

## 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 this quarterly report on Form 10-Q, 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

Ritchie Bros. Auctioneers Incorporated ("Ritchie Bros.", the "Company", "we", or "us") (NYSE & TSX: RBA) was founded in 1958 in Kelowna, British Columbia, Canada and is a world leader in asset management technologies and disposition 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.

---

<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 lien 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.

## **Business Combinations**

### **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 \$1.7 billion in cash consideration and issued 70.3 million shares of its common stock. In addition, we repaid \$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 to 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 \$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**

During the COVID-19 pandemic (“COVID-19”), we transitioned our traditional live onsite auctions to online bidding and experienced higher maintenance costs. While we have returned to live in-person auction events at certain selected locations and pre-COVID levels of asset turnover, inflation continues to impact our global business operations in 2023 with higher costs in freight, fuel, supplies, labor, non-durable goods and consumables at our yards and in our operations. In addition, we have seen an increase in labor costs with the labor market remaining fairly strong. We expect inflationary pressures to continue throughout 2023. We will continue to evaluate operational productivity improvements that may offset these pressures, while driving growth and strong financial performance.

## 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.

The table below illustrates the various channels and brand solutions available to our customers subsequent to the acquisitions of IAA and VeriTread, which were completed in the first quarter of 2023.

Solution	Brand(s)	Description
Marketplaces & Features	RB Auction	Onsite and online marketplace for selling and buying used equipment
	IronPlanet	Online marketplace for selling and buying used equipment
	Marketplace-E	Online marketplace offering multiple price and timing options
	GovPlanet	Online marketplace for the sale of government and military assets
	IAA AuctionNow™	Our digital auction bidding and buying solution, which features inventory located at physical branches and offsite to a global buyer audience
	IAA Buy Now™	Provides a unit for sale for a specific price using analytical data between scheduled auctions
	IAA Custom Bid™	A digital bidding tool that provides buyer customers focused on recycling the ability to set pre-bids in an auction based on vehicle attributes
	IAA Timed Auctions™	Offers a unit for sale for a specified period of time, allowing for competitive bidding and sale prior to a scheduled auction
	Ritchie Bros. Private Treaty	Confidential, negotiated sale of large equipment
Financial Services	Ritchie Bros. Financial Services	Loan origination service that uses a brokerage model to match loan applicants with appropriate financial lending institutions
	IAA Loan Payoff™	Mitigates the time-consuming process of managing a total loss claim requiring loan payoff and title release
Appraisal Services	Ritchie Bros. Appraisals	Unbiased, certified appraisal services
Inspection Services	Ritchie Bros. Inspections	Truck and lease return inspection services
	IAA Inspection Services®	Remote inspections and appraisals for salvage vehicles
Listings Services	Ritchie List Mascus	Online equipment listing service and B2B dealer portal
Refurbishing Services	Ritchie Bros. Refurbishing	Repair, paint, and other make-ready services

<b>Solution</b>	<b>Brand(s)</b>	<b>Description</b>
Transportation & Logistics Services	Ritchie Bros. Logistics	End-to-end transportation and customs clearance solution for sellers and buyers with shipping needs
	VeriTread Transport	An online transportation marketplace, connecting shippers and carriers
	IAA Transport™	An integrated shipping solution allowing buyers to schedule shipment of vehicles during the checkout process
	IAA Tow App™	Mobile dispatch solution that assists the tow network
Data Services	Rouse Services	A leading provider of construction equipment market intelligence
	CSAToday®	Online reporting and analysis tool that gives seller customers the ability to manage their vehicle assets and monitor salvage performance.
	IAA Market Value™	A solution for seller customers looking to estimate the values of their vehicles based on user-provided information and historical auction data
Parts Services	SmartEquip	Digital marketplace connecting equipment owners with parts manufacturers
Catastrophe Response Services	Catastrophe (CAT) Services™	Industry-leading strategic catastrophe response service focused on real estate capacity, operational execution, transportation logistics and vehicle merchandising and selling.
Title Services	IAA Title Services®	Full suite of title solutions services that facilitates title documentation, settlement and the title retrieval process.

### ***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, 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 lifecycle 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 gross transaction value of the assets sold being recorded as inventory sales revenue. As a result, a change in the revenue mix between service revenues and revenue from inventory sales can have a significant impact on our revenue growth percentages.

## Performance Overview

Beginning in the first quarter of 2023, following the acquisition of IAA on March 20, 2023 and a change in our reporting structure, our operations are comprised of one operating and reportable segment.

The consolidated results presented below include the financial results of IAA for 11 days from its acquisition on March 20, 2023 and the financial results of VeriTread from its acquisition on January 18, 2023.

Net (loss) income available to common stockholders for the first quarter of 2023 decreased 119% to a loss of \$34.2 million, compared to \$178.1 million income for the first quarter of 2022. Diluted (loss) earnings per share (“EPS”) available to common stockholders decreased 118% to \$0.28 loss per share in the first quarter of 2023 as compared to \$1.60 earnings per share in the first quarter of 2022. Diluted adjusted EPS available to common stockholders increased 24% to \$0.57 per share in the first quarter of 2023 compared to \$0.46 per share in the first quarter of 2022.

## Consolidated Results

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

- Total GTV increased 32% to \$1.9 billion, and increased 34% when excluding the impact of foreign exchange
- Total revenue increased 30% to \$512.4 million
  - Service revenue increased 40% to \$343.6 million
  - Inventory sales revenue increased 13% to \$168.8 million
- Net (loss) income decreased 116% to a loss of \$28.2 million
- Adjusted EBITDA increased 26% to \$132.6 million
- Cash on hand was \$707.0 million, of which \$568.3 million was unrestricted

## Other Company Developments

- On January 23, 2023, in connection with the sale of \$485.0 million of participating Series A Senior Preferred Shares and \$15.0 million of common stock investment from Starboard, we announced the appointment of Jeffrey Smith, Chief Executive Officer of Starboard to our Board.
- On March 19, 2023, in connection with the close of the acquisition of IAA on March 20, 2023, our Board appointed Brian Bales, William Breslin, Timothy O’Day, and Michael Sieger as members to the Board. In addition, Mahesh Shah and Chris Zimmermen stepped down from the Board as of March 20, 2023. As a result of these changes, the board size increased from ten to twelve members.

## Results of Operations

### Financial Overview

(in U.S. dollars in millions, except EPS and percentages)	Three months ended March 31,		
	2023	2022	% Change 2023 over 2022
Commissions	\$ 130.6	\$ 116.4	12 %
Buyer fees	140.7	75.6	86 %
Marketplace services revenue	72.3	52.9	37 %
Total service revenue	343.6	244.9	40 %
Inventory sales revenue	168.8	149.0	13 %
Total revenue	512.4	393.9	30 %
Costs of services	76.4	39.0	96 %
Cost of inventory sold	151.5	131.6	15 %
Selling, general and administrative	148.2	126.6	17 %
Acquisition-related and integration costs	126.2	9.6	1,215 %
Total operating expenses	538.5	331.0	63 %
Gain on disposition of property, plant and equipment	1.2	169.8	(99)%
Operating income (loss)	(24.9)	232.7	(111)%
Net (loss) income attributable to controlling interests	(28.1)	178.1	(116)%
Net (loss) income available to common stockholders	(34.2)	178.1	(119)%
Adjusted net income available to common stockholders	69.2	50.9	36 %
Adjusted EBITDA	132.6	104.9	26 %
Diluted (loss) earnings per share available to common stockholders	\$ (0.28)	\$ 1.60	(118)%
Diluted adjusted earnings per share available to common stockholders	\$ 0.57	\$ 0.46	24 %
Effective tax rate	24.8 %	16.9 %	790 bps
Total GTV	\$ 1,899.2	\$ 1,439.1	32 %
Service GTV	1,730.4	1,290.0	34 %
Total service revenue take rate	18.1 %	17.0 %	110 bps
Inventory GTV	168.8	149.0	13 %
Inventory return	\$ 17.3	\$ 17.4	(1)%
Inventory rate	10.2 %	11.7 %	(150)bps

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

(in U.S. dollars in millions)	Three months ended March 31, 2023		
	RBA	IAA *	Total
Commissions	\$ 118.0	\$ 12.5	\$ 130.6
Buyer fees	87.4	53.3	140.7
Marketplace services revenue	71.0	1.3	72.3
Total service revenue	276.4	67.1	343.6
Inventory sales revenue	156.0	12.8	168.8
Total revenue	\$ 432.4	\$ 79.9	\$ 512.4
Service GTV	\$ 1,428.4	\$ 302.0	\$ 1,730.4
Inventory GTV	156.0	12.8	168.8
Total GTV	1,584.4	314.8	1,899.2
Total service revenue take rate	17.4 %	21.3 %	18.1 %
Inventory return	15.7	1.6	17.3
Inventory rate	10.1 %	12.5 %	10.2 %

\* Includes financial results of IAA in our consolidated financial statements during the three month period ending March 31, 2023 for a 11-day period since its acquisition on March 20, 2023.

## **Total GTV**

Total GTV increased 32% to \$1.9 billion in the first quarter of 2023 and increased 34% when excluding the impact of foreign exchange.

In the first quarter of 2023, GTV increased year-over year primarily from the inclusion of \$314.8 million GTV from IAA for the 11-day period since its acquisition on March 20, 2023. Excluding IAA, our GTV increased 10% year-over-year driven by a continued rebound in lot volumes partially offset by an unfavourable impact of foreign exchange and lower average selling prices. In the United States, GTV volume increased primarily from the inclusion of IAA as well as from much higher volume driven by a strong execution by our strategic accounts team. In Canada, GTV volume decreased driven by softer year-over-year performances from the non-repeat of certain agricultural events and lower volume from our strategic accounts, coupled with the impact of unfavourable foreign exchange, partially offset by the inclusion of IAA. In International, the decrease in GTV volume was mainly driven by higher exports to North America, a non-repeat of an event in Australia and from the impact of unfavourable foreign exchange, partially offset by the inclusion of IAA.

## **Total Revenue**

Total revenue increased 30% to \$512.4 million in the first quarter of 2023, with total service revenue increasing by 40% and inventory sales revenue increasing by 13%. These increases were partly driven by the inclusion of IAA which contributed approximately \$80.0 million to revenues in the first quarter of 2023 post-acquisition.

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 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 unfavourable impact on our revenue primarily due to the depreciation of the Australian dollar, Canadian dollar, British pound sterling, and the Euro relative to the U.S. dollar.

## **Service Revenue**

Service revenue is comprised of commissions that are earned on Service GTV, buyer fees which are earned on total GTV, as well as revenues earned from our marketplace services. In the first quarter of 2023, Service GTV increased 34% to \$1.7 billion benefiting mostly in the United States from the inclusion of IAA.

In the first quarter of 2023, total service revenue increased 40%, in line with higher Service GTV, with buyer fees increasing 86%, marketplace services revenue increasing 37%, and commissions increasing 12%.

Buyer fees increased 86% primarily as a result of the inclusion of IAA. We also saw higher buyer fees from minimum buyer fee rate increases implemented in early 2023, excluding IAA.

Marketplace services revenue increased 37% mainly driven from higher fees from increased activity in our ancillary services primarily in the United States, in line with the increase in GTV volume. In addition, we saw higher marketplace services revenue on transportation services from the acquisition of VeriTread in the beginning of 2023, as well as higher revenues from the growth in our data services in Rouse and in our parts services in SmartEquip. Excluding IAA, we also saw higher document fees earned from increases in document fee rates implemented in early 2023, as well as from the harmonization of document fee rates in our online marketplaces.

Commissions revenue increased 12%, less than the 34% increase in Service GTV, mainly driven by 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.

## **Inventory Sales Revenue**

Inventory sales revenue as a percentage of total GTV decreased to 8.9% from 10.4% in the first quarter of 2023.

In the first quarter of 2023, inventory sales revenue increased 13% mainly due to the inclusion of IAA. We also saw higher inventory sales revenue in the United States as a result of a higher mix of inventory packages sourced from our strategic accounts team. These increases were partially offset by the non-repeat of a large inventory package dispersal of construction equipment. In International, we benefited from improved market conditions and the lifting of border restrictions post COVID-19 in the prior period, resulting in a softer year-over-year performance in the current quarter.

### **Costs of Services**

In the first quarter of 2023, costs of services increased 96% to \$76.4 million, mainly due to the inclusion of IAA for the 11-day period since its acquisition. Cost of services for IAA include direct expenses at auction yards which conduct regular weekly events, and includes employee compensation expenses, building and facility costs including operating lease costs for auction sites, as well as title, search and towing in providing services to buyers. We also saw higher costs from our ancillary services, in line with higher ancillary revenue, as well as higher employee compensation expenses from an increase in temporary contractors to support higher inspection activity, in line with GTV and lot count growth, mainly in the United States.

### **Cost of Inventory Sold**

In the first quarter of 2023, cost of inventory sold increased 15% to \$151.5 million primarily in line with a 13% increase in inventory sales revenue. 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, primarily in Canada, offset by higher inventory rates from IAA.

### **Selling, General and Administrative**

In the first quarter of 2023, selling, general and administrative increased 17% to \$148.2 million, driven by higher travel, advertising and promotion costs from increased activity in global travel, particularly within the sales group. We also saw higher meetings and conferences costs incurred to facilitate meetings with customers and attend certain conferences and tradeshow events, as well as higher marketing costs to promote new sales initiatives. Wages, salaries and benefit expenses also increased, driven by an increase in headcount to accelerate our sales growth initiatives. Building, facilities and technology costs increased mainly due to the amortization of the right-of-use asset of the Bolton property from the sale and lease back arrangement completed near the end of the first quarter of 2022, and higher technology costs as we continue to shift to cloud-based solutions to improve customer experiences. In addition, selling, general and administrative expenses also increased in the period partly driven by the inclusion of expenses from IAA. These increases were partially offset by a favourable impact of foreign exchange.

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

In the first quarter of 2023, acquisition-related and integration costs increased 1,215% to \$116.6 million given the significant financing, legal, investment banking, advisory, and consulting costs incurred to complete the acquisition of IAA on March 20, 2023. In connection with the close of the acquisition of IAA, we also incurred higher severance costs to certain key executives of IAA and higher share-based payments expense due to the acceleration of their share-based payment awards.

### **Operating (Loss) Income**

For the first quarter of 2023, operating (loss) income decreased 111% or \$257.8 million to a loss of \$24.9 million, primarily driven by the \$169.1 million gain recognized on the sale of our Bolton property in the first quarter of 2022 that did not recur in the current period, the increase of \$116.6 million in acquisition-related and integration costs to complete the acquisition of IAA as discussed above, and higher cost of services and SG&A. These decreases were partially offset by higher flow through of revenue.

### **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 or infrequent items, which may cause significant variations in the customary relationship between income tax expense and income before income taxes.

For the first quarter of 2023, income tax expense decreased by 126% to \$9.3 million tax benefit and our effective tax rate increased 780 bps to 24.8% as compared to the first quarter of 2022.

The increase in the effective tax rate for the first quarter of 2023 was primarily due to a higher tax deduction for PSU and RSU share unit expenses that exceeded the related compensation expense, a benefit on the revaluation of opening deferred liabilities and a benefit related to Foreign-Derived Intangible Income that increased our income tax benefit.

Partially offsetting these increases were a higher 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 in 2022.

### **Net (Loss) Income**

In the first quarter of 2023, net (loss) income attributable to controlling interests decreased 116% to a loss of \$28.2 million driven by a decrease in operating income to an operating loss in the current period, higher interest expense from a rise in interest rates and higher debt to fund the acquisition of IAA. This decrease in net income was partially offset by an income tax benefit due to a higher effective tax rate, as discussed above.

### **Diluted (Loss) EPS**

Diluted (loss) EPS available to common stockholders decreased 118% to \$0.28 loss per share for the first quarter of 2023 compared to \$1.60 earnings per share in the first quarter of 2022. The decrease was primarily due to a decrease in net income as described above and the increase in number of shares issued for the acquisition of IAA.

In addition, in February 2023, we issued \$485.0 million of Series A Senior Preferred Shares and \$15.0 million of common shares to Starboard. 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 first quarter of 2023, as a result, our net income available to common stockholders decreased, which further contributed to the decrease in Diluted EPS.

## 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 – March 31,</b>			
Canadian dollar	0.7410	0.7994	(7)%
Euro	1.0881	1.1074	(2)%
British pound sterling	1.2343	1.3148	(6)%
Australian dollar	0.6684	0.7491	(11)%
<b>Average exchange rate – Three months ended March 31,</b>			
Canadian dollar	0.7397	0.7892	(6)%
Euro	1.0732	1.1225	(4)%
British pound sterling	1.2146	1.3421	(10)%
Australian dollar	0.6841	0.7236	(5)%

For the first quarter of 2023, foreign exchange had an unfavourable impact on total revenue and a favourable impact on expenses. These impacts were primarily due to the fluctuations in the Canadian dollar, the Euro, British pound sterling, 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 our GovPlanet business metrics. However, beginning in the first quarter of 2023, with the change in management organizational structure and the acquisition of IAA, management has begun to review all auction metrics of the combined businesses, including GovPlanet. In addition, historically, the total bids per lot sold metric was used by management as a key metric. Beginning in the first quarter of 2023, the metric was discontinued as it is no longer considered meaningful when reviewing the auction metrics of the combined business and of our one reportable segment.

## 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 27% to \$112.4 million in the first quarter of 2023.

Adjusted net income available to common stockholders increased 36% to \$69.2 million in the first quarter of 2023.

Diluted adjusted EPS available to common stockholders increased 24% to \$0.57 per share in the first quarter of 2023.

Adjusted EBITDA increased 26% to \$132.6 million in the first quarter of 2023.

## 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 March 31,		
	2023	2022	% Change 2023 over 2022
<b>Total GTV by Geography</b>			
United States	\$ 1,400.9	\$ 919.8	52 %
Canada	291.9	309.8	(6)%
International	206.4	209.5	(1)%
Total GTV	\$ 1,899.2	\$ 1,439.1	32 %
<b>Service GTV by Geography</b>			
United States	\$ 1,297.9	\$ 831.1	56 %
Canada	277.6	300.7	(8)%
International	154.9	158.2	(2)%
Total Service GTV <sup>1</sup>	\$ 1,730.4	\$ 1,290.0	34 %

<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 March 31,		
	2023	2022	% Change 2023 over 2022
<b>United States</b>			
Service revenue	\$ 257.2	\$ 159.4	61 %
Inventory sales revenue	103.0	88.7	16 %
Total revenue – United States	360.2	248.1	45 %
<b>Canada</b>			
Service revenue	53.9	56.1	(4)%
Inventory sales revenue	14.4	9.1	58 %
Total revenue – Canada	68.3	65.2	5 %
<b>International</b>			
Service revenue	32.5	29.4	11 %
Inventory sales revenue	51.4	51.2	0 %
Total revenue – International	83.9	80.6	4 %
<b>Total</b>			
Service revenue	343.6	244.9	40 %
Inventory sales revenue	168.8	149.0	13 %
Total revenue	\$ 512.4	\$ 393.9	30 %

#### United States

In the first quarter of 2023, service revenue increased 61%, partially due to the 56% increase in Service GTV, which reflects the inclusion of IAA, as well as much higher volume driven by a strong execution by our strategic accounts team. Excluding IAA, we also saw higher buyer fees driven by higher minimum buyer fee rates implemented in early 2023 for sales of commercial and transportation equipment. Marketplace service revenue increased due to increased activity in our ancillary services, in line with increase in GTV volume. Excluding IAA, we also saw higher document fees from increases in document fees implemented in early 2023 and the harmonization of document fees in our online marketplaces implemented in Q4 2022. In addition, marketplace services revenue also increased due to the inclusion of the acquisition of VeriTread from its acquisition in the beginning of 2023, and revenue growth from our data services in Rouse and parts services in SmartEquip. These increases were partially offset by a softer straight commission rate performance due to a higher proportion of GTV sourced from our strategic accounts. In addition, we saw softer guarantee rate performance from the non-repeat of several high performing guarantee contracts.

In the first quarter of 2023, inventory sales revenue increased 16% primarily driven by a higher volume of inventory contracts sourced from our strategic accounts group, partially offset by the non-repeat of a large inventory package dispersal of construction equipment.

## Canada

In the first quarter of 2023, service revenue decreased 4% while Service GTV decreased 8%. Service revenue decreased at a slower rate than Service GTV primarily due to stronger straight commission rate performances from a lower mix of agriculture sales due to the non-repeat of certain agricultural events, as well as the inclusion of IAA, partially offset by softer performances on our guarantee contracts.

In the first quarter of 2023, inventory sales revenue increased 58% primarily due to favourable year-over-year performances in our Eastern Canada region.

## International

In the first quarter of 2023, service revenue increased 11% while Service GTV decreased 2%. The increase in service revenue was primarily due to higher marketplace services revenue from increased activity from our ancillary services, as well as higher buyer fees from higher minimum buyer fee rates implemented in early 2023 for sales of commercial and transportation equipment, as well as due to the inclusion of IAA.

In the first quarter of 2023, inventory sales revenue remained flat. We saw softer year-over-year performances as in the prior period, we benefited from increased inventory sales revenue from improved market conditions and the lifting of border restrictions post COVID-19, including the non-repeat of an event in Australia, offset by the inclusion of inventory revenue from IAA.

## GTV by Sector

The following table illustrates the breakdown of total GTV by sector for the first quarter of 2023 compared to the first quarter of 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 March 31,		
	2023	2022	% Change 2023 over 2022
Automotive	\$ 331.7	\$ 39.2	746 %
Commercial construction and transportation	1,190.0	1,026.2	16 %
Other	377.5	373.7	1 %
	<u>\$ 1,899.2</u>	<u>\$ 1,439.1</u>	<u>32 %</u>

In the first quarter of 2023, total GTV mix compared to the first quarter of 2022 increased by 750% in the automotive sector, mainly due to the inclusion of IAA. GTV mix increased by 16% in the commercial construction and transportation sector mainly in the United States driven by volume sourced in strategic accounts.

## Total Lots Sold by Sector

The following table illustrates the breakdown of total lots sold by sector for the first quarter of 2023 compared to the first quarter of 2022.

(in '000's of lots sold, except percentages)	Three months ended March 31,		
	2023	2022	% Change 2023 over 2022
Automotive	87.5	4.1	2,034 %
Commercial construction and transportation	56.6	39.2	44 %
Other	105.2	84.0	25 %
	<u>249.3</u>	<u>127.3</u>	<u>96 %</u>

In the first quarter of 2023, the total lots sold mix compared to the first quarter of 2022 increased by 2,053% in the automotive sector due to the inclusion of lots sold from IAA. Total lots sold mix increased in the commercial construction and transportation sector by 44% and increased by 26% in the other assets sector, primarily in the United States, driven by an increase in lot counts sold.

## 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 at an adjusted term SOFR of 7.54%. 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.

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

<b>(in U.S. dollars in millions, except percentages)</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>	<b>% Change</b>
<i>Committed</i>			
DDTL Facility	\$ —	\$ 85.5	(100)%
Term Loan A Facility (denominated in Canadian dollars)	84.8	—	100 %
Term Loan A Facility (denominated in US dollars)	1,825.0	—	100 %
Revolving credit facilities	750.0	750.0	— %
<i>Uncommitted</i>			
Revolving credit facilities	10.0	10.0	— %
Total credit facilities	\$ 2,669.8	\$ 845.5	216 %
<i>Unused</i>			
Revolving credit facilities	709.4	709.8	(0)%
Total credit facilities unused	\$ 709.4	\$ 709.8	(0)%

## Revolving Credit Facilities

At March 31, 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 March 31, 2023, we had \$719.4 million of unused revolving credit facilities, which consisted of:

- \$709.4 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, (iii) and 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 March 31, 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, the Company 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, the Company 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, and (viii) other capital expenditures and working capital needs.

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 \$3.3 billion, of which \$119.6 million is due within one year, as well as associated interest payments of \$242.3 million due within one year. For more information on our debt, including long-term debt principal repayments listed according to maturity, 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.

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.

---

<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.

## Cash Flows

(in U.S. dollars in millions, except percentages)	Three months ended March 31,		
	2023	2022	% Change
Cash provided by (used in):			
Operating activities	\$ (57.3)	\$ 185.1	(131)%
Investing activities	(2,823.0)	154.9	(1,922)%
Financing activities	2,958.5	(180.3)	(1,741)%
Effect of changes in foreign currency rates	2.9	7.8	(63)%
Net increase in cash, cash equivalents, and restricted cash	\$ 81.1	\$ 167.6	(52)%

Net cash used in operating activities was \$57.3 million in the first three months of 2023 as compared to net cash provided by operating activities of \$185.1 million in the first three months of 2022. Net cash used in operating activities increased \$235.2 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, and higher income tax payments made in the current quarter as a result of timing of instalments and the payment of taxes owed for the taxable gain portion on the sale of the Bolton property. We also saw net higher outflows for inventory purchases relating to some significant inventory contracts purchased during the quarter, a non-repeat of interest prepayments in the prior year quarter relating to senior notes issued in 2021 and the timing of payments for inventory purchases. With the inclusion of IAA from March 20, 2023, the increase in prepaid consigned vehicle charges also contributed to cash outflows in the period. The above increases were partially offset by the timing of payments for third party charges and the timing of employee compensation payments.

Net cash used in investing activities was \$2.8 billion in the first three months of 2023 as compared to net cash provided by investing activities of \$154.9 million in the first three months of 2022. Net cash used in investing activities increased \$2.8 billion primarily due to approximately \$2.8 billion cash outflow in the current quarter for the acquisitions of IAA and VeriTread, compared to minimal cash outflows in the first quarter of 2021 relating to acquisition activities. 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 \$165.0 million and increases in property, plant and equipment purchases of \$21.5 million and intangible asset additions of \$9.2 million, as compared to the same quarter in the prior year.

Net cash provided by financing activities was \$3.0 billion in the first three months of 2023, as compared to net cash used in financing activities of \$180.3 million in the first three months of 2022. Net cash provided by financing activities increased \$3.1 billion. In the first quarter of 2023, we raised financing through the new TLA Facility for \$1.8 billion and the issuances of the 2023 Notes to fund the IAA acquisition. Additionally, we received net proceeds of \$496.9 million in the current quarter from the issuance of \$485.0 million of participating Series A Senior Preferred Shares and \$15.0 million of common stock, net of issuance costs. These increases were partially offset by the redemption of our 2016 Notes on March 20, 2023, as compared to \$164.0 million debt repayment made in the prior year quarter on our long-term revolving credit facilities, as well as higher dividends paid this quarter as a result of a special dividend that was paid out on March 28, 2023, and preferential dividends paid out on March 15, 2023 on a pro-rated basis (refer to “Dividend Information”). In addition, we also incurred \$40.4 million of debt issuance costs in the current quarter relating to the TLA Facility and the 2023 Notes, compared to \$2.3 million in the prior year quarter.

### Dividend Information

We declared a dividend of \$0.25 per common share for the quarter ended March 31, 2022. We declared a dividend of \$0.27 per common share for each of the quarters ended June 30, 2022, September 30, 2022, and December 31, 2022. 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 \$4.3 million to the holders of the Series A Senior Preferred, of which \$3.1 million was paid on March 15, 2023 and \$1.2 million was accrued and unpaid at March 31, 2023, and Participating Dividends of \$1.8 million on March 3, 2023. We have declared, but not yet paid, a dividend of \$0.27 per common share for the quarter ended March 31, 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 first quarter of 2023 represented 28.6 times net income at and for the twelve months ended March 31, 2023, compared to debt at the first quarter of 2022, which represented 5.3 times net income at and for the twelve months ended March 31, 2022. The increase in this debt/net income multiplier was primarily due to higher debt related to the IAA acquisition, plus the inclusion of only 11 days of IAA's net income for the twelve months ended March 31, 2023. Additionally, acquisition costs in the twelve months ended March 31, 2023 were \$116.9 million higher and the (loss) gain on disposition of property, plant and equipment was \$174.1 million lower than the twelve months ended March 31, 2022. The adjusted net debt/adjusted EBITDA was 5.4 times at and for the twelve months ended March 31, 2023, compared to 0.5 times at and for the twelve months ended March 31, 2022. The increase in this debt/net income multiplier was primarily due to higher debt from the IAA acquisition, plus the inclusion of only 11 days of IAA's adjusted EBITDA for the twelve months ended March 31, 2023.

## **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 1,240 bps to 2.6% for the twelve month period ended March 31, 2023 from 15.0% for the twelve month period ended March 31, 2022. This decrease is primarily due to an increase in the denominator mainly from the issuance of 70.3 million shares of the Company's common stock for the acquisition of IAA and the issuance of the Series A Senior Preferred Shares in the current quarter and a decrease in net income driven by acquisition 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 900 bps to 5.9% during the twelve months ended March 31, 2023 compared to 14.9% 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 and related circumstances. At March 31, 2023, there were no material changes in our critical accounting policies, other than as described in Note 2(b) of the interim consolidated financial statements, 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 as described below.

For a discussion of our new accounting standards, refer to Note 3 Significant Judgements, Estimates and Assumptions.

## Non-GAAP Measures

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

## Adjusted Operating Income Reconciliation

We believe that adjusted operating income provides useful information about the growth or decline of our operating (loss) income for the relevant financial period and eliminates the financial impact of adjusting items we do not consider to be part of our normal operating results. Adjusted operating income enhances our ability to evaluate and understand ongoing operations, underlying business profitability, and facilitate the allocation of resources.

Adjusted operating income eliminates the financial impact of adjusting items from operating (loss) 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, management reorganization costs, and certain other items, which we refer to as “adjusting items”.

The following table reconciles adjusted operating income to operating (loss) 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 March 31,		
	2023	2022	% Change 2023 over 2022
Operating (loss) income	\$ (24.9)	\$ 232.7	(111)%
Share-based payments expense	6.7	5.4	24 %
Acquisition-related and integration costs	126.2	9.6	1,215 %
Amortization of acquired intangible assets	16.6	8.5	95 %
Loss (gain) on disposition of property, plant and equipment and related costs	0.0	(169.8)	(100)%
Prepaid consigned vehicles charges	(12.4)	—	(100)%
Other advisory, legal and restructuring costs	0.2	2.3	(91)%
Adjusted operating income	<u>\$ 112.4</u>	<u>\$ 88.7</u>	<u>27 %</u>

- (1) Please refer to pages 62-64 for a summary of adjusting items during the three months ended March 31, 2023 and March 31, 2022.
- (2) Adjusted operating income represents operating (loss) 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 (loss) income available to common stockholders provides useful information about the growth or decline of our net (loss) 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 (loss) 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, management reorganization costs, and certain other items, which we refer to as “adjusting items”.

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

The following table reconciles adjusted net income available to common stockholders and diluted adjusted EPS available to common stockholders to net (loss) 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 March 31,		
	2023	2022	% Change 2023 over 2022
Net (loss) income available to common stockholders	\$ (34.2)	\$ 178.1	(119)%
Share-based payments expense	6.7	5.4	24 %
Acquisition-related and integration costs	126.2	9.6	1,215 %
Amortization of acquired intangible assets	16.6	8.5	95 %
Loss (gain) on disposition of property, plant and equipment and related costs	0.0	(169.8)	(100)%
Gain on remeasurement of previously held interest in VeriTread	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(12.4)	—	(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	0.2	2.3	(91)%
Related tax effects of the above	(33.6)	18.1	(286)%
Remeasurement of deferred tax in connection with business combination	(1.5)	—	(100)%
Related allocation of the above to participating securities	(0.7)	—	(100)%
Adjusted net income available to common stockholders	\$ 69.2	\$ 50.9	36 %
Weighted average number of dilutive shares outstanding	120,487,251	111,655,861	8 %
Diluted (loss) earnings per share available to common stockholders	\$ (0.28)	\$ 1.60	(118)%
Diluted adjusted earnings per share available to common stockholders	\$ 0.57	\$ 0.46	24 %

- (1) Please refer to pages 62-64 for a summary of adjusting items during the three months ended March 31, 2023 and March 31, 2022.
- (2) Net (loss) income available to common stockholders is computed as: net (loss) 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 (loss) 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 (loss) 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 March 31,		
	2023	2022	% Change 2023 over 2022
Net (loss) income	\$ (28.2)	\$ 178.1	(116)%
Add: depreciation and amortization	36.2	24.2	50 %
Add: interest expense	20.9	20.7	1 %
Less: interest income	(6.3)	(0.5)	1,160 %
Add: income tax expense	(9.3)	36.2	(126)%
EBITDA	13.3	258.7	(95)%
Share-based payments expense	6.7	5.4	24 %
Acquisition-related and integration costs	126.2	9.6	1,215 %
Loss (gain) on disposition of property, plant and equipment and related costs	0.0	(169.8)	(100)%
Gain on remeasurement of previously held interest in VeriTread	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(12.4)	—	(100)%
Change in fair value of derivatives	—	(1.3)	(100)%
Other advisory, legal and restructuring costs	0.2	2.3	(91)%
Adjusted EBITDA	\$ 132.6	\$ 104.9	26 %

- (1) Please refer to pages 62-64 for a summary of adjusting items during the three months ended March 31, 2023 and March 31, 2022.
- (2) Adjusted EBITDA is calculated by adding back depreciation and amortization, interest expense, income tax expense, and subtracting interest income from net (loss) 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, change in fair value of derivatives, other advisory, legal and restructuring costs, which include terminated and ongoing transaction costs, and excluding the effects of any other unusual adjusting items.

## Adjusted Net Debt and Adjusted Net Debt/Adjusted EBITDA Reconciliation

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

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

(in U.S. dollars in millions, except percentages)	At and for the twelve months ended March 31,		
	2023	2022	% Change 2023 over 2022
Short-term debt	\$ 23.6	\$ 22.1	7 %
Long-term debt	3,220.4	1,582.0	104 %
Debt	3,244.0	1,604.1	102 %
Less: long-term debt in escrow	—	(939.8)	(100)%
Less: cash and cash equivalents	(568.3)	(440.1)	29 %
Adjusted net debt	2,675.7	224.2	1,093 %
Net income	\$ 113.4	\$ 301.8	(62)%
Add: depreciation and amortization	109.2	91.0	20 %
Add: interest expense	58.1	48.7	19 %
Less: interest income	(12.7)	(1.6)	694 %
Add: income tax expense	40.7	81.2	(50)%
EBITDA	308.7	521.1	(41)%
Share-based payments expense	38.3	24.7	55 %
Acquisition-related and integration costs	153.8	36.9	317 %
Loss (gain) on disposition of property, plant and equipment and related costs	2.9	(171.2)	(102)%
Gain on remeasurement of previously held interest in VeriTread	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(12.4)	—	(100)%
Other advisory, legal and restructuring costs	2.9	5.8	(50)%
Adjusted EBITDA	\$ 492.8	\$ 417.3	18 %
Debt/net income	28.6 x	5.3 x	440 %
Adjusted net debt/adjusted EBITDA	5.4 x	0.5 x	980 %

- (1) Please refer to pages 62-64 for a summary of adjusting items during the trailing twelve months ended March 31, 2023 and March 31, 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, 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.

## Operating Free Cash Flow (“OFCF”) Reconciliation

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

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

<b>(in U.S. dollars in millions, except percentages)</b>	<b>Twelve months ended March 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>% Change 2023 over 2022</b>
Cash provided by operating activities	\$ 221.3	\$ 322.0	(31)%
Property, plant and equipment additions	53.5	10.3	419 %
Intangible asset additions	49.1	32.7	50 %
Proceeds on disposition of property plant and equipment	(2.3)	(166.5)	(99)%
Net capital spending	\$ 100.3	\$ (123.5)	(181)%
OFCF	\$ 121.0	\$ 445.5	(73)%

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

## Adjusted Return and Adjusted ROIC Reconciliation

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

Previously, we calculated ROIC as net income 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:

<b>(in U.S. dollars in millions, except percentages)</b>	<b>At and for the twelve months ended March 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>% Change 2023 over 2022</b>
Net income (loss) attributable to controlling interests	\$ 113.4	\$ 301.8	(62)%
Add:			
Interest expense	58.1	48.7	19 %
Interest income	(12.7)	(1.6)	694 %
Interest, net	45.4	47.1	(4)%
Tax on interest, net	(11.1)	(12.3)	(10)%
Reported return	\$ 147.7	\$ 336.6	(56)%
Add:			
Share-based payments expense	38.3	24.7	55 %
Acquisition-related and integration costs	153.8	36.9	317 %
Amortization of acquired intangible assets	33.4	29.9	12 %
Loss (gain) on disposition of property, plant and equipment and related costs	2.9	(171.2)	(102)%
Gain on remeasurement of previously held interest in VeriTread	(1.4)	—	(100)%
Prepaid consigned vehicles charges	(12.4)	—	(100)%
Other advisory, legal and restructuring costs	2.9	5.8	(50)%
Related tax effects of the above	(52.2)	3.2	(1,731)%
Remeasurement of deferred tax in connection with business combination	(1.5)	—	(100)%
Adjusted return	\$ 311.5	\$ 265.9	17 %
Short-term debt - opening balance	\$ 22.1	\$ 25.9	(15)%
Short-term debt - ending balance	23.6	22.1	7 %
Average short-term debt	22.9	24.0	(5)%
Long-term debt - opening balance	1,582.0	636.7	148 %
Less: long-term debt in escrow	(939.8)	—	(100)%
Adjusted opening long-term debt	642.2	636.7	1 %
Long-term debt - ending balance	3,220.4	1,582.0	104 %
Less: long-term debt in escrow	—	(939.8)	(100)%
Adjusted ending long-term debt	3,220.4	642.2	401 %
Average long-term debt	2,401.2	1,109.4	116 %
Adjusted average long-term debt	1,931.3	639.5	202 %
Preferred equity - opening balance	—	—	— %
Preferred equity - ending balance	482.0	—	100 %
Average preferred equity	241.0	—	100 %
Stockholders' equity - opening balance	1,225.0	1,005.5	22 %
Stockholders' equity - ending balance	4,861.5	1,225.0	297 %
Average stockholders' equity	3,043.3	1,115.3	173 %
Average invested capital	\$ 5,708.4	\$ 2,248.7	154 %
Adjusted average invested capital	\$ 5,238.5	\$ 1,778.8	194 %
ROIC	2.6 %	15.0 %	(1,240)bps
Adjusted ROIC	5.9 %	14.9 %	(900)bps

- (1) Please refer to pages 62-64 for a summary of adjusting items during the trailing twelve months ended March 31, 2023 and March 31, 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 months period.
- (3) Adjusted ROIC is calculated as adjusted return divided by adjusted average invested capital.
- (4) Leases (Topic 842) requires lessees to recognize almost all leases, including operating leases, on the balance sheet through a right-of-use asset and a corresponding lease liability. The lease liability is not included in the calculation of debt.

**Adjusting items during the trailing twelve months ended March 31, 2023 were:**

***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 \$169.0 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 our contestation of the assertion by the Canada Revenue Agency ("CRA") that one of the Company's Luxembourg subsidiaries was resident in Canada from 2010 through 2015 and that its worldwide income should be subject to Canadian income taxation.
- \$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 \$169.0 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 \$169.0 million gain on the Bolton property in the first quarter of 2022, offset by \$0.3 million gain on disposition of property, plant and equipment in the quarter.
- \$1.5 million of other advisory, legal and restructuring costs, which include \$1.1 million of terminated and ongoing transaction and legal costs relating to mergers and acquisition activity, \$0.3 million of severance and retention costs in connection with the restructuring of our information technology team during the first quarter of 2022, driven by our strategy to build a new digital technology platform, and \$0.1 million of advisory costs relating to a cybersecurity incident detected in the fourth quarter of 2021.

### *Recognized in the second quarter of 2022*

- \$13.6 million share-based payments expense.
- \$3.4 million of acquisition-related and integration costs related to the terminated acquisition of Euro Auctions and the completed acquisitions of SmartEquip and Rouse.
- \$8.4 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet, SmartEquip, and Rouse.
- \$1.2 million gain on disposition of property, plant and equipment and related costs includes a \$1.3 million non-cash cost in the quarter relating to the adjustment made to recognize the Bolton property sale proceeds at fair value when calculating the \$169.0 million gain on the Bolton property in the first quarter of 2022, and \$0.1 million gain on disposition of property, plant and equipment in the quarter.
- \$9.7 million loss on redemption of the 2021 Notes and certain related interest expense includes (a) \$4.8 million of loss on redemption of the 2021 Notes due to a difference between the reacquisition price of the 2021 Notes and the net carrying amount of the extinguished debt (primarily the write off of the unamortized debt issuance costs), (b) \$0.7 million of deferred debt issuance costs written off due to the expiry of the undrawn \$205.0 million DDTL Facility in the quarter, and (c) 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.

**Adjusting items during the trailing twelve months ended March 31, 2022 were:**

***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.

***Recognized in the second quarter of 2021***

- \$7.5 million share-based payments expense.
- \$6.8 million amortization of acquired intangible assets primarily from the acquisitions of Iron Planet and Rouse.
- \$3.0 million of acquisition-related and integration costs related to the acquisition of Rouse.
- \$0.2 million gain recognized on the disposition of property, plant and equipment
- \$0.2 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 second quarter of 2021.

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

There have been no material changes to our market risk during the three months ended March 31, 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 Chief Financial Officer (“CFO”), have evaluated the effectiveness of the Company’s disclosure controls and procedures as of March 31, 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 CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based upon their evaluation of the Company’s disclosure controls and procedures, the CEO and the CFO concluded that, as of March 31, 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 CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

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

#### **Changes in Internal Control over Financial Reporting**

Other than related to the acquisition of IAA, there were no changes in our internal control over financial reporting during the quarter ended March 31, 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.