



Ritchie Bros. Auctioneers Inc. (RBA)

Updated February 25th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	11.4%	Market Cap:	\$6.8 B
Fair Value Price:	\$60	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	02/09/2023
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Dividend Payment Date:	03/03/2023
Dividend Yield:	1.8%	5 Year Price Target	\$97	Years Of Dividend Growth:	18
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Ritchie Bros. offers end-to-end solutions for buying and selling used heavy equipment, trucks, and other assets. The company's primary selling channels include Ritchie Bros. Auctioneers, the world's largest industrial auctioneer featuring online bidding, IronPlanet, an online marketplace with weekly auctions, and IronClad Assurance, which provides equipment condition certification. The company has a market cap of \$6.8 billion, generates around \$1.7 billion in annual revenues, and is based in Burnaby, Canada. Investors can trade its shares both on the TSX and NYSE. All figures in this report are in US dollars.

On November 7th, 2022, Ritchie Bros. agreed to acquire IAA (NYSE: IAA) in a stock and cash transaction valued at approximately \$7.3 billion. The acquisition is expected to close in the latter half of March.

On February 21st, 2023, Ritchie Bros. reported its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, revenues rose 23.5% year-over-year to \$443.8 million. This was due to total service revenues and inventory sales revenues increasing by 11% and 50% to \$272.5 and \$171.3, respectively. Service revenue growth was driven by fee revenues rising 24.3%.

Net income and EPS both rose by 48% to \$45.3 million and \$0.40, respectively. This was the result of strong growth in operating income, higher interest income from a rise in interest rates, and a lower effective tax rate. For the year, earnings-per-share rose by 110% to \$2.86. Our initial EPS estimate for FY2023 stands at \$2.50, as we expect earnings to normalize following last year's record-breaking figures. Additional expenses related to the IAA acquisition could also suppress earnings next year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.88	\$0.85	\$1.27	\$0.86	\$0.70	\$1.12	\$1.37	\$1.54	\$1.36	\$2.86	\$2.50	\$4.03
DPS	\$0.51	\$0.55	\$0.62	\$0.67	\$0.68	\$0.71	\$0.78	\$0.86	\$0.97	\$1.06	\$1.08	\$1.74
Shares¹	107	107	107	107	107	108	109	109	110	111	111	121

Despite Ritchie Bros. consistently growing revenues over the past decade, profitability had lagged, particularly in the 2016-2019 time period, as the company was reinvesting toward growth. We retain our EPS growth estimates at 10% over the medium term to reflect the company's growing GMV and accretive acquisitions. The recently announced acquisition of IAA is expected to be accretive to EPS post-close and to achieve \$100 to \$120+ million in annual run-rate cost synergies by the end of 2025. The company also sees strong demand for its auction services, while its acquisitions should unlock cost efficiencies, boosting net income. We believe strongly in Ritchie's potential synergies amongst its services (for example, certification provision before auction listing and vertical integration). Hence EPS growth is likely to remain solid. Due to profitability improving drastically, management has been accelerating its dividend growth recently. Dividend growth had fallen to as low as 3% in 2017, in line with stagnating EPS. We retain our dividend growth expectations at 10% in the medium term, as this rate can be supported by the company's underlining net income,

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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despite the most recent, slightly humbler increase of 8%. Ritchie Bros. has been growing its dividends annually without any exception since 2005, marking an 18-year dividend growth record.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	26.4	27.9	30.6	25.0	25.8	43.7	31.2	42.5	51.4	20.0	24.2	24.0
Avg. Yld.	2.6%	2.2%	2.2%	2.2%	2.2%	2.0%	1.9%	1.9%	1.4%	1.8%	1.8%	1.8%

Ritchie Bros' valuation had been quite consistent prior to 2020, typically hovering from 25x to 30x earnings-per-share. Between 2020 and 2021, the stock's P/E skyrocketed. It has now normalized 24X our projected earnings, with earnings growth mostly catching up to the stock price. We continue to warn that a valuation compression is quite likely despite the stock deserving premium multiple. Nevertheless, we believe that the current P/E of 24X will be sustained moving forward, given Ritchie Bros' historical valuation and earnings growth expectations.

Safety, Quality, Competitive Advantage, & Recession Resiliency

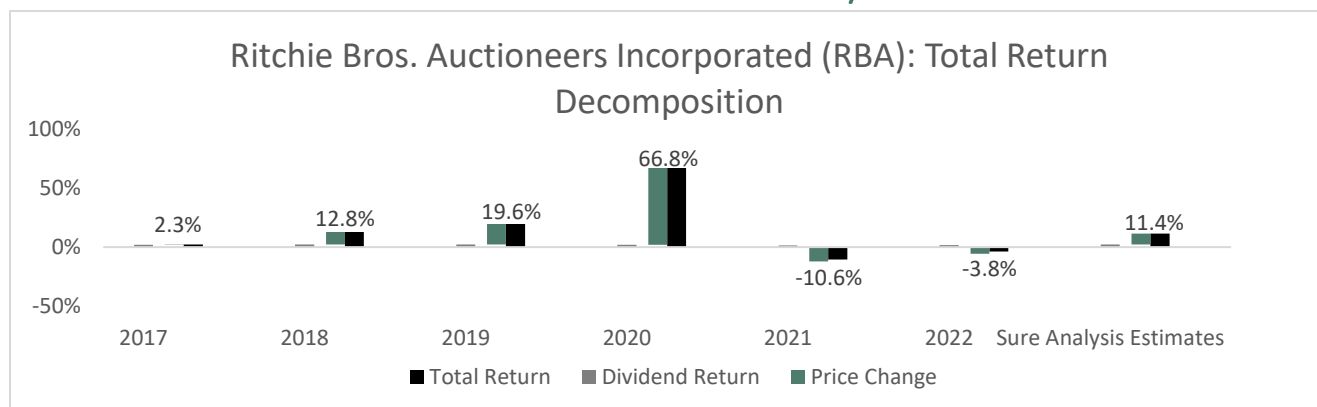
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	58%	65%	49%	78%	97%	63%	57%	56%	71%	37%	43%	43%

Ritchie Bros.' dividend coverage remains quite healthy. Despite the recent acceleration in dividend growth, the stock's payout ratio based on the company's expected FY2023 EPS is just around 43%. The company is the largest industrial-equipment auctioneer in the world, holding a significant competitive advantage due to its long-term expertise in the sector and the wide network effect of its online participants. Additionally, while its business model sounds sensitive to the industrial sector's cyclicity, the company is benefiting during such times as more equipment is brought forward to be auctioned (e.g., amid a company's liquidation), increasing its fees. During the Great Financial Crisis, for example, the company continued to enjoy revenue growth, despite the overall challenges in the economy. Hence, the company should remain resilient during a potential recession, enjoying robust cash flows.

Final Thoughts & Recommendation

Ritchie Bros. has achieved great shareholder value creation over the years, both in terms of share price gains and a growing dividend. While we believe that this year's results will normalize against last year's record numbers, we believe that the company's growth prospects remain solid. We forecast annualized returns of 11.4% through 2028, to be driven by a 10% annual growth in earnings, an initial yield of 1.8%, and relatively stable valuation assumptions. Accordingly, Ritchie Bros. earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	438	467	481	516	1,127	971	1,170	1,319	1,377	1,417
Gross Profit	388	413	423	460	500	532	637	673	762	822
Gross Margin	88.7%	88.4%	88.0%	89.1%	44.4%	54.7%	54.4%	51.0%	55.3%	58.1%
SG&A Exp.	227	244	248	254	284	323	383	382	418	465
D&A Exp.	41	43	45	42	41	53	67	83	87	101
Operating Profit	119	126	130	163	176	156	187	220	269	270
Operating Margin	27.2%	27.0%	27.1%	31.7%	15.6%	16.0%	16.0%	16.7%	19.5%	19.1%
Net Profit	80	94	91	136	92	75	121	149	170	152
Net Margin	18.2%	20.0%	18.9%	26.4%	8.1%	7.7%	10.4%	11.3%	12.3%	10.7%
Free Cash Flow	72	95	110	166	141	108	101	292	215	274
Income Tax	32	40	36	38	37	2	31	42	66	152

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,132	1,162	1,122	1,120	1,600	2,017	2,052	2,229	2,352	3,593
Cash & Equivalents	178	234	140	210	208	268	238	360	279	326
Accounts Receivable	46	61	61	50	45	78	113	122	112	123
Inventories	61	52	43	58	28	38	113	65	86	102
Goodwill & Int. Ass.	110	121	128	138	170	932	917	906	1,142	1,298
Total Liabilities	476	468	430	413	908	1,273	1,217	1,322	1,339	2,522
Accounts Payable	34	31	47	38	39	78	93	73	76	86
Long-Term Debt	240	182	119	110	620	820	731	650	666	1,744
Shareholder's Equity	657	694	692	703	687	740	831	902	1,007	1,071
LTD/E Ratio	0.37	0.26	0.17	0.16	0.90	1.11	0.88	0.72	0.66	1.63

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.6%	8.2%	8.0%	12.2%	6.8%	4.1%	6.0%	7.0%	7.4%	5.1%
Return on Equity	12.5%	13.9%	13.1%	19.5%	13.2%	10.5%	15.5%	17.2%	17.8%	14.6%
ROIC	9.6%	10.6%	10.8%	16.7%	8.6%	5.2%	7.8%	9.5%	10.5%	6.8%
Shares Out.	106.5	106.8	107.3	107.1	106.6	107	108.1	108.5	110.3	111.4
Revenue/Share	4.10	4.36	4.47	4.80	10.49	8.98	10.70	12.01	12.49	12.72
FCF/Share	0.67	0.89	1.02	1.54	1.31	1.00	0.93	2.66	1.95	2.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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