

## 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](http://www.sec.gov), or on SEDAR at [www.sedar.com](http://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")<sup>1</sup>, 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 the Management's Discussion and Analysis of Financial Condition and Results of Operations (Please see pages 62-64).

### 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.

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<sup>1</sup> 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.

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 7,600 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 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](http://www.sec.gov), or on SEDAR at [www.sedar.com](http://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 second quarter of 2023 increased 45% to \$77.4 million, compared to \$53.4 million income for the second quarter of 2022. Diluted earnings per share (“EPS”) available to common stockholders decreased 13% to \$0.42 per share in the second quarter of 2023 as compared to \$0.48 per share in the second quarter of 2022. Diluted adjusted EPS available to common stockholders increased 15% to \$0.85 per share in the second quarter of 2023 compared to \$0.74 per share in the second quarter of 2022.

The consolidated results presented below include the first full quarter of the financial results of IAA since its acquisition on March 20, 2023.

For the second quarter of 2023 as compared to the second quarter of 2022:

- Total GTV increased 146% to \$4.1 billion, mainly due to the inclusion of \$2.2 billion for the first full quarter of IAA, and increased 149% when excluding the impact of foreign exchange
- Total revenue increased 128% to \$1.1 billion, mainly due to the inclusion of \$560.4 million from IAA
  - Service revenue increased 181% to \$806.1 million, mainly due to the inclusion of \$476.6 million from IAA
  - Inventory sales revenue increased 52% to \$300.4 million, mainly due to the inclusion of \$83.8 million from IAA
- Net income increased 63% to \$86.8 million
- Adjusted EBITDA increased 126% to \$307.8 million
- Cash on hand was \$573.3 million, of which \$432.9 million was unrestricted

## Other Company Development

- On July 12, 2023, Lisa Hook notified the Company of her decision to retire from service on the Company’s Board of Directors for personal reasons.
- On August 2, 2023, we announced the appointment of Jim Kessler, most recently the Company's President and Chief Operating Officer, as Chief Executive Officer. Jim Kessler will also join the Company’s Board of Directors. Megan Cash, most recently Senior Vice President, Global Control and Corporate Finance, has been appointed Principal Finance and Accounting Officer. These appointments are effective as of August 2, 2023 and follow the departures of Ann Fandozzi and Eric Jacobs as Chief Executive Officer and Chief Financial Officer, respectively.

## Results of Operations

### Financial Overview

(in U.S. dollars in millions, except EPS and percentages)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
Commissions	\$ 233.3	\$ 136.4	71 %	\$ 363.8	\$ 252.8	44 %
Buyer fees	465.1	87.0	435 %	604.6	162.6	272 %
Marketplace services revenue	107.7	63.1	71 %	181.2	116.0	56 %
Total service revenue	806.1	286.5	181 %	1,149.6	531.4	116 %
Inventory sales revenue	300.4	198.0	52 %	469.3	347.1	35 %
Total revenue	1,106.5	484.5	128 %	1,618.9	878.5	84 %
Costs of services	287.3	45.0	538 %	363.7	84.1	332 %
Cost of inventory sold	291.9	176.2	66 %	443.4	307.8	44 %
Selling, general and administrative	194.5	144.3	35 %	342.7	270.9	27 %
Acquisition-related and integration costs	46.3	3.4	1,262 %	172.5	13.0	1,227 %
Total operating expenses	929.6	393.2	136 %	1,468.1	724.3	103 %
Gain on disposition of property, plant and equipment	2.7	0.3	800 %	3.9	170.2	(98)%
Operating income	179.6	91.6	96 %	154.7	324.4	(52)%
Net income attributable to controlling interests	86.9	53.4	63 %	58.8	231.5	(75)%
Net income available to common stockholders	77.4	53.4	45 %	44.2	231.5	(81)%
Adjusted net income available to common stockholders	155.3	83.1	87 %	224.5	134.0	68 %
Adjusted EBITDA	307.8	136.2	126 %	440.5	241.0	83 %
Diluted earnings per share available to common stockholders	\$ 0.42	\$ 0.48	(13)%	\$ 0.29	\$ 2.07	(86)%
Diluted adjusted earnings per share available to common stockholders	\$ 0.85	\$ 0.74	15 %	\$ 1.47	\$ 1.20	23 %
Effective tax rate	27.4 %	28.8 %	(140)bps	28.5 %	20.0 %	850 bps
Total GTV	\$ 4,144.0	\$ 1,684.3	146 %	\$ 6,043.2	\$ 3,123.4	93 %
Service GTV	3,843.4	1,486.2	159 %	5,573.8	2,776.3	101 %
Total service revenue take rate	19.5 %	17.0 %	250 bps	19.0 %	17.0 %	200 bps
Inventory GTV	300.4	198.0	52 %	469.3	347.1	35 %
Inventory return	\$ 8.5	\$ 21.8	(61)%	\$ 25.9	\$ 39.3	(34)%
Inventory rate	2.8 %	11.0 %	(820)bps	5.5 %	11.3 %	(580)bps

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

(in U.S. dollars in millions)	Three months ended June 30, 2023			Six months ended June 30, 2023		
	RBA	IAA	Total	RBA	IAA *	Total
Commissions	\$ 146.6	\$ 86.7	\$ 233.3	\$ 264.7	\$ 99.1	\$ 363.8
Buyer fees	103.7	361.4	465.1	191.0	413.5	604.5
Marketplace services revenue	79.2	28.5	107.7	150.2	31.1	181.3
Total service revenue	329.5	476.6	806.1	605.9	543.7	1,149.6
Inventory sales revenue	216.6	83.8	300.4	372.7	96.6	469.3
Total revenue	\$ 546.1	\$ 560.4	\$ 1,106.5	\$ 978.6	\$ 640.3	\$ 1,618.9
Service GTV	\$ 1,684.5	\$ 2,159.1	\$ 3,843.6	\$ 3,112.9	\$ 2,461.0	\$ 5,573.9
Inventory GTV	216.6	83.8	300.4	372.6	96.7	469.3
Total GTV	1,901.1	2,242.9	4,144.0	3,485.5	2,557.7	6,043.2
Total service revenue take rate	17.3 %	21.2 %	19.5 %	17.4 %	21.3 %	19.0 %

\* Includes financial results of IAA in our consolidated financial statements during the six-month period ending June 30, 2023 since its acquisition on March 20, 2023.

## **Total GTV**

Total GTV increased 146% to \$4.1 billion in the second quarter of 2023 and increased 93% to \$6.0 billion in the first six months of 2023. Excluding IAA, total GTV increased 13% to \$1.9 billion in the second quarter of 2023 and increased 12% to \$3.5 billion in the first six months of 2023. Excluding IAA and the impact of foreign exchange, total GTV increased 15% and 14% in the second quarter and first six months of 2023, respectively.

In the second quarter of 2023, total GTV increased year-over-year, primarily driven by the inclusion of the first full quarter of GTV from IAA. IAA contributed \$2.2 billion, or 54%, of total GTV, generating strong volumes in the automotive sector primarily across North America as average selling prices remain high for salvage and low valued vehicles and total loss rates for salvage vehicles continue to improve. Excluding IAA, the increase in total GTV was driven by lot volumes, partially offset by lower prices, unfavorable foreign exchange impact, and unfavorable mix. Total GTV increased across all regions, but was mainly driven by volume growth in North America across various sectors including rental, transportation, and oil and gas. In the United States, GTV increased primarily from higher volumes driven by strong execution by our strategic accounts team. We also saw strong year-over-year performances from our auction events, contributed in part by the addition of several new auction events. In Canada, we also saw strong year-over-year performance in our auction events which were driven by several large packages in the oil and gas sector, and agricultural events, partially offset by an unfavorable foreign exchange impact.

For the first six 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 \$2.6 billion, or 42%, of total GTV during the first half of 2023. Excluding IAA, GTV increased mainly in the United States for the same reasons as discussed above, but also in Canada with strong year-over-year performances in our auction events, mainly in oil and gas sector, partially offset by the non-repeat of certain agricultural events and an unfavorable foreign exchange impact. In International, GTV volume decreased mainly as a result of an unfavorable foreign exchange impact.

## **Total Revenue**

Total revenue increased 128% to \$1.1 billion in the second quarter of 2023, with total service revenue increasing by 181% and inventory sales revenue increasing by 52%. IAA contributed \$560.4 million, or 51% of total revenues in the second quarter of 2023. Excluding IAA, total revenue increased 13% to \$546.2 million for the second quarter of 2023, with total service revenue increasing by 15% and inventory sales revenue increasing by 9%.

Total revenue increased 84% to \$1.6 billion in the first six month of 2023, with total service revenue increasing by 116% and inventory sales revenue increasing by 35%. IAA contributed \$640.3 million, or 40% of total revenue in the first six months of 2023 since its acquisition on March 20, 2023. Excluding IAA, total revenue increased 11% to \$978.6 million for the first six months of 2023, with total service revenue increasing by 14% and inventory sales revenue increasing by 7%.

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, appraisal online listing, financing and title and liens processing.

Foreign currency fluctuation also had an unfavorable impact on our revenues, primarily due to the depreciation of the Canadian dollar and 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 second quarter of 2023, Service GTV increased 159% to \$3.8 billion, primarily due to the inclusion of IAA, and particularly in the United States region.

In the second quarter of 2023, total service revenue increased 181% in line with higher Service GTV, with buyer fees increasing 435%, commissions increasing 71%, and marketplace services revenue increasing 71%.

Buyer fees increased 435% mainly driven by the inclusion of the first full quarter of IAA in the second quarter of 2023, contributing \$361.4 million, or 78%, of total buyer fees driven by increased buyer fees and volume growth. Excluding IAA, we also saw higher

buyer fees from minimum buyer fee rate increases implemented in early 2023. In addition, buyer fees increased as a result of a higher proportion of low value lots sold in the United States and a favorable mix of contracts with higher buyer fees in Australia.

Marketplace services revenue increased 71% in the second quarter of 2023 driven by the inclusion of the first full quarter of IAA, which contributed 64% of the increase, and primarily included title and liens processing fees, and auction related buyer services and subscription fees. Excluding IAA, we also saw higher marketplace services revenue from increased activity in our ancillary services in North America, in line with the increase in GTV volume and higher document fees from document fee rate increases implemented in early 2023 as well as from the harmonization of document fee rates in our online marketplaces. Further increases to marketplace services revenue were driven by the inclusion of transportation services revenue from VeriTread, as well as by higher online listing fees in the United States.

Commissions revenue increased 71%, less than the 159% 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 lower straight commission rate performances in the United States attributable to higher volumes sold by our strategic accounts teams, as well as in Canada from softer straight commission rate performances on several large contracts in the oil and gas sector, which were made strategically to continue to remain competitive.

For the first six months of 2023, total service revenue increased 116%, in line with higher Service GTV, with buyer fees increasing 272%, marketplace services revenue increasing 56%, and commissions increasing 44%. Buyer fees increased 272% mainly due to the inclusion of IAA, increased buyer fee rates and due to the higher proportion of low value lots in the United States. Marketplace services revenue increased 56% mainly for the same reasons as discussed above. Commissions revenue increased 44%, less than the 101% increase in Service GTV, mainly for the same reasons as discussed above.

### **Inventory Sales Revenue**

In the second quarter of 2023, inventory sales revenue increased 52% mainly due to the inclusion of IAA for the full quarter, which contributed 82% of the increase. Excluding IAA, the United States saw higher activity, but with a softer performance on a large inventory package in the utilities sector. Offsetting these increases, in International, we saw a lower volume of inventory sales in Australia.

For the first six months of 2023, inventory sales revenue increased 35% primarily for the same reasons as discussed above. In addition, we saw higher inventory sales revenue in the United States as a result of a higher mix of inventory packages sourced from our strategic accounts teams, partially offset by the non-repeat of a large inventory package dispersal of construction equipment. In International, an event which did not repeat in Australia also contributed to lower inventory revenue.

### **Costs of Services**

For the three and six months ended June 30, 2023, costs of services increased 538% to \$287.3 million and 332% to \$363.7 million, respectively, of which IAA accounted for 82% and 71%, 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, cost of services increased due to higher ancillary costs, in line with higher ancillary revenue, and higher compensation expenses arising from higher GTV and lot growth, mainly in the United States and Canada.

### **Cost of Inventory Sold**

For the three and six months ended June 30, 2023, inventory rate decreased to 2.8% from 11.0% and 5.5% from 11.3%, respectively, mainly driven by unfavorable pricing conditions, particularly in North America. Pricing of construction and transportation assets continues to decrease year-over-year on a mix adjusted basis as original equipment manufacturer production has caught up to end market demand following COVID-19 driven supply chain constraints. We also saw softer performances on certain inventory packages across all regions where prices declined faster than anticipated between the purchase and sale date of inventory.

For the three and six months ended June 30, 2023, cost of inventory sold increased 66% to \$291.9 million and 44% to \$443.4 million, respectively, while inventory sales revenue increased 52% and 35%, 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 unfavorable pricing conditions, primarily in North America, offset by higher inventory rates due to the inclusion of IAA.

## **Selling, General and Administrative**

In the second quarter of 2023, selling, general and administrative expenses increased 35% to \$194.5 million mainly due to the inclusion of IAA for the first full quarter, which contributed 91% of the increase mainly relating to employee compensation expenses. Excluding IAA expenses, the remaining increase was primarily due to higher advertising and promotion expenses to promote new sales initiatives, and higher building, facilities and technology costs as we continue to shift to cloud-based solutions to improve customer and employee experiences. These increases were partially offset by lower professional fees driven by higher capitalization of costs in the development of our modern technology to support our future marketplace and services strategy. We also saw lower employee compensation expenses driven by lower share-based payment expenses primarily due to fewer share-based awards granted and lower performance-based incentive compensation, partially offset by higher wages due to an increase in headcount.

For the first six months of 2023, selling, general and administrative expenses increased 27% to \$342.7 million, primarily due to the inclusion of IAA for the first full quarter, which contributed 73% of the increase mainly relating to employee compensation expenses. Excluding IAA expenses, the increase was mainly due to higher travel, advertising and promotion costs from increased activity in global travel, particularly within the sales group. We also saw higher marketing costs to promote new sales initiatives, as well as higher meetings and conferences costs to facilitate meetings with customers and attend certain conferences and tradeshow events. Employee compensation expenses also increased, driven by an increase in headcount to accelerate our sales growth initiatives. Further increases include higher building, facilities and technology costs, as discussed above. These increases were partially offset by lower professional fees, as discussed above.

## **Acquisition-related and Integration Costs**

For the three and six months ended June 30, 2023, acquisition-related and integration costs increased 1,262% to \$46.3 million and 1,227% to \$172.5 million, respectively, given the significant financing, legal, investment banking, advisory, and consulting costs incurred relating to the acquisition and ongoing integration of IAA. In addition, for the benefit of the combined business, a net \$16.3 million expense was recognized during the second quarter of 2023 as settlement for the termination of a non-compete agreement bound by IAA prior to the acquisition. We also incurred higher severance costs to certain key executives of IAA and employees of the combined business as a result of restructuring and integrating the businesses, as well as higher share-based payments expense due to the acceleration of their share-based payment awards upon termination.

## **Operating Income**

For the second quarter of 2023, operating income increased 96% to \$179.6 million, primarily driven by the inclusion of the first full quarter 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. In connection with the acquisition of IAA, we also saw higher depreciation and amortization driven by the first full quarter of amortization on the acquired intangible assets and higher acquisition-related and integration costs, as discussed above.

For the first six months of 2023, operating income decreased 52% primarily driven by the \$169.1 million gain on property, plant and equipment from the sale of the Bolton property in the first quarter of 2022 that did not recur in the current period. Operating income was flat when excluding the impact of the gain, with flow through from higher revenue offset by higher acquisition-related and integration costs, and higher depreciation and amortization, 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 second quarter of 2023, income tax expense increased by 51% to \$32.6 million and our effective tax rate decreased 140 bps to 27.4% as compared to the second quarter of 2022. For the first six months of 2023, income tax expense decreased 60% to \$23.4 million, and our effective tax rate increased 850 bps to 28.5% as compared to the six months of 2022.

The decrease in the effective tax rate for the second quarter of 2023 was primarily due to a higher estimated benefit related to Foreign-Derived Intangible Income ("FDII"). Partially offsetting this decrease was a higher estimate of non-deductible expenses.

The increase in the effective tax rate for the first six months of 2023 compared to the first six 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, a higher tax deduction for performance share unit and restrictive share unit expenses that exceeded the related compensation expenses, and a benefit on the revaluation of opening deferred liabilities.

### **Net Income**

In the second quarter of 2023, net income attributable to controlling interests increased 63% to \$86.9 million primarily driven by an increase in operating income as well as a lower effective tax rate as discussed above, partially offset by higher interest expense from a rise in interest rates and higher debt to fund the acquisition of IAA.

For the first six months of 2023, net income attributable to controlling interests decreased 75% to \$58.8 million, mainly due to a decrease in operating income driven by the \$169.1 million gain on property, plant and equipment recognized related to the sale of the Bolton property in the first quarter of 2022, as well as higher interest expense as discussed above. 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 13% to \$0.42 per share and decreased 86% to \$0.29 per share for the three and six months ended June 30, 2023, respectively.

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 136% to \$281.0 million in the second quarter of 2023.

Adjusted net income available to common stockholders increased 87% to \$155.3 million in the second quarter of 2023.

Diluted adjusted EPS available to common stockholders increased 15% to \$0.85 per share in the second quarter of 2023.

Adjusted EBITDA increased 126% to \$307.8 million in the second quarter of 2023.

Refer to the non-GAAP measures section below on pages 54-61 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:

<b>Value of one local currency to U.S. dollar</b>	<b>2023</b>	<b>2022</b>	<b>% Change 2023 over 2022</b>
<b>Period-end exchange rate - June 30,</b>			
Canadian dollar	0.7550	0.7768	(3)%
Euro	1.0909	1.0477	4 %
British pound sterling	1.2674	1.2165	4 %
Australian dollar	0.6658	0.6898	(3)%
<b>Average exchange rate - Three months ended June 30,</b>			
Canadian dollar	0.7445	0.7836	(5)%
Euro	1.0898	1.0658	2 %
British pound sterling	1.2514	1.2579	(1)%
Australian dollar	0.6683	0.7151	(7)%
<b>Average exchange rate - Six months ended June 30,</b>			
Canadian dollar	0.7421	0.7864	(6)%
Euro	1.0815	1.0941	(1)%
British pound sterling	1.2330	1.3000	(5)%
Australian dollar	0.6762	0.7194	(6)%

In the second 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.

## Gross Transaction Value

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 June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
<b>Total GTV by Geography</b>						
United States	\$ 2,911.5	\$ 803.6	262 %	\$ 4,312.4	\$ 1,723.4	150 %
Canada	890.2	626.4	42 %	1,182.1	936.2	26 %
International	342.3	254.3	35 %	548.7	463.8	18 %
Total GTV	\$ 4,144.0	\$ 1,684.3	146 %	\$ 6,043.2	\$ 3,123.4	93 %
<b>Service GTV by Geography</b>						
United States	\$ 2,762.3	\$ 736.3	275 %	\$ 4,060.2	\$ 1,567.4	159 %
Canada	851.3	586.9	45 %	1,128.9	887.7	27 %
International	229.8	163.0	41 %	384.7	321.2	20 %
Total Service GTV <sup>1</sup>	\$ 3,843.4	\$ 1,486.2	159 %	\$ 5,573.8	\$ 2,776.3	101 %

<sup>1</sup> 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 June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
<b>United States</b>						
Service revenue	\$ 606.8	\$ 148.1	310 %	\$ 863.9	\$ 307.4	181 %
Inventory sales revenue	147.5	67.4	119 %	250.5	156.0	61 %
Total revenue - United States	754.3	215.5	250 %	1,114.4	463.4	140 %
<b>Canada</b>						
Service revenue	149.8	104.0	44 %	203.6	160.2	27 %
Inventory sales revenue	38.5	39.4	(2)%	53.0	48.5	9 %
Total revenue - Canada	188.3	143.4	31 %	256.6	208.7	23 %
<b>International</b>						
Service revenue	49.5	34.4	44 %	82.1	63.8	29 %
Inventory sales revenue	114.4	91.2	25 %	165.8	142.6	16 %
Total revenue - International	163.9	125.6	30 %	247.9	206.4	20 %
<b>Total</b>						
Service revenue	806.1	286.5	181 %	1,149.6	531.4	116 %
Inventory sales revenue	300.4	198.0	52 %	469.3	347.1	35 %
Total revenue	\$ 1,106.5	\$ 484.5	128 %	\$ 1,618.9	\$ 878.5	84 %

### United States

In the second quarter of 2023, service revenue increased 310% primarily due to a 275% increase in Service GTV, driven mainly from the inclusion of IAA for the first full quarter as well as higher volumes executed by our strategic accounts team. The majority of the contribution from IAA was driven by increased buyer fees and volume growth and includes fixed fee commissions earned from the sale of vehicles. Excluding IAA, we also saw an increase in buyer fees, driven by an increase in minimum buyer fee rates implemented in early 2023 and additional fees earned from a higher proportion of lower value lots. Marketplace service revenue also increased, primarily due to higher activity in our ancillary services, in line with higher GTV volume, as well as higher document fees driven by fee increases implemented in early 2023. Further increases to marketplace service revenue relate to the harmonization of document fees in our online marketplaces implemented in Q4 2022, higher online listing fees due to an increase in online activity, and inclusion of VeriTread from its acquisition in the beginning of 2023. These increases were partially offset by lower straight commission rate performances due to a higher proportion of GTV sourced from our strategic accounts.

For the first six months of 2023, service revenue increased 181% while Service GTV increased 159%, primarily for the same reasons as discussed above. In addition, we saw lower guarantee rate performance from the non-repeat of several high performing guarantee contracts.

In the second quarter of 2023, inventory sales revenue increased 119% primarily driven by a higher volume of inventory contracts despite softer performances from an inventory package in the utilities sector, and on certain other inventory packages where prices declined more rapidly than originally anticipated.

For the first six months of 2023, inventory sales revenue increased 61% primarily due to a higher mix of inventory packages sourced from our strategic account teams, partially offset by the non-repeat of a large inventory package dispersal of construction equipment.

### Canada

In the second quarter of 2023, service revenue increased 44%, in line with the increase in Service GTV of 45%. Service revenue increased mainly from the inclusion of IAA for the first full quarter. Excluding IAA, we also saw higher buyer fees from higher minimum buyer fee rates implemented in early 2023, partially offset by softer straight commission rate performances on several large contracts in the oil and gas sector.

For the first six months of 2023, service revenue increased 27% in line with the increase in Service GTV of 27%.

In the second quarter of 2023, inventory sales revenue decreased 2% primarily due to softer year-over-year performances on several large inventory packages, driven by pricing declines, partially offset by the inclusion of IAA.

For the first six months of 2023, inventory sales revenue increased 9% mainly due to the inclusion of IAA, partially offset by the softer year-over-year performances on several large inventory packages, as discussed above.

### International

In the second quarter of 2023, service revenue increased 44% primarily in line with the increase in Service GTV of 41%, mainly due to the inclusion of IAA for the first full quarter. Excluding IAA, we also saw higher buyer fees from higher minimum buyer fee rates implemented in early 2023 and higher buyer fees from Australia due to favorable contract mix. In addition, we saw higher marketplace service revenue from increased activity in our ancillary services.

For the first six months of 2023, service revenue increased 29% primarily due to the 20% increase in Service GTV, mainly due to the inclusion of IAA for the first full quarter. We also saw higher buyer fees and marketplace service revenue primarily for the same reasons as discussed above.

In the second quarter of 2023, inventory sales revenue increased 25%, mainly driven by the inclusion of IAA for the full quarter, partially offset by a lower volume of inventory contracts mainly in Australia.

For the first six months of 2023, inventory sales revenue increased 16% primarily for the same reasons as discussed above. In addition, we also saw lower inventory sales revenue due to the non-repeat of an auction event in Australia.

### GTV by Sector

The following table illustrates the breakdown of total GTV by sector for the three and six months ended June 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 June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
Automotive	\$ 2,107.9	\$ 52.0	3,954 %	\$ 2,439.6	\$ 91.2	2,575 %
Commercial construction and transportation	1,482.3	1,156.1	28 %	2,672.3	2,182.3	22 %
Other	553.8	476.2	16 %	931.3	849.9	10 %
	<u>\$ 4,144.0</u>	<u>\$ 1,684.3</u>	<u>146 %</u>	<u>\$ 6,043.2</u>	<u>\$ 3,123.4</u>	<u>93 %</u>

In the second quarter of 2023, total GTV compared to the second quarter of 2022 increased by 3,954% in the automotive sector, due to the inclusion of IAA. GTV increased by 28% in the commercial construction and transportation sector mainly in the United States driven by volume sourced in strategic accounts, partially offset by lower selling prices and unfavorable asset mix. GTV increased 16% in the other sector mainly driven by increased volume of sales of agricultural equipment and consumer items.

For the first six months of 2023, total GTV compared to the first six months of 2022 increased by 2,575% in the automotive sector and increased by 22% in the commercial construction and transportation sector mainly for the same reasons as discussed above. GTV increased 10% in other sector mainly driven by increased volume in industrial equipment and consumer items.

### Total Lots Sold by Sector

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

(in '000's of lots sold, except percentages)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
Automotive	574.0	5.8	9,797 %	661.6	9.9	6,583 %
Commercial construction and transportation	84.4	47.9	76 %	141.0	87.1	62 %
Other	142.9	115.0	24 %	248.2	199.0	25 %
	<u>801.3</u>	<u>168.7</u>	<u>375 %</u>	<u>1,050.8</u>	<u>296.0</u>	<u>255 %</u>

In the second quarter of 2023, the total lots sold compared to the second quarter of 2022 increased by 9,797% in the automotive sector due to the inclusion of lots sold from IAA. Total lots sold increased in the commercial construction and transportation sector by 76% and increased by 24% in the other assets sector, in part driven by the inclusion of IAA. Excluding IAA, the increases were driven by a higher proportion of low value lots sold primarily in the United States.

For the first six months of 2023, the total lots sold compared to the first six months of 2022 increased by 6,583% in the automotive sector, 62% in the commercial construction and transportation sector and 25% in the other sector primarily for the same reasons as discussed above.

## 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 due on June 30, 2023 and \$77.2 million of which was voluntary.

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

<u>(in U.S. dollars in millions, except percentages)</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>% Change</u>
<i>Committed</i>			
DDTL Facility	\$ —	\$ 85.5	(100)%
Term Loan A Facility (denominated in Canadian dollars)	85.3	—	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	<u>\$ 2,570.3</u>	<u>\$ 845.5</u>	<u>204 %</u>
<i>Unused</i>			
Revolving credit facilities	715.9	709.8	1 %
Total credit facilities unused	<u>\$ 715.9</u>	<u>\$ 709.8</u>	<u>1 %</u>

## Revolving Credit Facilities

At June 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 June 30, 2023, we had \$725.9 million of unused revolving credit facilities, which consisted of:

- \$715.9 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 begin in the second quarter of 2023 and are subject to quarterly instalments 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 June 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 a total fair value of consideration transferred 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, which 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% 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, including entering into finance leases or purchasing outright with cash.

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:

- Debt principal repayments of \$3.2 billion, of which \$35.7 million is due within a year, a year, including \$18.6 million of mandatory principal repayments, as well as \$99.1 million of fixed-rate interest payments on the 2023 Notes and an estimated \$139.8 million of variable-rate interest payments on the Credit Facilities, also due within one year. For more information on our debt, including the maturity dates of our long-term debt, see Note 18 in our consolidated financial statements.
- 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 leases, see Note 22 in our consolidated financial statements. Our payment obligations on our lease obligations increased during the quarter as a result of the inclusion of IAA, as IAA leases most of its auction sites and properties.

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 spending<sup>1</sup>, 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 \$719.4 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.

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

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.

## Cash Flows

(in U.S. dollars in millions, except percentages)	Six months ended June 30,		
	2023	2022	% Change 2023 over 2022
Cash provided by (used in):			
Operating activities	\$ 49.9	\$ 198.0	(75)%
Investing activities	(2,892.5)	140.3	(2,162)%
Financing activities	2,784.2	(1,156.3)	(341)%
Effect of changes in foreign currency rates	5.8	(12.8)	(145)%
Net decrease in cash, cash equivalents, and restricted cash	\$ (52.6)	\$ (830.8)	(94)%

Net cash provided by operating activities was \$49.9 million in the first six months of 2023, as compared to net cash provided by operating activities of \$198.0 million in the first six months of 2022. Net cash provided by operating activities decreased \$148.1 million mainly due to a net cash outflow from the change in operating assets and liabilities. This change was mainly driven by the timing, size, and number of auctions, as well as higher income tax payments made during the first six months of 2023 in comparison to prior year, due to timing of instalments and the payment of taxes owed for the taxable gain portion on the sale of the Bolton property. With the inclusion of IAA from March 20, 2023, we also saw net higher outflows for prepaid consigned vehicle charges and operating lease payments this year. Further cash outflows relate to the timing of payments for deposits and a non-repeat of interest prepayments in the prior year quarter relating to senior notes issued in 2021. The above increases in outflow were partially offset by the amount of book overdrafts from the inclusion of IAA, payments for trade accounts payable and other liabilities, and the timing of employee compensation payments, as well as lower net outflows from inventory purchases in the first six months of 2023 compared to the same period in the prior year.

Net cash used in investing activities was \$2.9 billion in the first six months of 2023 as compared to net cash provided by investing activities of \$140.3 million in the first six months of 2022. Net cash used in investing activities increased \$3.0 billion, primarily due to approximately \$2.8 billion of cash outflow for the acquisitions of IAA and VeriTread in the first quarter of 2023. Further increases in outflows relate to the non-repeat of proceeds received for the sale of the Bolton property in the first quarter of 2022 of \$165.1 million. We also saw additional property, plant and equipment purchases of \$92.2 million in the first six months of 2023, primarily due to the inclusion of IAA, which included the purchase of a property in the United States for \$29.0 million that was subsequently sold in the same period for a gain of \$2.0 million, and the purchase of the Amaranth property on March 30, 2023. In addition, intangible asset additions increased \$29.2 million mainly for the development of software. These increases were partially offset by cash inflow of \$31.1 million related to proceeds from the sale of property, plant and equipment, of which \$29.0 million relates to the sale of the aforementioned property in the United States in the current quarter.

Net cash provided by financing activities was \$2.8 billion in the first six months of 2023, as compared to net cash used in financing activities of \$1.1 billion in the first six 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 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. We also repaid \$602.2 million of long-term debt in the first half of 2023, for the redemption of our 2016 Notes and repayment of \$100.0 million of debt on our USD TLA Facility, as compared to \$1.1 billion repaid in the same period in 2022. These increases were partially offset by higher dividends paid in the first six months of 2023 as compared to the same period in 2022, primarily due to payment of a special dividend on March 28, 2023, 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 June 30, 2022, September 30, 2022, December 31, 2022, and March 31, 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 as at June 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 June 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 second quarter of 2023 represented 21.4 times net income at and for the twelve months ended June 30, 2023, compared to debt at the second quarter of 2022, which represented 2.2 times net income at and for the twelve months ended June 30, 2022. The increase in this debt/net income multiplier was primarily due to higher debt related to the IAA acquisition, as well as partial net income from IAA since March 20, 2023. Additionally, acquisition-related and integration costs in the twelve months ended June 30, 2023 were \$159.4 million higher than the twelve months ended June 30, 2022. The adjusted net debt/adjusted EBITDA was 4.1 times at and for the twelve months ended June 30, 2023, compared to 0.7 times at and for the twelve months ended June 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 1,440 bps to 4.1% for the twelve-month period ended June 30, 2023 from 18.5% for the twelve-month period ended June 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 Q1 2023 and a decrease in net income driven by acquisition-related and integration costs incurred for the IAA and VeriTread acquisitions, as well as the non-repeat gain from the sale of the Bolton property in the first quarter of 2022. Adjusted return on average invested capital decreased 660 bps to 8.5% during the twelve months ended June 30, 2023 compared to 15.0% 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 June 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 Note 3, Significant Judgements, Estimates and Assumptions, of the consolidated financial statements 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.

In connection with the acquisition of IAA, the Company has begun to adjust for the impact of all purchase accounting adjustments. In accordance with ASC 805, *Business Combinations*, the application of acquisition accounting resulted in substantial fair value adjustments to the acquired assets and assumed liabilities of IAA, most notably in relation to intangible assets, property, plant and equipment and operating lease right-of-use assets. Accordingly, all of the assets and liabilities of IAA were accounted for and recognized at fair value at acquisition, and the fair value adjustments will continue to amortize over their respective estimated useful lives in the periods following the acquisition. The Company believes that it is useful for investors to eliminate the effect of purchase accounting and that doing so provides valuable insights into how management manages the combined business. As such, the Company has adjusted 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. The Company has also adjusted for the amortization of acquired intangible assets and for the impact of purchase accounting on prepaid consigned vehicle charges.

## 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, purchase accounting adjustments relating to long-lived assets, 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 June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
Operating income	\$ 179.6	\$ 91.6	96 %	\$ 154.7	\$ 324.4	(52)%
Share-based payments expense	12.3	13.6	(10)%	19.0	19.0	— %
Acquisition-related and integration costs	46.3	3.4	1,262 %	172.5	13.0	1,227 %
Amortization of acquired intangible assets	76.0	8.4	805 %	92.7	17.0	445 %
(Gain) loss on disposition of property, plant and equipment and related costs	(1.5)	1.2	(225)%	(1.5)	(168.7)	(99)%
Prepaid consigned vehicles charges	(39.7)	—	(100)%	(52.1)	—	(100)%
Other advisory, legal and restructuring costs	0.5	1.1	(55)%	0.7	3.4	(79)%
Purchase accounting adjustments relating to long-lived assets	7.5	—	100 %	7.5	—	100 %
Adjusted operating income	<u>\$ 281.0</u>	<u>\$ 119.3</u>	<u>136 %</u>	<u>\$ 393.5</u>	<u>\$ 208.1</u>	<u>89 %</u>

- (1) Please refer to pages 62-64 for a summary of adjusting items during the three and six months ended June 30, 2023 and June 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, purchase accounting adjustments, 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. During the second quarter and first six months of 2023, 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.

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 June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
Net income available to common stockholders	\$ 77.4	\$ 53.4	45 %	\$ 44.2	\$ 231.5	(81)%
Share-based payments expense	12.3	13.6	(10)%	19.0	19.0	— %
Acquisition-related and integration costs	46.3	3.4	1,262 %	172.5	13.0	1,227 %
Amortization of acquired intangible assets	76.0	8.4	805 %	92.7	17.0	445 %
(Gain) loss on disposition of property, plant and equipment and related costs	(1.5)	1.2	(225)%	(1.5)	(168.7)	(99)%
Gain on remeasurement of previously held interest in VeriTread	—	—	— %	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(39.7)	—	(100)%	(52.1)	—	(100)%
Loss on redemption of the 2021 Notes and certain related interest expense	—	9.7	(100)%	—	9.7	(100)%
Loss on redemption of the 2016 Notes	—	—	— %	3.3	—	100 %
Change in fair value of derivatives	—	—	— %	—	(1.3)	(100)%
Other advisory, legal and restructuring costs	0.5	1.1	(55)%	0.7	3.4	(79)%
Purchase accounting adjustments relating to long-lived assets	7.5	—	100 %	7.5	—	100 %
Related tax effects of the above	(20.6)	(7.7)	168 %	(54.3)	10.4	(622)%
Remeasurement of deferred tax in connection with business combination	—	—	— %	(1.5)	—	(100)%
Related allocation of the above to participating securities	(2.9)	—	(100)%	(4.6)	—	(100)%
Adjusted net income available to common stockholders	\$ 155.3	\$ 83.1	87 %	\$ 224.5	\$ 134.0	68 %
Weighted average number of dilutive shares outstanding	182,810,399	111,705,102	64 %	152,404,830	111,681,644	36 %
Diluted earnings per share available to common stockholders	\$ 0.42	\$ 0.48	(13)%	\$ 0.29	\$ 2.07	(86)%
Diluted adjusted earnings per share available to common stockholders	\$ 0.85	\$ 0.74	15 %	\$ 1.47	\$ 1.20	23 %

- (1) Please refer to pages 62-64 for a summary of adjusting items during the three and six months ended June 30, 2023 and June 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 June 30,			Six months ended June 30,		
	2023	2022	% Change 2023 over 2022	2023	2022	% Change 2023 over 2022
Net income	\$ 86.8	\$ 53.4	63 %	\$ 58.6	\$ 231.5	(75)%
Add: depreciation and amortization	109.6	24.3	351 %	145.8	48.5	201 %
Add: interest expense	65.0	18.5	251 %	85.9	39.1	120 %
Less: interest income	(5.0)	(0.9)	456 %	(11.3)	(1.4)	707 %
Add: income tax expense	32.6	21.6	51 %	23.4	57.9	(60)%
EBITDA	289.0	116.9	147 %	302.4	375.6	(19)%
Share-based payments expense	12.3	13.6	(10)%	19.0	19.0	— %
Acquisition-related and integration costs	46.3	3.4	1,262 %	172.5	13.0	1,227 %
(Gain) loss on disposition of property, plant and equipment and related costs	(1.5)	1.2	(225)%	(1.5)	(168.7)	(99)%
Gain on remeasurement of previously held interest in VeriTread	—	—	— %	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(39.7)	—	(100)%	(52.1)	—	(100)%
Change in fair value of derivatives	—	—	— %	—	(1.3)	(100)%
Other advisory, legal and restructuring costs	0.5	1.1	(55)%	0.7	3.4	(79)%
Purchase accounting adjustments relating to long-lived assets	0.9	—	100 %	0.9	—	100 %
Adjusted EBITDA	<u>\$ 307.8</u>	<u>\$ 136.2</u>	<u>126 %</u>	<u>\$ 440.5</u>	<u>\$ 241.0</u>	<u>83 %</u>

- (1) Please refer to pages 62-64 for a summary of adjusting items during the three and six months ended June 30, 2023 and June 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 share-based payments expense, acquisition-related and integration costs, (gain) loss on disposition of property, plant and equipment and related costs, gain on remeasurement of previously held interest in VeriTread, prepaid consigned vehicle charges, change in fair value of derivatives, other advisory, legal and restructuring costs, which include terminated and ongoing transaction costs, purchase accounting adjustments relating to long-lived assets and excluding the effects of any other unusual adjusting items.
- (3) Purchase accounting adjustments relating to long-lived assets for the calculation of adjusted EBITDA relates to the incremental rent expense in cost of services on the fair value step up of operating lease right-of-use assets, associated with the application of purchase accounting.

## 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 June 30,		
	2023	2022	% Change 2023 over 2022
Short-term debt	\$ 17.2	\$ 8.6	100 %
Long-term debt	3,123.4	644.4	385 %
Debt	3,140.6	653.0	381 %
Less: cash and cash equivalents	(432.9)	(367.3)	18 %
Adjusted net debt	2,707.7	285.7	848 %
Net income	\$ 146.8	\$ 294.4	(50)%
Add: depreciation and amortization	194.4	93.4	108 %
Add: interest expense	104.6	58.3	79 %
Less: interest income	(16.9)	(2.2)	668 %
Add: income tax expense	51.7	81.8	(37)%
EBITDA	480.6	525.7	(9)%
Share-based payments expense	37.0	30.8	20 %
Acquisition-related and integration costs	196.7	37.3	427 %
Loss (gain) on disposition of property, plant and equipment and related costs	0.3	(169.9)	(100)%
Gain on remeasurement of previously held interest in VeriTread	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(52.1)	—	(100)%
Other advisory, legal and restructuring costs	2.4	6.6	(64)%
Purchase accounting adjustments relating to long-lived assets	0.9	—	100 %
Adjusted EBITDA	\$ 664.4	\$ 430.5	54 %
Debt/net income	21.4 x	2.2 x	873 %
Adjusted net debt/adjusted EBITDA	4.1 x	0.7 x	486 %

- (1) Please refer to pages 62-64 for a summary of adjusting items during the trailing twelve months ended June 30, 2023 and June 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 share-based payments expense, acquisition-related and integration costs, loss (gain) on disposition of property, plant and equipment and related costs, gain on remeasurement of previously held interest in VeriTread, prepaid consigned vehicle charges, other advisory, legal and restructuring costs which includes terminated and ongoing transaction costs, purchase accounting adjustment relating to operating lease right-of-use assets, and excluding the effects of any other unusual adjusting items.
- (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.
- (5) Purchase accounting adjustments relating to long-lived assets for the calculation of adjusted EBITDA relates to the incremental rent expense in cost of services on the fair value step up of operating lease right-of-use assets, associated with the application of purchase accounting.

## 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:

<b>(in U.S. dollars in millions, except percentages)</b>	<b>Twelve months ended June 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>% Change 2023 over 2022</b>
Cash provided by operating activities	\$ 314.9	\$ 304.2	4 %
Property, plant and equipment additions	(119.7)	(9.7)	1,134 %
Intangible asset additions	(69.1)	(32.0)	116 %
Proceeds on disposition of property plant and equipment	31.5	166.7	(81)%
Net capital (spending) proceeds	\$ (157.3)	\$ 125.0	(226)%
OFCF	\$ 157.6	\$ 429.2	(63)%

(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 June 30,		
	2023	2022	% Change 2023 over 2022
Net income (loss) attributable to controlling interests	\$ 147.0	\$ 294.3	(50)%
Add:			
Interest expense	104.6	58.3	79 %
Interest income	(16.9)	(2.2)	668 %
Interest, net	87.7	56.1	56 %
Tax on interest, net	(21.5)	(14.8)	45 %
Reported return	\$ 213.2	\$ 335.6	(36)%
Add:			
Share-based payments expense	37.0	30.8	20 %
Acquisition-related and integration costs	196.7	37.3	427 %
Amortization of acquired intangible assets	109.1	31.5	246 %
Loss (gain) on disposition of property, plant and equipment and related costs	0.3	(169.9)	(100)%
Gain on remeasurement of previously held interest in VeriTread	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(52.1)	—	(100)%
Other advisory, legal and restructuring costs	2.4	6.6	(64)%
Purchase accounting adjustments relating to long-lived assets	0.9	—	100 %
Related tax effects of the above	(68.7)	(0.8)	8,488 %
Remeasurement of deferred tax in connection with business combination	(1.5)	—	(100)%
Adjusted return	\$ 435.9	\$ 271.1	61 %
Short-term debt - opening balance	\$ 8.6	\$ 35.2	(76)%
Short-term debt - ending balance	17.2	8.6	100 %
Average short-term debt	12.9	21.9	(41)%
Long-term debt - opening balance	644.4	636.5	1 %
Long-term debt - ending balance	3,123.3	644.4	385 %
Average long-term debt	1,883.9	640.5	194 %
Preferred equity - opening balance	—	—	— %
Preferred equity - ending balance	482.0	—	100 %
Average preferred equity	241.0	—	100 %
Stockholders' equity - opening balance	1,243.7	1,056.3	18 %
Stockholders' equity - ending balance	4,919.8	1,243.7	296 %
Average stockholders' equity	3,081.8	1,150.0	168 %
Average invested capital	\$ 5,219.6	\$ 1,812.4	188 %
ROIC	4.1 %	18.5 %	(1,440)bps
Adjusted ROIC	8.4 %	15.0 %	(660)bps

- (1) Please refer to pages 62-64 for a summary of adjusting items during the trailing twelve months ended June 30, 2023 and June 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 June 30, 2023 were:**

***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.
- \$7.5 million purchase accounting adjustments relating to long lived assets to eliminate the incremental depreciation on the fair value step up of property, plant and equipment of \$6.6 million, combined with the effect of aligning accounting policies on useful lives, and the incremental rent expense in cost of services of \$0.9 million on the fair value step up of operating lease right-of-use assets, associated with the application of purchase accounting in accounting for the acquisition of IAA.

***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.
- \$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.
- \$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.
- \$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.

### ***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 Iron Planet, SmartEquip, and Rouse.
- \$0.9 million loss on disposition of property, plant and equipment and related costs includes a \$1.3 million non-cash cost in the quarter relating to the adjustment made to recognize the Bolton property sale proceeds at fair value when calculating the \$169.1 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.

### ***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 Iron Planet, SmartEquip, and Rouse.
- \$0.9 million loss on disposition of property, plant and equipment and related costs includes a \$1.3 million non-cash cost in the quarter relating to the adjustment made to recognize the Bolton property sale proceeds at fair value when calculating the \$169.1 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.

### **Adjusting items during the trailing twelve months ended June 30, 2022 were:**

#### ***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 Iron Planet, SmartEquip, and Rouse.
- \$1.2 million gain on disposition of property, plant and equipment and related costs includes a \$1.3 million non-cash cost in the quarter relating to the adjustment made to recognize the Bolton property sale proceeds at fair value when calculating the \$169.1 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 Iron Planet, SmartEquip, and Rouse.
- \$169.8 million gain recognized on the disposition of property, plant and equipment of which \$169.1 million related to the sale of a property located in Bolton, Ontario.
- \$9.6 million of acquisition-related 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 Iron Planet, 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.

### ***Recognized in the third quarter of 2021***

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

### **ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to our market risk during the six months ended June 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](http://www.sec.gov), or on SEDAR at [www.sedar.com](http://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 June 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 June 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 June 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.