year, mainly due to the inclusion of GTV from IAA since its acquisition on March 20, 2023. IAA contributed \$4.8 billion, or 48%, of total GTV during the first nine months of 2023. Excluding IAA, GTV increased mainly in the United States for the same reasons as discussed above, as well as from the additional of several new auction events. In Canada, GTV increased driven by positive year-over-year performances at our auction events, mainly in the oil and gas sector, as well as for the same reasons as discussed above, partially offset by an unfavorable foreign exchange impact. In International, GTV increased mainly due to the favorable impact of foreign exchange in Australia, offset by the unfavorable impact of foreign exchange in Europe.

Total Revenue

Total revenue increased 148% to \$1.0 billion in the third quarter of 2023, with total service revenue increasing by 214% and inventory sales revenue increasing by 49%. IAA contributed \$557.4 million, or 55% of total revenues in the third quarter of 2023. Excluding IAA, total revenue increased 12% to \$462.4 million for the third quarter of 2023, with total service revenue increasing by 20% and inventory sales revenue increasing by 1%.

Total revenue increased 105% to \$2.6 billion in the first nine month of 2023, with total service revenue increasing by 147% and inventory sales revenue increasing by 40%. IAA contributed \$1.2 billion, or 45% of total revenue in the first nine months of 2023 since its acquisition on March 20, 2023. Excluding IAA, total revenue increased 12% to \$1.4 billion for the first nine months of 2023, with total service revenue increasing by 16% and inventory sales revenue increasing by 5%.

Commissions include revenue earned from consignors or sellers from the sale of assets from straight, fixed or guarantee commission contracts. Buyer fees include buyer fees earned from purchasers on the sale of inventory or consigned equipment. Marketplace services revenue includes fees earned from value-added services provided to customers such as refurbishment, parts, data, transportation and logistics, inspection, appraisals, online listing, financing and title and liens processing.

Foreign currency fluctuation also had an unfavorable impact on our revenues on a year-to-date basis, primarily due to the depreciation of the Canadian dollar and the Australian dollar relative to the U.S. dollar.

Service Revenue

Service revenue is comprised of commissions earned on Service GTV, buyer fees earned on total GTV, as well as revenues earned from our marketplace services.

In the three and nine months ended September 30, 2023, Service GTV increased 204% to \$3.6 billion and 132% to \$9.2 billion, respectively, primarily due to the inclusion of IAA and particularly in the United States region in the automotive, rental and transportation sectors.

In the third quarter of 2023, total service revenue increased 214% in line with higher Service GTV, with buyer fees increasing 514%, commissions increasing 95%, and marketplace services revenue increasing 64%.

Buyer fees increased 514%, higher than the 185% increase in total GTV, mainly due to higher buyer fee rates with the inclusion of IAA. In the third quarter of 2023, IAA contributed \$361.8 million, or 79%, of total buyer fees, driven by volume growth and higher buyer fee rates. Excluding IAA, we also saw higher buyer fees due to minimum buyer fee rate increases implemented in early 2023.

Commissions revenue increased 95%, less than the 204% increase in Service GTV mainly due to the inclusion of IAA, as IAA earns lower commission rates on Service GTV through its fixed fee commission contracts with its consignors. In addition, we saw softer guarantee rate performances in the United States, as well as softer straight commission rate performances in both the United States and Canada, mainly from higher volumes sold by our strategic accounts teams.

Marketplace services revenue increased 64% in the third quarter of 2023 driven by the inclusion of IAA, which contributed 73% of the increase and primarily included auction-related buyer services and subscription fees, salvage in-bound towing services, as well as title and liens processing fees. Excluding IAA, we saw higher marketplace services revenue from higher document fees driven by document fee rate increases implemented in early 2023, as well as from the harmonization of document fee rates in our online marketplaces. Further increases were driven by higher online listing fee rates in the United States and the inclusion of transportation services revenue from VeriTread.

For the first nine months of 2023, total service revenue increased 147%, in line with higher Service GTV, with buyer fees increasing 348%, marketplace services revenue increasing 59%, and commissions increasing 59%. Buyer fees increased 348%, higher than the 121% increase in total GTV, mainly due to higher volumes and higher buyer fee rates with the inclusion of IAA. Excluding IAA, buyer fees grew higher than total GTV driven by higher minimum buyer fee rates and a higher proportion of lower value lots primarily in the United States. Marketplace services revenue increased 59% mainly for the same reasons as discussed above. Commissions revenue increased 59%, less than the 132% increase in Service GTV, mainly for the same reasons as discussed above. In addition, in Canada, we saw softer straight commission rate performances on several large contracts in the oil and gas sector, which were made strategically to continue to remain competitive.

Inventory Sales Revenue

In the third quarter of 2023, inventory sales revenue increased 49% primarily due to the inclusion of IAA, which contributed 97% of the increase. Excluding IAA, inventory sales revenue was slightly higher, with increases in the United States and Canada, mainly in the construction sector. In International, we saw lower inventory sales activity, particularly in Australia, partly due to a shift in its revenue mix.

For the first nine months of 2023, inventory sales revenue increased 40% mainly due to the inclusion of IAA, which contributed 86% of the increase. Excluding IAA, the United States saw higher inventory sales revenue driven by increased volume of inventory packages, partly sourced from our strategic accounts team, as well as from the addition of several new auction events. Despite volume growth, we also saw softer price realization on various inventory packages. In International, in Australia, we saw softer year-over-year performances primarily for the same reasons as discussed above, as well as an event from prior year which did not repeat.

Costs of Services

For the three and nine months ended September 30, 2023, costs of services increased 663% to \$316.8 million and 442% to \$680.5 million, respectively, of which IAA accounted for 84% and 77%, respectively. Cost of services for IAA includes direct expenses at auction yards which conduct regular weekly events, employee compensation expenses, building and facility costs including operating lease costs for auction sites, as well as costs to provide title, search and towing services to buyers. Excluding IAA, in the third quarter of 2023, we saw higher cost of services in line with total GTV growth, which included higher employee compensation expenses, higher advertising and travel costs to support higher activity, including on-site customer events, as well as higher transportation costs from the inclusion of VeriTread since its acquisition in the beginning of 2023. For the first nine month of 2023, we saw higher costs from our ancillary services, in line with higher ancillary revenue, as well as higher cost of services for the same reasons as discussed above.

Cost of Inventory Sold

For the three and nine months ended September 30, 2023, inventory rate decreased to 6.5% from 10.6% and to 5.9% from 11.1%, respectively, mainly driven by unfavorable pricing conditions, particularly in North America, where prices declined faster than anticipated between the purchase and sale date of inventory.

For the three and nine months ended September 30, 2023, cost of inventory sold increased 56% to \$230.0 million and 48% to \$673.4 million, respectively, while inventory sales revenue increased 49% and 40%, respectively. Cost of inventory sold increased at a higher rate than the increase in inventory sales revenue as a result of softer performances on our inventory contracts driven by a higher proportion of inventory packages with unfavorable pricing conditions, primarily in North America, offset by higher inventory rates due to the inclusion of IAA.

Selling, General and Administrative

In the third quarter of 2023, selling, general and administrative expenses increased 53% to \$203.5 million mainly due to the inclusion of IAA, which contributed 86% of the increase and mainly relates to employee compensation expenses, technology costs and professional fees. Excluding IAA, the remaining increase was primarily driven by higher employee compensation costs due to higher severance and settlement costs relating to the departure of certain former executives and an increase in headcount to support our sales and operations and certain strategic growth initiatives. Share-based payments expense also increased due to the increase in the fair value of share awards and the timing of grants. We also saw higher building, facilities and technology costs as we continue to shift to modernized payment solutions and cloud-based solutions to improve customer and employee experiences. These increases were partially offset by lower incentive-based compensation expense.

For the first nine months of 2023, selling, general and administrative expenses increased 35% to \$546.2 million, primarily due to the inclusion of IAA, which contributed 79% of the increase. Excluding IAA, the increase was mainly due to higher employee compensation expenses and building, facilities and technology costs, as discussed above. We also saw higher travel, advertising and promotion costs from increased activity in global travel, particularly within the sales group, higher marketing costs to promote new sales initiatives, higher costs for meetings and conferences with customers, as well as higher share-based payments expense as discussed above. These increases were partially offset by lower incentive-based compensation expense.

Acquisition-related and Integration Costs

For the three and nine months ended September 30, 2023, acquisition-related and integration costs increased 1,055% to \$23.1 million and 1,195% to \$195.6 million, respectively, primarily given the significant investment banking, consulting, legal and financing costs incurred to effect the acquisition of IAA. We also incurred severance costs to employees of the combined business as a result of restructuring and integrating the various business functions since the acquisition, including severance costs to certain key executives of IAA. In addition, we incurred integration costs, primarily with third-party advisors and consultants, to support our integration activities and achieve our cost synergies. During Q2 2023, for the benefit of the combined business, we also recorded a net \$16.3 million expense as settlement for the termination of a non-compete agreement bound by IAA prior to the acquisition.

Operating Income

For the third quarter of 2023, operating income increased 130% to \$145.8 million, primarily driven by the inclusion of operating income from IAA. We also saw higher flow through from higher service revenue, partially offset by higher cost of services and selling, general and administrative expenses, as discussed above. In connection with the acquisition of IAA, we also saw higher

depreciation and amortization driven by amortization of the acquired intangible assets and higher acquisition-related and integration costs, as discussed above.

For the first nine months of 2023, operating income decreased 23% primarily driven by the \$169.1 million gain on the Bolton property in the first quarter of 2022 that did not recur in the current period. Operating income increased 43% when excluding the impact of the gain, primarily due to flow through from higher revenue offset by higher acquisition-related and integration costs, higher depreciation and amortization and higher selling, general and administrative expenses, as discussed above.

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 2023, income tax expense increased by 57% to \$23.1 million and our effective tax rate increased 130 bps to 26.8% as compared to the third quarter of 2022. For the first nine months of 2023, income tax expense decreased 36% to \$46.5 million, and our effective tax rate increased 670 bps to 27.6% as compared to the nine months of 2022.

The increase in the effective tax rate for the third quarter of 2023 was primarily due to higher tax expense related to tax uncertainties. Partially offsetting this increase was a higher estimated benefit related to Foreign-Derived Intangible Income ("FDII").

The increase in the effective tax rate for the first nine months of 2023 compared to the first nine months of 2022 was primarily due an increase in the estimate of non-deductible expenses and the non-recurrence of the non-taxable gain portion on the sale of a parcel of land including all buildings in Bolton, Ontario. Partially offsetting these increases were a higher estimated benefit related to FDII, and a higher tax deduction for performance share unit and restrictive share unit expenses that exceeded the related compensation expenses.

Net Income

In the third quarter of 2023, net income attributable to controlling interests increased 47% to \$63.4 million primarily driven by an increase in operating income, partially offset by higher interest expense from higher debt to fund the acquisition of IAA and a rise in interest rates, as well as the increase in the income tax expense driven by the higher effective tax rate as discussed above.

For the first nine months of 2023, net income attributable to controlling interests decreased 56% to \$122.2 million, mainly due to higher interest expense as discussed above, and a decrease in operating income. This decrease in net income was partially offset by an income tax benefit due to a higher effective tax rate, as discussed above.

Diluted EPS

Diluted EPS available to common stockholders decreased 21% to \$0.30 per share and decreased 75% to \$0.61 per share for the three and nine months ended September 30, 2023, respectively. The decreases in both periods were primarily due to the increase in the number of shares issued for the acquisition of IAA, partially offset by the increases in net income as described above.

In February 2023, we issued \$485.0 million of Series A Senior Preferred Shares and \$15.0 million of common shares to Starboard. As the preferred equity is considered a participating security, we calculate diluted EPS using the two-class method, which includes the effects of the assumed conversion of the Series A Senior Preferred Shares to common shares, as well as the effect of any shares issuable under the Company's stock-based incentive plans, if such effect is dilutive. Under this method, earnings are allocated to holders of common stock and preferred stock based on dividends declared and their respective participation rights in undistributed earnings. As a result, our net income available to common stockholders is lower by the cumulative dividends and allocated earnings to Series A Senior Preferred shareholders.

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 operating income increased 193% to \$248.9 million in the third quarter of 2023.

Adjusted net income available to common stockholders increased 122% to \$132.7 million in the third quarter of 2023.

Diluted adjusted EPS available to common stockholders increased 36% to \$0.72 per share in the third quarter of 2023.

Adjusted EBITDA increased 179% to \$285.8 million in the third quarter of 2023.

Refer to the non-GAAP measures section below on pages 49-55 for further information.

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	2023	2022	% Change 2023 over 2022
Period-end exchange rate - September 30,			
Canadian dollar	0.7365	0.7227	2 %
Euro	1.0581	0.9801	8 %
British pound sterling	1.2198	1.1162	9 %
Australian dollar	0.6429	0.6398	— %
Average exchange rate - Three months ended September 30,			
Canadian dollar	0.7455	0.7666	(3)%
Euro	1.0886	1.0081	8 %
British pound sterling	1.2662	1.1774	8 %
Australian dollar	0.6546	0.6837	(4)%
Average exchange rate - Nine months ended September 30,			
Canadian dollar	0.7432	0.7798	(5)%
Euro	1.0839	1.0655	2 %
British pound sterling	1.2441	1.2591	(1)%
Australian dollar	0.6690	0.7075	(5)%

In the third quarter of 2023, foreign exchange had an unfavorable impact on total revenue and a favorable impact on expenses when compared to the prior year quarter. These impacts were primarily due to the fluctuations in the Canadian dollar, and Australian 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.

Total service revenue take rate: Total service revenue divided by total GTV.

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

Inventory rate: Inventory return divided by inventory sales revenue.

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."

Historically, we reported total lots sold excluding lots sold in our GovPlanet business. Commencing in the first quarter of 2023, as a result of a change in management organizational structure and the acquisition of IAA, management reviews all auction metrics of the combined businesses as a whole, which includes GovPlanet. In addition, the total bids per lot sold metric was historically used by management as a key metric. This metric has been discontinued since the first quarter of 2023 as it is no longer considered meaningful when reviewing the auction metrics of the combined business and of our one reportable segment.

We believe it is meaningful to consider revenue in relation to GTV. Total GTV and revenue by geography are presented below, along with comparative periods.

GTV by Geography

(in U.S. dollars in millions, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over 2022			2023 over 2022
Total GTV by Geography						
United States	\$ 3,047.6	\$ 855.4	256 %	\$ 7,360.0	\$ 2,579.0	185 %
Canada	540.9	314.9	72 %	1,723.0	1,251.0	38 %
International	286.9	187.9	53 %	835.6	651.6	28 %
Total GTV	\$ 3,875.4	\$ 1,358.2	185 %	\$ 9,918.6	\$ 4,481.6	121 %

Service GTV by Geography

United States	\$ 2,910.4	\$ 753.2	286 %	\$ 6,970.7	\$ 2,320.6	200 %
Canada	516.2	303.5	70 %	1,645.1	1,191.1	38 %
International	202.8	136.8	48 %	587.5	458.0	28 %
Total Service GTV ¹	\$ 3,629.4	\$ 1,193.5	204 %	\$ 9,203.3	\$ 3,969.7	132 %

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

Revenue by Geography

(in U.S. dollars in millions, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over 2022			2023 over 2022
United States						
Service revenue	\$ 630.1	\$ 155.8	304 %	\$ 1,494.0	\$ 463.1	223 %
Inventory sales revenue	137.1	102.3	34 %	387.5	258.3	50 %
Total revenue - United States	767.2	258.1	197 %	1,881.5	721.4	161 %
Canada						
Service revenue	102.0	63.5	61 %	305.6	223.7	37 %
Inventory sales revenue	24.8	11.4	118 %	77.8	59.9	30 %
Total revenue - Canada	126.8	74.9	69 %	383.4	283.6	35 %
International						
Service revenue	41.7	27.4	52 %	123.8	91.2	36 %
Inventory sales revenue	84.1	51.1	65 %	250.0	193.7	29 %
Total revenue - International	125.8	78.5	60 %	373.8	284.9	31 %
Total						
Service revenue	773.8	246.7	214 %	1,923.4	778.0	147 %
Inventory sales revenue	246.0	164.8	49 %	715.3	511.9	40 %
Total revenue	\$ 1,019.8	\$ 411.5	148 %	\$ 2,638.7	\$ 1,289.9	105 %

United States

In the third quarter of 2023, service revenue increased 304% primarily due to a 286% increase in Service GTV, driven mainly from the inclusion of IAA, as well as higher volumes primarily from strong execution by our strategic accounts and regional sales teams. The majority of the contribution from IAA was primarily driven by higher buyer fees, as well as fixed fee commissions earned from the sale of vehicles. Excluding IAA, we saw an increase in buyer fees driven by total GTV growth, and an increase in minimum buyer fee rates implemented in early 2023, as well as higher buyer fees earned from a higher proportion of low value lots. Marketplace service revenue also increased driven by higher document fees from fee rate increases implemented in early 2023 and the harmonization of document fees in our online marketplaces implemented in Q4 2022. In addition, we saw higher online listing fees from higher activity and higher revenue from the inclusion of VeriTread from its acquisition in the beginning of 2023. These increases were partially offset by softer guarantee and straight commission rate performances partly due to a higher proportion of GTV sourced from our strategic accounts team.

For the first nine months of 2023, service revenue increased 223% while Service GTV increased 200%, primarily for the same reasons as discussed above. In addition, we saw higher fees from our ancillary services in line with higher GTV volume, and growth in our Rouse and SmartEquip businesses.

In the third quarter of 2023, inventory sales revenue increased 34% primarily due to the inclusion of IAA, which contributed 87% of the increase. Excluding IAA, we saw a higher volume of inventory contracts in the construction sector partially offset by softer performances due to declining pricing.

For the first nine months of 2023, inventory sales revenue increased 50% partly due to the inclusion of IAA, which contributed 48% of the increase. Excluding IAA, we saw a higher volume of inventory contracts, partly sourced from our strategic accounts team, and from the addition of several new auction events. Despite volume growth, we also saw softer rate performances on various inventory contracts and the non-repeat of a large inventory package dispersal of construction equipment.

Canada

In the third quarter of 2023, service revenue increased 61%, while Service GTV increased 70%. Service revenue increased mainly from the inclusion of IAA, which contributed 85% of the increase with lower commission rates on Service GTV. Excluding IAA, we saw softer straight and guarantee commission rate performances primarily due to higher GTV sourced from our strategic accounts, and lower marketplace service revenue from our RBFS business due to tightening of lending requirements. These decreases were partially offset by higher buyer fees from minimum buyer fee rate increases, higher document fees from rate increases and the harmonization of document fees in our online marketplaces, as well as higher ancillary service fees.

For the first nine months of 2023, service revenue increased 37% in line with the increase in Service GTV of 38%.

In the third quarter of 2023, inventory sales revenue increased 118%, primarily due to the inclusion of IAA.

For the first nine months of 2023, inventory sales revenue increased 30% primarily due to the inclusion of IAA and partially offset by softer year-over-year performances on several large inventory packages due to a decline in pricing.

International

For the three and nine months ended September 30, 2023, service revenue increased 52%, primarily in line with the 48% increase in Service GTV, and increased 36% primarily due to the 28% increase in Service GTV, respectively. This increase was mainly driven by the inclusion of IAA. Excluding IAA, we also saw higher fees from the increased activity in our ancillary services and from minimum buyer fee rates increases.

In the third quarter of 2023, inventory sales revenue increased 65%, mainly driven by the inclusion of IAA, which contributed 114% of the increase, partially offset by a lower volume of inventory contracts mainly in Australia driven partly by softer-year-over-year performances, as well as from a shift in revenue mix.

For the first nine months of 2023, inventory sales revenue increased 29% primarily for the same reasons as discussed above. In addition, in Australia, we also saw lower inventory sales revenue due to the non-repeat of a prior year auction event.

GTV by Sector

The following table illustrates the breakdown of total GTV by sector for the three and nine months ended September 30, 2023 compared to the same periods in 2022.

The automotive sector includes all consumer automotive vehicles. The commercial construction and transportation sector includes heavy equipment such as excavators, dozers, lift and material handling, vocational and commercial trucks and trailers. The other sector primarily includes assets and equipment sold in the agricultural, forestry and energy industries, and government surplus assets, as well as smaller consumer recreational transportation items. All sectors include salvage and non-salvage transactions.

(in U.S. dollars in millions, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over 2022			2023 over 2022
Automotive	\$ 2,058.6	\$ 46.8	4,299 %	\$ 4,498.1	\$ 138.0	3,159 %
Commercial construction and transportation	1,353.6	1,000.9	35 %	4,025.9	3,183.2	26 %
Other	463.2	310.5	49 %	1,394.6	1,160.4	20 %
	<u>\$ 3,875.4</u>	<u>\$ 1,358.2</u>	<u>185 %</u>	<u>\$ 9,918.6</u>	<u>\$ 4,481.6</u>	<u>121 %</u>

In the third quarter of 2023, total GTV compared to the third quarter of 2022 increased by 4,299% in the automotive sector, due to the inclusion of IAA. GTV increased by 35% in the commercial construction and transportation sector mainly in the United States, primarily driven by volumes sourced from our strategic accounts and regional sales teams, partially offset by lower selling prices and an unfavorable asset mix. GTV increased 49% in the other sector mainly driven by an increase in sales volume in smaller consumer items.

For the first nine months of 2023, total GTV compared to the first nine months of 2022 increased by 3,159% in the automotive sector, 26% in the commercial construction and transportation sector, and 20% in the other sectors primarily for the same reasons as discussed above.

Total Lots Sold by Sector

The following table illustrates the breakdown of total lots sold by sector for the three and nine months ended September 30, 2023, compared to the same periods in 2022.

(in '000's of lots sold, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over 2022			2023 over 2022
Automotive	555.4	5.3	10,379 %	1,217.0	15.2	7,907 %
Commercial construction and transportation	86.6	45.4	91 %	227.6	132.5	72 %
Other	125.3	99.7	26 %	373.5	298.7	25 %
	<u>767.3</u>	<u>150.4</u>	<u>410 %</u>	<u>1,818.1</u>	<u>446.4</u>	<u>307 %</u>

In the third quarter of 2023, the total lots sold compared to the third quarter of 2022 increased by 10,379% in the automotive sector due to the inclusion of lots sold from IAA. Total lots sold increased by 91% and 26% in the commercial construction and transportation sector and other sector, respectively, in part driven by the inclusion of IAA and from a higher proportion of low value lots sold primarily in the United States.

For the first nine months of 2023, the total lots sold compared to the first nine months of 2022 increased by 7,907% in the automotive sector, 72% in the commercial construction and transportation sector and 25% in the other sector primarily for the same reasons as discussed above.

Debt

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”), and the Term Loan A facility (the “TLA Facility” and together with the Revolving Facilities and DDTL Facility, the “Facilities”).

In connection with the IAA acquisition, the Company entered into a debt commitment letter with certain financial institutions that committed to provide, subject to the terms and conditions, a bridge loan facility in an aggregate principal amount of up to \$2.8 billion and a backstop revolving facility in an aggregate principal amount of up to \$750.0 million. The Company subsequently amended the terms of its Credit Agreement which, among other things, permitted the acquisition of IAA and served to terminate the backstop commitments (including the revolving backstop facility and \$88.9 million of bridge commitments that served as a backstop for its existing term loans under the credit agreement) and replaced an additional \$1.8 billion of bridge commitments with the TLA Facility.

The Credit Agreement was amended in December 2022, which, among other things, (i) permitted the proposed merger with IAA, (ii) provided commitments for the TLA Facility in an aggregate principal amount of up to \$1.8 billion to be used to finance, in part, the IAA acquisition, and (iii) provided the Company the ability to borrow up to \$200.0 million of the Revolving Facilities under the Credit Agreement on a limited conditionality basis to finance, in part, the IAA acquisition.

On March 20, 2023, with the acquisition of IAA, the TLA Facility of \$1.8 billion was funded. The TLA Facility is comprised of a facility denominated in US dollars (“USD TLA Facility”) and a facility denominated in Canadian dollars (“CAD TLA Facility”). The Company’s existing DDTL Facility of CAD \$115.9 million was refinanced and converted to the CAD TLA Facility, an alternative currency term rate loan. On June 30, 2023, we repaid \$100.0 million of principal as permitted by the Credit Agreement, \$22.8 million of which was mandatory and \$77.2 million of which was voluntary.

Credit facilities at September 30, 2023 and December 31, 2022 were as follows:

(in U.S. dollars in millions, except percentages)	September 30, 2023	December 31, 2022	% Change
<i>Committed</i>			
DDTL Facility	\$ —	\$ 85.5	(100)%
Term Loan A Facility (denominated in Canadian dollars)	82.1	—	100 %
Term Loan A Facility (denominated in US dollars)	1,725.0	—	100 %
Revolving credit facilities	750.0	750.0	— %
<i>Uncommitted</i>			
Revolving credit facilities	10.0	10.0	— %
Total credit facilities	\$ 2,567.1	\$ 845.5	204 %
<i>Unused</i>			
Revolving credit facilities	740.1	709.8	4 %
Total credit facilities unused	\$ 740.1	\$ 709.8	4 %

Revolving Credit Facilities

At September 30, 2023, of the \$760.0 million in revolving credit facilities, \$750.0 million relates to our syndicated credit facility and \$10.0 million relates to credit facilities in certain foreign jurisdictions.

On September 30, 2023, we had \$740.1 million of unused revolving credit facilities, which consisted of:

- \$730.1 million under our Credit Agreement that expires on September 21, 2026;
- \$5.0 million under a foreign credit facility that expires on October 27, 2023; and
- \$5.0 million under a foreign demand credit facility that has no maturity date.

Term Loan Facility

The amendment to the Credit Agreement made in September 2021 (i) extended the maturity date of the Facilities from October 27, 2023 to September 21, 2026, (ii) increased the total size of the Facilities provided under the Credit Agreement to up to \$1.045 billion, including \$295.0 million of commitments under the DDTL Facility, (iii) reduced the applicable margin for base rate loans and LIBOR loans at each pricing tier level, (iv) reduced the applicable percentage per annum used to calculate the commitment fee in respect of the unused commitments under the Facilities at each pricing tier level, and (v) included customary provisions to provide for the eventual replacement of LIBOR as a benchmark interest rate. Under the terms of the September 2021 amendment, mandatory principal repayments began in the third quarter of 2022 and were subject to an annual amortization rate of 5%, payable in quarterly installments, with the balance payable at maturity. The remaining \$205.0 million commitment under the DDTL Facility was not drawn and accordingly expired on June 28, 2022. We did not make any voluntary prepayments to our drawn DDTL in 2022.

On March 20, 2023, under the terms of the December 2022 amendment to the Credit Agreement, with the close of the acquisition of IAA, certain amended terms became effective. Specifically, the Credit Agreement amendment (i) increased the total size of the Facilities provided under the Credit Agreement to up to \$2.7 billion, including \$1.9 billion of commitments under the TLA Facility, (ii) increased the appropriate margin for base rate loans, and SOFR loans at each pricing tier level, and (iii) increased the applicable percentage per annum used to calculate the various fees such as the commitment fees and letter of credit fees under the Facilities at each pricing tier level. In addition, on March 20, 2023, the Company converted its existing CAD DDTL Facility into the CAD TLA Facility, which continues to be subject to an annual amortization rate of 5% payable in quarterly installments, with the balance also payable at maturity. Under the amended terms, mandatory principal repayments on the USD TLA Facility began in the second quarter of 2023 and are subject to quarterly installments of 1.25% of the \$1.8 billion principal amount outstanding with the balance payable at maturity.

Senior Secured and Unsecured Notes

At December 31, 2022, we had senior unsecured notes (the “2016 Notes”) outstanding that were to expire on January 15, 2025 for an aggregate principal amount of \$500.0 million, bearing an interest rate of 5.375% per annum. The proceeds of the offering of the 2016 Notes were used to finance the IronPlanet acquisition. The 2016 Notes were redeemed on March 20, 2023 at 100.0% of the original offering price of the notes, plus accrued and unpaid interest. The Company expensed the unamortized debt issue costs of \$3.3 million in interest expense in the consolidated income statement during the first quarter of 2023.

On March 15, 2023, to finance the acquisition of IAA, we completed the offering of two series of senior notes: (i) \$550.0 million aggregate principal amount of 6.750% senior secured notes due March 15, 2028 and (ii) \$800.0 million aggregate principal amount of 7.750% senior unsecured notes due March 15, 2031 (together the “2023 Notes”).

On December 21, 2021, we completed the offering of two series of senior notes: (i) \$600.0 million aggregate principal amount of 4.750% senior notes due December 15, 2031 and (ii) \$425.0 million Canadian dollar aggregate principal amount of 4.950% due December 15, 2029 (together the “2021 Notes”). On May 4, 2022, the Company redeemed all of the 2021 Notes at a redemption price equal to 100% of the original offering price of the notes, plus accrued and unpaid interest as the proposed Euro Auctions Acquisition was not completed.

Debt Covenants

We were in compliance with all financial and other covenants applicable to our credit facilities at September 30, 2023.

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.

Liquidity and Capital Resources

On March 20, 2023, the Company closed the acquisition of IAA for total fair value consideration of \$6.6 billion. This included cash consideration of \$1.7 billion and repayment of approximately \$1.2 billion of IAA's debt, which was not legally assumed as part of the transaction. The acquisition was funded through a combination of cash from our balance sheet, proceeds of \$1.8 billion from the TLA Facility and proceeds from the completed offering of the 2023 Notes. As we repaid IAA's net debt at acquisition, which included all borrowings under its existing credit agreement and senior notes, IAA was acquired debt-free. During the first quarter of 2023, we also completed the acquisition of VeriTread and paid \$28.2 million cash consideration.

On February 1, 2023, we issued \$485.0 million Series A Senior Preferred Shares, a participating security, convertible into common shares at a price of \$73.00 per share and \$15.0 million of common shares to Starboard.

In addition, we redeemed our 2016 Notes of \$500.0 million principal at 100.0% of its original offering price, plus accrued and unpaid interest at the closing of the IAA acquisition.

Our short-term cash requirements include (i) payment of quarterly dividends to common shareholders on an as-declared basis, and payment of participating dividends and preferential dividends to preferred equity holders, (ii) settlement of contracts with consignors and other suppliers, (iii) personnel expenditures, with a majority of bonuses paid annually in the first quarter following each fiscal year, (iv) income tax payments, primarily paid in quarterly installments, (v) payments on short-term debt and long-term debt, (vi) payment of amounts committed under certain service agreements to build our modern IT architecture, (vii) payments on our operating and finance lease obligations, (viii) other capital expenditures and working capital needs, and (ix) advances. In the current rising interest rate environment, the Company intends to continue to evaluate and pursue the most financially beneficial arrangements to fund future capital expenditures, which may include lease agreements or cash purchases.

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 long-term cash requirements include scheduled principal repayments of long-term debt relating to the TLA Facility of \$1.8 billion and the 2023 Notes of \$1.4 billion, repayment of any drawn funds under our revolving credit facilities, as well as scheduled repayments of operating and finance lease obligations relating to the Company's commercial leases for various auctions sites, branches and offices, operating leases for computer equipment, software, motor vehicles and small office equipment, and finance lease arrangements for certain vehicles, computers, yard equipment, fixtures, and office furniture. For more information on our debt and leases, see "Item 1 – Financial Statements: Note 16 Debt" and "Item 1 – Financial Statements: Note 19 Leases," respectively, in our consolidated financial statements.

Cash provided by operating activities can fluctuate significantly from period to period. 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, our net capital spending¹, and repayments of debt. We are also committed under various letters of credit and provide certain guarantees in the normal course of business. We believe our principal sources of liquidity, which include cash flow from operations and our unused capacity under our revolving credit facilities of \$740.1 million, is sufficient to fund our current and planned operating activities.

Most of the financial institutions IAA utilizes place a temporary hold on the availability of funds deposited for up to two business days, resulting in the deposited cash being unavailable for use until the temporary hold is lifted. These are considered outstanding checks, or book overdrafts, to sellers and vendors. As a portion of these outstanding checks for operations are drawn upon bank accounts at financial institutions other than the financial institutions that hold the deposited cash, we are unable to offset all the cash and the outstanding checks on our consolidated balance sheet at any given time. Book overdrafts are recognized on our consolidated balance sheet within trade and other liabilities.

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 additional 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.

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.

Cash Flows

(in U.S. dollars in millions, except percentages)	Nine months ended September 30,		
	2023	2022	% Change 2023 over
Cash provided by (used in):			
Operating activities	\$ 206.7	\$ 263.9	(22)%
Investing activities	(3,002.3)	108.3	(2,872)%
Financing activities	2,728.8	(1,194.0)	(329)%
Effect of changes in foreign currency rates	0.1	(25.6)	(100)%
Net decrease in cash, cash equivalents, and restricted cash	\$ (66.7)	\$ (847.4)	(92)%

Net cash provided by operating activities was \$206.7 million in the first nine months of 2023, as compared to net cash provided by operating activities of \$263.9 million in the first nine months of 2022. Net cash provided by operating activities decreased \$57.2 million mainly due to a net cash outflow from the change in operating assets and liabilities of \$290.2 million, partially offset by net cash generated by the inclusion of IAA income from operations. The net cash outflow from the change in operating assets and liabilities was primarily driven by higher tax payments relating to the timing of tax installments and taxes paid for the taxable gain portion on the sale of the Bolton property, and net higher outflows relating to prepaid consigned vehicle charges and operating lease payments this year from the inclusion of IAA since its acquisition. We also saw net cash outflows driven by the timing, size, and number of auctions and higher expenditures incurred on reimbursable leasehold improvements relating to IAA. Further net cash outflows related to a non-repeat of interest prepayments in the prior year for the 2021 Notes and timing of payments for inventory deposits and other prepaid expenses. The above increases in outflow were partially offset by the amount of book overdrafts from the inclusion of IAA, and the timing of payments for trade and other payables, as well as incentive-based employee compensation.

Net cash used in investing activities was \$3.0 billion in the first nine months of 2023 as compared to net cash provided by investing activities of \$108.3 million in the first nine months of 2022. Net cash used in investing activities increased \$3.1 billion primarily due to approximately \$2.8 billion of cash outflow for the acquisitions of IAA and VeriTread in the first quarter of 2023 and the non-repeat of \$165.1 million proceeds received for the sale of the Bolton property in the first quarter of 2022. Further cash outflows related to higher property, plant and equipment additions of \$112.5 million from IAA's purchases of various parcels of land for operations in the United States, including the purchase of a property in the United States for \$29.0 million in the second quarter of 2023, which was subsequently sold in the same period for a gain of \$2.0 million. Other IAA additions included expenditures on building and land improvements and equipment. Excluding IAA, there was an additional outflow of \$14.8 million relating primarily to the purchase of the Amaranth property in Canada and other investments in building and land improvements and equipment. In addition, we also saw an increase in intangible asset additions of \$55.0 million primarily due to the inclusion of IAA relating to software development and the development of our modern technology infrastructure and auction platform, as well as higher loans receivable issued in the first nine months of 2023.

Net cash provided by financing activities was \$2.7 billion in the first nine months of 2023, as compared to net cash used in financing activities of \$1.2 billion in the first nine months of 2022. Net cash provided by financing activities increased \$3.9 billion, mainly driven by financing raised through the TLA Facility for \$1.8 billion and issuances of the 2023 Notes for \$1.4 billion to fund the IAA acquisition in the first quarter of 2023. Further, we received \$496.9 million of net proceeds from the issuance of \$485.0 million of participating Series A Senior Preferred Shares and \$15.0 million of common stock in the first quarter of 2023, net of issuance costs, as well as \$11.1 million of net proceeds to finance certain equipment purchases. We also repaid \$603.3 million of long-term debt to redeem our 2016 Notes and repay \$100.0 million on our USD TLA Facility, as compared to \$1.1 billion repaid in 2022. These increases were partially offset by \$185.3 million of higher dividends in 2023 as compared to 2022, primarily due to the payment of a special dividend on March 28, 2023, the increase in the total number of shares outstanding as a result of shares issued in the acquisition of IAA and payment of quarterly dividends to Series A Senior preferred shareholders beginning in the first quarter of 2023. In addition, we also incurred \$41.6 million of debt issuance costs in the first quarter of 2023 in connection with the financing of the TLA Facility and the 2023 Notes, compared to \$3.6 million in the prior year.

Dividend Information

We declared a dividend of \$0.27 per common share for each of the quarters ended September 30, 2022, December 31, 2022, March 31, 2023 and June 30, 2023. On March 7, 2023, we declared a special cash dividend of \$1.08 per share, contingent on the closing of the acquisition of IAA, payable to stockholders of record at the close of business on March 17, 2023, excluding holders of Series A Preferred Shares (the “Special Dividend”). The Special Dividend was paid in cash on March 28, 2023 following the acquisition of IAA. We also recorded Preferential Dividends of \$6.7 million, of which \$1.1 million was accrued and unpaid at September 30, 2023, and Participating Dividends of \$1.8 million to the holders of the Series A Senior Preferred Shares on June 16, 2023. We have declared, but not yet paid, a dividend of \$0.27 per common share for the quarter ended September 30, 2023. All dividends that we pay are “eligible dividends” for Canadian income tax purposes unless indicated otherwise.

Debt over Net Income

Debt at the end of the third quarter of 2023 represented 18.7 times net income at and for the twelve months ended September 30, 2023, compared to debt at the third quarter of 2022, which represented 2.1 times net income at and for the twelve months ended September 30, 2022. The increase in this debt/net income multiplier was primarily due to higher debt related to the IAA acquisition and higher acquisition-related and integration costs of \$188.8 million in the twelve months ended September 30, 2023, partially offset by the inclusion of net income from IAA since March 20, 2023. The adjusted net debt/adjusted EBITDA was 3.2 times at and for the twelve months ended September 30, 2023, compared to 0.5 times at and for the twelve months ended September 30, 2022. The increase in this debt/net income multiplier was due to the same reasons as discussed above.

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 decreased 1,390 bps to 5.3% for the twelve-month period ended September 30, 2023 from 19.2% for the twelve-month period ended September 30, 2022. This decrease is primarily due to an increase in the denominator mainly from the issuance of 70.3 million shares of the Company’s common stock for the acquisition of IAA and the issuance of the Series A Senior Preferred Shares in the first quarter of 2023, a decrease in net income driven by acquisition-related and integration costs incurred for the IAA and VeriTread acquisitions, and the non-repeat gain from the sale of the Bolton property in the first quarter of 2022. Adjusted return on average invested capital decreased 500 bps to 10.8% during the twelve months ended September 30, 2023 compared to 15.8% in the same period in 2022, primarily due to the changes in the denominator as discussed above, partially offset by a higher adjusted return as a result of higher adjusted net income available to common stockholders.

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. At September 30, 2023, there were no material changes in our critical accounting policies, and there were no material changes in judgments, estimates and assumptions from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022, 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, other than revised estimates made during the period with respect to the fair values of certain assets and liabilities acquired in the acquisition of IAA.

Refer to "Item 1 – Financial Statements: Note 3 Significant Judgements, Estimates and Assumptions" in this Quarterly Report on Form 10-Q for additional information.

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.

Beginning in the third quarter of 2023, we updated the calculation of our non-GAAP measures to no longer adjust for the effect of the incremental net depreciation on the step-up in fair value of property, plant and equipment and the incremental net rent expense on the step-up in the fair value of operating lease right-of-use assets in connection with the application of acquisition accounting in the IAA acquisition. This change has been applied retrospectively to the second quarter of 2023 and accordingly to the nine-month period ended September 30, 2023. The Company continues to adjust for the amortization of acquired intangible assets, consistent with past practice, and the impact of purchase accounting on prepaid consigned vehicle charges which is expected to continue until the end of 2023.

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 that 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 items that we do not consider to be part of our normal operating results, such as share-based payments expense, acquisition-related and integration costs, amortization of acquired intangible assets, prepaid consigned vehicles charges, executive transition costs, and certain other items, which we refer to as “adjusting items.”

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 in millions, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over 2022			2023 over 2022
Operating income	\$ 145.8	\$ 63.5	130 %	\$ 300.5	\$ 387.8	(23)%
Share-based payments expense	12.7	8.8	44 %	31.7	27.8	14 %
Acquisition-related and integration costs	23.1	2.0	1,055 %	195.6	15.1	1,195 %
Amortization of acquired intangible assets	63.9	8.2	679 %	156.5	25.2	521 %
(Gain) loss on disposition of property, plant and equipment and related costs	0.6	0.9	(33)%	(0.9)	(167.7)	(99)%
Change in fair value of derivatives	—	—	— %	—	(1.3)	(100)%
Prepaid consigned vehicles charges	(7.6)	—	(100)%	(59.7)	—	(100)%
Other advisory, legal and restructuring	0.6	1.5	(60)%	1.3	4.9	(73)%
Executive transition costs	\$ 9.8	\$ —	100 %	\$ 9.8	\$ —	100 %
Adjusted operating income	\$ 248.9	\$ 84.9	193 %	\$ 634.8	\$ 291.8	118 %

(1) Please refer to pages 56-58 for a summary of adjusting items during the three and nine months ended September 30, 2023 and September 30, 2022.

(2) Adjusted operating income represents operating income excluding the effects of adjusting items.

Adjusted Net Income Available to Common Stockholders and Diluted Adjusted EPS Available to Common Stockholders Reconciliation

We believe that adjusted net income available to common stockholders provides useful information about the growth or decline of our net income available to common 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 available to common stockholders eliminates the financial impact of adjusting items from net income available to common stockholders that we do not consider to be part of our normal operating results, such as share-based payments expense, acquisition-related and integration costs, amortization of acquired intangible assets, executive transition costs and certain other items, which we refer to as “adjusting items”.

On February 1, 2023, we sold \$485.0 million of participating Series A Senior Preferred Shares, convertible into common shares of the Company at an initial conversion price of \$73.00 per share, and \$15.0 million of common shares of the Company. The preferred equity is considered a participating security, and as a result, beginning in the first quarter of 2023, the Company calculated diluted EPS using the two-class method, which includes the effects of the assumed conversion of the Series A Senior Preferred Shares to common shares, as well as the effect of any shares issuable under the Company’s stock-based incentive plans, if such effect is dilutive. Under this method, earnings are allocated to holders of common stock and preferred stock based on dividends declared and their respective participation rights in undistributed earnings. As a result, during the three and nine months ended September 30, 2023, our net income available to common stockholders was lower by the cumulative dividends and allocated earnings to Series A Senior Preferred shareholders.

The following table reconciles adjusted net income available to common stockholders and diluted adjusted EPS available to common stockholders to net income available to common stockholders and diluted EPS available to common stockholders, which are the most directly comparable GAAP measures in our consolidated financial statements:

(in U.S. dollars in millions, except share, per share data, and percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over 2022			2023 over 2022
Net income available to common stockholders	\$ 54.7	\$ 42.9	28 %	\$ 99.1	\$ 274.4	(64)%
Share-based payments expense	12.7	8.8	44 %	31.7	27.8	14 %
Acquisition-related and integration costs	23.1	2.0	1,055 %	195.6	15.1	1,195 %
Amortization of acquired intangible assets	63.9	8.2	679 %	156.5	25.2	521 %
(Gain) loss on disposition of property, plant and equipment and related costs	0.6	0.9	(33)%	(0.9)	(167.7)	(99)%
Prepaid consigned vehicles charges	(7.6)	—	(100)%	(59.7)	—	(100)%
Loss on redemption of the 2016 and 2021 Notes and certain related interest expense	—	—	— %	3.3	9.7	(66)%
Change in fair value of derivatives	—	—	— %	—	(1.3)	(100)%
Other advisory, legal and restructuring costs	0.6	1.5	(60)%	1.3	4.9	(73)%
Executive transition costs	9.8	—	100 %	9.8	—	100 %
Related tax effects of the above	(22.2)	(4.5)	393 %	(74.7)	5.9	(1366)%
Remeasurements in connection with business combinations	\$ —	\$ —	— %	\$ (2.9)	\$ —	(100)%
Related allocation of the above to participating securities	(2.9)	—	(100)%	(7.6)	—	(100)%
Adjusted net income available to common stockholders	\$ 132.7	\$ 59.8	122 %	\$ 351.5	\$ 194.0	81 %
Weighted average number of dilutive shares outstanding	183,601,601	112,209,535	64 %	162,916,593	111,858,095	46 %
Diluted earnings per share available to common stockholders	\$ 0.30	\$ 0.38	(21)%	\$ 0.61	\$ 2.45	(75)%
Diluted adjusted earnings per share available to common stockholders	\$ 0.72	\$ 0.53	36 %	\$ 2.16	\$ 1.73	25 %

- (1) Please refer to pages 56-58 for a summary of adjusting items during the three and nine months ended September 30, 2023 and September 30, 2022.
- (2) Net income available to common stockholders is computed as: net income attributable to controlling interests less cumulative dividends on Series A Senior Preferred Shares and allocated earnings to participating securities.
- (3) Adjusted net income available to common stockholders represents net income available to common stockholders, excluding the effects of adjusting items.
- (4) Diluted adjusted EPS available to common stockholders is calculated by dividing adjusted net income available to common stockholders by the weighted average number of dilutive shares outstanding, except that it is computed based upon the lower of the two-class method or the if-converted method, which includes the effects of the assumed conversion of the Series A Senior Preferred Shares and the effect of shares issuable under the Company's stock-based incentive plans, if such effect is dilutive.

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.

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 in millions, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2023	2022	% Change	2023	2022	% Change
			2023 over			2023 over
Net income	\$ 63.2	\$ 42.9	47 %	\$ 121.8	\$ 274.4	(56)%
Add: depreciation and amortization	101.1	24.3	316 %	246.9	72.8	239 %
Add: interest expense	63.7	9.2	592 %	149.6	48.3	210 %
Less: interest income	(4.5)	(1.8)	150 %	(15.8)	(3.2)	394 %
Add: income tax expense	23.1	14.7	57 %	46.5	72.6	(36)%
EBITDA	246.6	89.3	176 %	549.0	464.9	18 %
Share-based payments expense	12.7	8.8	44 %	31.7	27.8	14 %
Acquisition-related and integration costs	23.1	2.0	1,055 %	195.6	15.1	1,195 %
(Gain) loss on disposition of property, plant and equipment and related costs	0.6	0.9	(33)%	(0.9)	(167.7)	(99)%
Remeasurements in connection with business combinations	—	—	— %	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(7.6)	—	(100)%	(59.7)	—	(100)%
Change in fair value of derivatives	—	—	— %	—	(1.3)	(100)%
Other advisory, legal and restructuring costs	0.6	1.5	(60)%	1.3	4.9	(73)%
Executive transition costs	9.8	—	100 %	9.8	—	100 %
Adjusted EBITDA	\$ 285.8	\$ 102.5	179 %	\$ 725.4	\$ 343.7	111 %

- (1) Please refer to pages 56-58 for a summary of adjusting items during the three and nine months ended September 30, 2023 and September 30, 2022.
- (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 the adjusting items as described on pages 56-58.

Adjusted Net Debt and Adjusted Net Debt/Adjusted EBITDA Reconciliation

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

The following table reconciles 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 in millions, except percentages)	At and for the twelve months ended September 30,		
	2023	2022	% Change 2023 over 2022
Short-term debt	\$ 4.7	\$ 1.6	194 %
Long-term debt	3,122.2	637.3	390 %
Debt	3,126.9	638.9	389 %
Less: cash and cash equivalents	(428.3)	(438.8)	(2)%
Adjusted net debt	2,698.6	200.1	1249 %
Net income	\$ 167.1	\$ 305.0	(45)%
Add: depreciation and amortization	271.3	95.8	183 %
Add: interest expense	159.1	58.7	171 %
Less: interest income	(19.5)	(3.6)	442 %
Add: income tax expense	60.1	83.4	(28)%
EBITDA	638.2	539.3	18 %
Share-based payments expense	40.8	34.0	20 %
Acquisition-related and integration costs	217.8	29.0	651 %
Loss (gain) on disposition of property, plant and equipment and related costs	—	(167.9)	(100)%
Remeasurements in connection with business combinations	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(59.7)	—	(100)%
Other advisory, legal and restructuring costs	1.5	7.5	(80)%
Executive transition costs	9.8	—	100 %
Adjusted EBITDA	\$ 847.0	\$ 441.9	92 %
Debt/net income	18.7 x	2.1 x	790 %
Adjusted net debt/adjusted EBITDA	3.2 x	0.5 x	540 %

- (1) Please refer to pages 56-58 for a summary of adjusting items during the trailing twelve months ended September 30, 2023 and September 30, 2022.
- (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 the adjusting items as described in pages 56-58 .
- (3) Adjusted net debt is calculated by subtracting cash and cash equivalents from short and long-term debt and long-term debt in escrow.
- (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-month basis to different financial periods, provides an effective measure of the cash generated by our business and provides useful information regarding cash flows remaining for discretionary return to stockholders, mergers and acquisitions, or debt reduction. Our balance sheet scorecard includes OFCF as a performance metric. OFCF is also an element of the performance criteria for certain annual short-term and long-term incentive awards.

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

(in U.S. dollars in millions, except percentages)	Twelve months ended September 30,		
	2023	2022	% Change 2023 over 2022
Cash provided by operating activities	\$ 405.8	\$ 277.4	46 %
Property, plant and equipment additions	(159.3)	(29.1)	447 %
Intangible asset additions	(95.0)	(36.3)	162 %
Proceeds on disposition of property plant and equipment	32.0	165.4	(81)%
Net capital (spending) proceeds	\$ (222.3)	\$ 100.0	(322)%
OFCF	\$ 183.5	\$ 377.4	(51)%

(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-month 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 available to common 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 available to common 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 and updated the calculation in the first quarter of 2023 to also include preferred equity.

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 available to common 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 in millions, except percentages)	At and for the twelve months ended September 30,		
	2023	2022	% Change 2023 over 2022
Net income (loss) attributable to controlling interests	\$ 167.5	\$ 305.0	(45)%
Add:			
Interest expense	159.1	58.7	171 %
Interest income	(19.5)	(3.6)	442 %
Interest, net	139.6	55.1	153 %
Tax on interest, net	(34.0)	(14.6)	133 %
Reported return	\$ 273.2	\$ 345.5	(21)%
Add:			
Share-based payments expense	40.8	34.0	20 %
Acquisition-related and integration costs	217.8	29.0	651 %
Amortization of acquired intangible assets	164.7	33.1	398 %
Loss (gain) on disposition of property, plant and equipment and related costs	—	(167.9)	(100)%
Remeasurements in connection with business combinations	(2.9)	—	(100)%
Prepaid consigned vehicles charges	(59.7)	—	(100)%
Other advisory, legal and restructuring costs	1.5	7.5	(80)%
Executive transition costs	9.8	—	100 %
Related tax effects of the above	(83.6)	1.9	(4,500)%
Adjusted return	\$ 561.6	\$ 283.1	98 %
Short-term debt - opening balance	\$ 1.6	\$ 18.5	(91)%
Short-term debt - ending balance	4.7	1.6	194 %
Average short-term debt	3.2	10.1	(68)%
Long-term debt - opening balance	637.3	633.7	1 %
Long-term debt - ending balance	3,122.2	637.3	390 %
Average long-term debt	1,879.8	635.5	196 %
Preferred equity - opening balance	—	—	— %
Preferred equity - ending balance	482.0	—	100 %
Average preferred equity	241.0	—	100 %
Stockholders' equity - opening balance	1,238.8	1,061.9	17 %
Stockholders' equity - ending balance	4,911.8	1,238.8	296 %
Average stockholders' equity	3,075.3	1,150.4	167 %
Average invested capital	\$ 5,199.3	\$ 1,796.0	189 %
ROIC	5.3 %	19.2 %	(1,390)bps
Adjusted ROIC	10.8 %	15.8 %	(500)bps

- (1) Please refer to pages 56-58 for a summary of adjusting items during the trailing twelve months ended September 30, 2023 and September 30, 2022.
- (2) ROIC is calculated as reported return 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-month 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 during the trailing twelve months ended September 30, 2023 were:

Recognized in the third quarter of 2023

- \$12.7 million share-based payments expense.
- \$23.1 million of acquisition-related and integration costs primarily relating to the acquisition of IAA, which was completed on March 20, 2023.
- \$63.9 million amortization of acquired intangible assets, which includes \$56.1 million of amortization relating to the acquired intangible assets from IAA since its acquisition, \$0.7 million from the acquisition of VeriTread, as well as amortization of acquired intangible assets from past acquisitions of SmartEquip and Rouse, completed in 2022 and 2021, respectively.
- \$0.5 million loss on disposition of property, plant and equipment and related costs, which primarily includes a \$1.0 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 \$169.1 million gain on the Bolton property in the first quarter of 2022, offset by a \$0.5 million gain on the disposition of property, plant and equipment.
- \$7.6 million relating to a fair value adjustment made to the prepaid consigned vehicle charges on the opening balance sheet of IAA, which do not have a future benefit at acquisition, and therefore has created a favorable reduction to our cost of services in the quarter.
- \$0.6 million of other advisory, legal, and structuring costs, which includes \$0.5 million of terminated and ongoing transaction costs and \$0.1 million of legal and other consulting costs associated with the Canada Revenue Agency's ("CRA") investigation.
- \$9.8 million of estimated executive transition costs associated with the departures of certain executives on August 1, 2023, which includes severance, estimated settlement amounts, less recapture of previously expensed share-based compensation of the former CEO upon resignation.

Recognized in the second quarter of 2023

- \$12.3 million share-based payments expense.
- \$46.3 million of acquisition-related and integration costs primarily relating to the acquisition of IAA, which was completed on March 20, 2023. Acquisition-related and integration costs includes a net \$16.3 million settlement expense made to terminate a non-compete agreement to which IAA was bound, consulting and other costs incurred in integration of IAA, severance and related accelerated share-based payment expenses for employees as certain functions are integrated, and other legal and acquisition-related costs.
- \$76.0 million amortization of acquired intangible assets, which includes \$67.6 million of amortization relating to the acquired intangible assets from IAA since its acquisition, \$0.7 million from the acquisition of VeriTread, as well as amortization of acquired intangible assets from past acquisitions of SmartEquip and Rouse, completed in 2022 and 2021, respectively.
- \$1.5 million gain on disposition of property, plant and equipment and related costs, which primarily includes a \$2.0 million gain for the sale of a property in the United States, partially offset by a \$1.2 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 \$169.1 million gain on the Bolton property in the first quarter of 2022.
- \$39.7 million relating to a fair value adjustment made to the prepaid consigned vehicle charges on the opening balance sheet of IAA, which do not have a future benefit at acquisition, and therefore has created a favorable reduction to our cost of services in the quarter.
- \$0.5 million of legal and other consulting costs associated with the Canada Revenue Agency's ("CRA") investigation.

Recognized in the first quarter of 2023

- \$6.7 million share-based payments expense.
- \$126.2 million of acquisition-related and integration costs primarily relating to the acquisition of IAA, which was completed on March 20, 2023. Acquisition-related and integration costs include financing, severance for certain IAA executives, related accelerated share-based payment expenses and other consulting, legal and other costs incurred to effect the acquisition or integration of the combined businesses.
- \$16.6 million amortization of acquired intangible assets, which includes \$7.7 million of amortization relating to the acquired intangible assets from IAA for the 11-day period since its acquisition, \$0.7 million from the acquisition of VeriTread, as well as amortization of acquired intangible assets from past acquisitions of SmartEquip and Rouse, completed in 2022 and 2021 respectively.
- \$4.0 thousand loss on disposition of property, plant and equipment and related costs includes a \$1.2 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

\$169.1 million gain on the Bolton property in the first quarter of 2022, offset by \$1.2 million gain related to a sale of a property located in Dubai, United Arab Emirates.

- \$2.9 million remeasurements in connection with business combinations, which includes \$1.4 million gain relating to the remeasurement of the Company's previously held 11% interest in VeriTread, in connection with the acquisition of VeriTread in January 2023, and \$1.5 million from the remeasurement of the Company's US opening deferred tax balances driven by a recalculation of a new U.S. tax rate for the Company following the acquisition of IAA.
- \$12.4 million relating to a fair value adjustment made to the prepaid consigned vehicle charges on the opening balance sheet of IAA, which do not have a future benefit at acquisition, and therefore has created a favorable reduction to our cost of services in the quarter.
- \$3.3 million loss on redemption of the 2016 Notes due to the difference between the reacquisition price of the 2016 Notes and the net carrying amount of the extinguishment debt (primarily unrecognized deferred debt issuance costs).
- \$0.2 million of legal and other consulting costs associated with the CRA's investigation.

Recognized in the fourth quarter of 2022

- \$9.1 million share-based payments expense.
- \$22.2 million of acquisition-related and integration costs primarily relating to the proposed acquisition of IAA, and 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 IronPlanet, 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 \$169.1 million gain on the Bolton property in the first quarter of 2022, partially offset by \$0.3 million gain on disposition of property, plant and equipment in the quarter.
- \$0.2 million of restructuring costs relating to retention costs in connection with the restructuring of our information technology team during the year.

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 and integration 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 IronPlanet, 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 \$169.1 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 other 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 and integration costs related to the terminated 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 IronPlanet, 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 \$169.1 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) interest expense of \$4.2 million incurred in the quarter relating to the 2021 Notes, which were redeemed as a result of the terminated Euro Auctions acquisition in April 2022.

- \$1.1 million of other 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 IronPlanet, 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 and integration 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 other 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 IronPlanet, SmartEquip, and Rouse.
- \$14.0 million of acquisition-related and integration 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 other 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.

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, 2023 from those disclosed in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2022, which is available on our website at <https://investor.rbglobal.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 the Principal Finance and Accounting Officer (“Principal Financial Officer”), have evaluated the effectiveness of the Company’s disclosure controls and procedures as of September 30, 2023. 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 Principal Financial Officer, 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 Principal Financial Officer concluded that, as of September 30, 2023, 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 the Principal Financial Officer, 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.

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

Changes in Internal Control over Financial Reporting

Other than related to the acquisition of IAA, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2023 that materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. We are currently in the process of integrating the IAA operations, control processes and information systems into our systems and control environment. We believe that we have taken the necessary steps to monitor and maintain appropriate internal controls over financial reporting during this integration.