LUXOR CAPITAL

LUXOR CAPITAL GROUP, LP
1114 AVENUE OF THE AMERICAS, 28TH FL
NEW YORK, NY 10036
TEL: 212 763 8000
IR@LUXORCAP.COM

December 16, 2022

Ritchie Bros. Auctioneers Incorporated
9500 Glenlyon Parkway
Burnaby, BC V5J 0C6 Canada
Attn: Board of Directors

Dear Members of the Board of Directors,

Luxor Group Capital, LP ("Luxor" or "we") is the manager of funds owning approximately 3.6% of the outstanding shares of Ritchie Bros. Auctioneers Incorporated ("RBA" or the "Company"). We are writing this letter to express and explain our profound disappointment in the proposed acquisition of IAA Inc. ("IAA"). Founded in 2002, Luxor is a multi-billion-dollar investment manager. We have an extensive history of investing in global marketplaces that have a dominant, or a path to a dominant market share. We believe such companies can compound cash flow and valuation at attractive rates over a long-term horizon, and for that reason we have been a multi-year RBA shareholder.

We appreciate the dialogue we have had with the Company's management and board of directors (the "Board") both prior to and after the announcement of the proposed merger of IAA with the Company (the "IAA Merger"). However, for the reasons discussed below, we firmly believe the IAA Merger is not in the best interest of RBA shareholders and, as such, we intend to vote our shares against it.

1) <u>RBA risks permanent destruction of billions of dollars in shareholder value, as evidenced by the market's reaction to the announcement of the IAA Merger.</u>

The 18% decline in the Company's closing share price upon announcement of the IAA Merger on November 7, 2022 underscores RBA investors' clear distaste for the proposed transaction. As RBA exceeded sell-side expectations for Q3 2022 across all metrics, including exceeding consensus sell-side EBITDA expectations by 20%, and offered a strong outlook for Q4 2022, the underperformance of its share price in reaction to the IAA Merger is likely over 25%, implying >US$1.8bn of value destruction.[1] Subsequent improvement in RBA's share price has essentially matched that of the broader market, despite aggressive campaigning by RBA's management and additional presentation materials that were published to 'pitch' the IAA merger.

In our conversations with other significant RBA shareholders, not a single one has expressed support for the IAA Merger. If the IAA Merger is voted down by the Company's shareholders, we would expect RBA's shares to trade at ~US$71 in the near-term given the strong performance of the Company's business, the performance of the S&P 500 (up 3.6% since November 7), and the Company's unaffected share-price of

[1] Assuming RBA shares would have traded up on the strong earnings results without the deal, we believe the deal had a 25%+ negative impact on the value of the Company, which represents >US$1.8bn of value.

US$62.32[2]. As discussed herein, RBA is an outstanding or 'A+' business whose intrinsic value is over US$120 per share according to our estimates, and if allowed to continue compounding EBITDA at 20% per year as a standalone entity, we believe shareholders can look forward to outsized multi-year returns if the IAA Merger is voted down by the Company's shareholders. However, if the IAA Merger is consummated, we believe the Company may lose focus and stray from the positive growth and momentum it is currently experiencing, and that shareholders will miss an opportunity for significant returns.

2) **The IAA Merger would severely erode RBA's business quality and lacks compelling industrial logic.**

By every indication for marketplace investors, IAA is a distinctly inferior business to RBA, and a combination would *permanently* depress RBA's trading multiple. IAA is not a "proven leader" as stated by RBA's management,[3] but instead a distant number two player across all key aspects of its business (supply, demand, and service / product). In marketplace businesses, it is common to see a leading player with respect to liquidity and product offering, continually compounding its advantages to the detriment of competitors, as is the case in the salvage auto space, where IAA operates as the inferior number two provider.

The IAA Merger will *permanently* subject RBA investors to the vagaries of operating a weaker and declining second place player with far less appealing business dynamics than those currently enjoyed by RBA, as a dominant leader with a long runway of growth ahead. This is reflected in the unaffected valuation multiples of the respective businesses with IAA trading at a five turn multiple discount to RBA prior to the deal announcement, and with RBA otherwise on an upwards re-rating path in accordance with the ongoing, successful build out of its high margin software and services revenues.

3) **RBA's shares are dramatically undervalued and should not be used as an acquisition currency at this time.**

On a standalone basis, RBA is trading at a ~6.5% forward Free Cash Flow ("FCF") yield and <12x 2023 EBITDA, in contrast to global peers with inferior long-term growth prospects trading at 3 – 4% FCF yields and >20x 2023 EBITDA.[4] We believe RBA's shares are currently worth more than US$120 per share, or ~100% higher than the pre-announcement trading levels. Similarly, ***a discounted cash flow ("DCF") analysis (discussed below and included in the Appendix attached hereto) predicated on RBA's own financial targets for 2023 – 2026, indicates that RBA's shares are worth well over twice their value prior to the announcement of the IAA Merger.***

[2] $62.32 was the closing price as of November 4, 2022 the last trading day prior to the IAA Merger being announced. US$62.32 * 1.1 (representing 10% move from EBITDA beat) * 1.036 (representing 3.6% move with the S&P500) = US$70.99.

[3] RBA CEO, Ann Fandozzi, on the November 7, 2022 RBA earnings call, "Entering the large vehicle market with a proven leader."

[4] Comparable marketplace businesses include Auction Technology Group, AutoTrader, Baltic Classifieds, CarSales, Copart, Costar, Hemnet, Property Guru, REA Group, Rightmove, Scout24, and Trainline. Comparable multiples based on sell-side consensus expectations.

RBA's management and Board have recently reaffirmed their respective comfort and confidence in RBA's multi-year financial targets (included on page 12) in our discussions with them, and they are presumably aware of the disconnect between the Company's market cap and its fair value based on any cash flow-based valuation methodology. That being the case, the Company's use of its shares as an acquisition currency seems especially ill advised at this time and represents either a complete miscalculation or misjudgment by the Board with respect to capital allocation. To the extent the Board no longer believes that management is poised to deliver on the Company's multi-year targets,[5] we believe all RBA shareholders- regardless of their investing time horizon- would strongly prefer the Company to focus on the issues weighing down its financial outlook as opposed to attempting to integrate a company in an unrelated industry, whose business is facing an entirely different set of challenges and carries a lower quality revenue stream.

4) <u>RBA shareholders would be massively diluted by the IAA Merger.</u>

The contemplated issuance of an additional ~70% of the Company's current outstanding shares to acquire IAA would create a dramatic degree of dilution for existing RBA shareholders. The willingness of the Board and management to undertake such a dilutive transaction is especially abusive to RBA shareholders in the context of IAA representing an "adjacent" or "complementary" business,[6] and thus an entirely unnecessary or gratuitous acquisition. To our knowledge, RBA shareholders have no interest in diversification into different verticals for the sake of diversification alone, not to mention at the cost of issuing ~70% more RBA shares.

5) <u>RBA's software and services revenue businesses offer a clear path for the Company to continue compounding its EBITDA by ~20% per year on an organic basis, while increasing its trading multiple and enabling its valuation to multiply. We contend that there has *never* been a worse time for RBA to risk a loss of focus by pursuing large-scale M&A of a losing player in an unrelated vertical.</u>

RBA is currently in the early stages of building out and monetizing a wide range of software and services offerings (described herein), which represent literally hundreds of millions of dollars in aggregate EBITDA potential given the stable and high contribution margins of the associated revenue streams. We estimate RBA currently earns <US$600 of additional services revenue per higher value equipment or lots when it could be earning a potential US$5,100 of revenue per item or lot in potential services. Further, there are multiple software and non-transaction service revenue streams that the Company is well-positioned to capture. It is inconceivable to us that RBA management will be able to devote the necessary amount of

[5] In this context, we view the financial projections for RBA included in the Company's joint proxy statement released on December 14, 2022 as not representative of RBA management's expectations / targets for a myriad of reasons. Among these, as described on page 78 of the proxy statement, these "more conservative five-year management forecasts" were created "for discussions with RBA's financing sources and by Goldman Sachs and Guggenheim Securities in their financial analyses with respect to a potential transaction."

[6] IAA was described three times by RBA CEO, Ann Fandozzi as an "adjacent" business, and eight times as a "complementary" business on RBA's November 7, 2022 earnings call announcing the proposed transaction.

attention and focus to fully execute across each of these opportunities if management must direct time and resources towards integrating and managing IAA, which is in dire need of redress.

6) IAA is a severely challenged business requiring a multi-faceted and likely expensive turnaround to prevent continued loss of customers, declining service levels and deteriorating earnings.

IAA has lost a stunning ~25% of market share in the last six years.[7] As detailed on page 16, the unit volumes of IAA's primary competitor, Copart, Inc. ("Copart"), are ~60% larger than IAA's despite having been roughly equal six years ago. Looking forward, IAA is competing with a structurally disadvantaged real estate footprint, lower levels of buyer traffic, and a worse cash flow profile against Copart. This translates into a growing need for re-investment, risk of pricing pressure and through-the-cycle margin compression for IAA, which seems to have been ignored in RBA's discussions and materials regarding IAA's competitive standing and outlook.

In addition, RBA has neglected to mention that ~40% of IAA's supply is derived from two large insurance carriers, Progressive Corporation ("Progressive") and State Farm Insurance ("State Farm"), which highlights the fragility of their marketplace.[8] Moreover, based on our research, it appears that State Farm has begun discontinuing business with IAA in multiple states in the last few months, first in the Midwest and more recently in the South. To the extent this trend continues in-line with IAA's loss of business with Government Employees Insurance Company ("GEICO"), Liberty Mutual Group ("Liberty Mutual") and American Family Insurance ("American Family") in recent years, this would create substantial and unnecessary risk for RBA investors given the proposed leverage levels placed on the combined businesses.

Likewise, in the Company's haste to pursue this "diversifying" acquisition,[9] it appears to us that RBA's management has under-represented the structural challenges and *sizable capital needs* associated with addressing IAA's rapidly declining market share. Comparatively lower liquidity in IAA greatly reduces the value of its marketplace relative to Copart's. Reversing this trend, if possible, will require capital intensive investments to improve buyer traffic, improve IAA's inferior real estate footprint, purchase towing equipment, and improve inferior service levels. Any such efforts will materially weigh on IAA's future earnings, with the ultimate impact contingent on factors outside of RBA's control, such as Copart's competitive response.

It is notable that RBA announced the IAA Merger simultaneously with IAA's quarterly earnings where IAA disclosed continued margin compression, diluted earnings per share ("DEPS") down 13.5% year over year, and DEPS missing sell-side expectations by 10%.[10] Such results likely would have caused IAA's shares to trade down significantly, further highlighting the growing contrast in business performance, valuation, and trading multiples between RBA and IAA, if it were not for the announcement of the IAA Merger. Likewise, RBA shareholders and all other market participants would have had far greater visibility regarding the true premium embedded in the proposed transaction.

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[7] Based on YipitData beginning in November 2016.
[8] Source: YipitData.
[9] On RBA's November 7, 2022 earnings call, RBA CEO, Ann Fandozzi used the word, or variations of, "diversification" seven times with respect to the justification of the IAA Merger.
[10] Reported DEPS of US$0.45 as compared to consensus of US$0.50.

7) <u>Purported synergies involving RBA's and IAA's yards appear minimal, despite assertions to the contrary.</u>

To justify the IAA Merger, RBA management has repeatedly touted the benefits of using IAA's yards to help RBA accelerate its satellite yard strategy. However, we believe IAA's yards are significantly over-utilized relative to Copart's yards,[11] which contributes to IAA's inferior service levels and declining market share. Adding RBA inventory to IAA's already over-utilized existing yards would complicate operations for staff on the ground with non-uniform inventory and further detract from service levels. More importantly, with <US$10mm in additional lease expense,[12] RBA can multiply its own satellite yard footprint and target the most appropriate locations, rather than spending ~US$7bn in excessively dilutive equity to inherit yards that are already heavily utilized and in pre-determined locations.

With respect to the touted synergy of using some of RBA's yards for IAA, our due diligence indicates this entails far more complex zoning challenges than have been indicated. Further, the need for environmental permits to handle leaking fluids and hazardous materials does not go away during catastrophic events, likely limiting the utility of the ~300 semi-utilized acres (relative to 17,000 acres of Copart) in catastrophe-prone regions that RBA could contribute.

<u>Conclusion</u>

By pursuing the IAA Merger, we believe RBA's management and Board, who collectively hold less than 0.1% of RBA's outstanding shares, are not acting in the best interest of RBA shareholders. The IAA Merger was announced with a lack of a detailed turnaround plan, and its primary justification centered around "diversification"[13] and adding more "scale" for its own sake.[14] As far as we can tell, the Company's investors are not looking for diversification or "complementary businesses in adjacent verticals," and we reject this as a suitable rationale for merging with IAA.[15] It is liquidity and the network effect of each distinct business that will drive value, not corporate scale.

We understand RBA management is interested in a "testing and learning" approach, which we believe is appropriate in certain contexts, but unacceptable in the context of a merger valued at ~US$7bn that stands to dilute shareholders by ~70%. Operating IAA 'successfully' in the future will realistically require large reinvestment into the business, resulting in the combined Company being more levered than advertised and RBA shareholders footing the bill for a risky endeavor.

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[11] Based on public filings and third-party data, we estimate IAA processes over 15% more cars per acre relative to Copart.

[12] Adding 48 new yards fully devoted to RBA (relative to 24 existing yards) would multiply the footprint. With an estimated cost of <US$100K of annual lease expenses per yard, this comes out to US$4.8mm, or comfortably under US$10mm.

[13] Specifically, RBA management's rationale for the IAA Merger on the November 7, 2022 earnings call was encapsulated as follows: "Through this transaction, we will combine complementary businesses operating in adjacent verticals to unlock accelerated growth. IAA will increase our scale, allow us to diversify our business by entering the large vehicle market with a proven leader and allow us to leverage our marketplace investments over a much wider array of assets."

[14] The word "scale" was used eighteen times on RBA's November 7, 2022 earnings call in reference to the IAA Merger.

[15] Source: November 7, 2022 joint press release.

The best path forward for the Company is on a standalone basis, with the management team focused on execution of the core RBA strategy, which remains in the early days of development and demands undivided attention. If the IAA Merger is terminated due to being voted down by either RBA or IAA shareholders, in their respective scheduled voting process, no termination or 'break-up' fee is due to be paid. RBA shareholders have nothing to lose by voting down this deal, and the Company's stock would likely re-rate materially higher if the deal is not completed. Accordingly, we intend to vote our RBA shares against the IAA Merger.

Set forth on the following pages is a more detailed discussion of RBA's and IAA's prospects with supplemental data and analysis, and we intend to release further information underlying our views on both businesses.

Sincerely,

Luxor Capital Group, LP

Ritchie Brothers Overview

RBA Shares are Worth >100% More than Current Trading Levels

As we will detail below, we believe RBA is an extremely high-caliber asset, with an unassailable market-position due its strong network effect, and a long runway to continue to compound its top and bottom lines. Using RBA management's own financial targets, the shares are worth ~US$140, or nearly a 150% premium to current trading prices.[16]

RBA is a dominant, asset-light, non-cyclical marketplace business connecting buyers and sellers of heavy equipment in the construction, agriculture, mining, and other industries. The core business operates with 40% EBITDA margins,[17] fully loaded for investments into several new business opportunities and software initiatives, with several years of >20% annual organic growth in EBITDA ahead. With ~90% market share, RBA has been the leading global platform for used heavy equipment for decades. To provide sellers with access to liquidity and buyers with access to equipment, RBA operates several platforms, including Ritchie Brothers, IronPlanet, TruckPlanet, Marketplace-E, GovPlanet, and SalvageSale. While these businesses continue to grow revenue and EBITDA organically, the next phase of growth is through the extension of its satellite yard strategy and through the development of several software and data businesses that will allow RBA to deepen its involvement in the lifecycle of equipment. These initiatives include SmartEquip for parts, Inventory Management System software ("IMS") to manage and track equipment, and Rouse (acquired in 2020) for utilization and rental pricing data.

The Company is in the early stages of integrating these different offerings to create a more powerful ecosystem that will drive value for RBA's partners and shareholders. Opportunities arising out of the development of this ecosystem include the continued growth of services revenues through IMS, a parts and service marketplace, a listings marketplace, additional financial services, and data monetization. Accordingly, RBA management and the Board cannot afford to divert attention away from developing and pursuing these opportunities by engaging in the costly and time intensive exercise of turning around and integrating IAA into the existing RBA framework and infrastructure. To help frame both the near-term and the long-term growth prospects of RBA, we briefly walk through each of these opportunities below.

IMS and Services Revenue Opportunity

For the past few years, RBA has been rolling out its IMS. This software allows users to track their equipment, easily access data on the utilization and valuation of the equipment (leveraging RBA auction prices and Rouse pricing data), easily list their equipment for sale through any of the RBA platforms or their own websites, and in the future order additional services such as re-financing, inspections, appraisals, parts, etc. at the click of a button. These additional service opportunities are being integrated across the ecosystem today, but they are yet to be deployed and monetized.

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[16] DCF built using management's evergreen targets with an 18% Adj. Operating Income CAGR and an 8.0% Weighted Average Cost of Capital ("WACC").

[17] Reported EBITDA margins of 27% in 2022 YTD include the impact of 'owned inventory' (i.e., '1P') sales which carry a lower gross and EBITDA margin. Adjusting for these sales and recognizing the revenue on a net basis as they were previously, RBA's EBITDA margins are 40%.

The adoption of this software has been growing rapidly, with organizations using it up 26x since Q1 2021, and most recently up 42% quarter over quarter in Q3 2022.[18] This is yet to flow through the financial results, as there is minimal revenue generated from the IMS itself. We view it as a gateway to drive revenue from all the additional offerings and services that RBA can bring to bear. A good example of the additional service revenue opportunity is a recent test that RBA launched of inspection reports, which provide a more detailed assessment of equipment going to auction, and which buyers can purchase for a few hundred dollars. When paying tens or hundreds of thousands of dollars for equipment, it seems clear to us that a buyer would not wish to be at an information disadvantage to other bidders, and we therefore expect such reports to be sold to multiple bidders for each piece of large equipment. If we are correct in this assumption, with well over 100,000 core pieces of equipment that transact each year, **this alone represents a US$100mm+ EBITDA opportunity**.[19]

Another such example of the additional services revenue opportunity is the extension of Ritchie Brothers Financial Services ("RBAFS"), a marketplace connecting lenders and buyers of equipment that need financing. Today, the vast majority of the RBAFS' use case is through transactions, both on the RBA marketplaces and through third party transactions. With a fully developed IMS, RBA would have the ability to help equipment owners finance their ownership throughout the life cycle at both a portfolio and individual equipment levels. Building on this, through IMS, RBA will be able to offer their adjacent services outside of just transactions to equipment owners at any point of a vehicle's life cycle whenever inspections, appraisals, parts, financing, or other services are needed, **creating the opportunity to generate hundreds of millions of dollars of high margin revenue.**

Parts Marketplace Opportunity

With the acquisition of SmartEquip, RBA entered the parts and maintenance space with the dominant software connecting equipment owners with the original equipment manufacturers ("OEMs") and dealers selling parts. With limited competition, SmartEquip is the central database of equipment catalogs, offering an e-commerce checkout experience and, critically, the pipes connecting equipment owners to OEMs to allow for a natural and convenient user experience.

Although SmartEquip is a small business within RBA, run-rating at ~US$20mm in high margin software revenue,[20] a substantial opportunity lies with connecting this product's functionality to additional use cases. For example, when a buyer purchases a piece of equipment at auction, RBA will have the ability to upsell them the correct and required replaced parts and can do so seamlessly through the integration of SmartEquip. This creates additional opportunities for all parties by providing convenience and solutions for the buyer, connecting the OEMs and dealers to the new equipment owners (who they otherwise wouldn't have access to), and driving high margin incremental revenue for RBA through a take-rate model.

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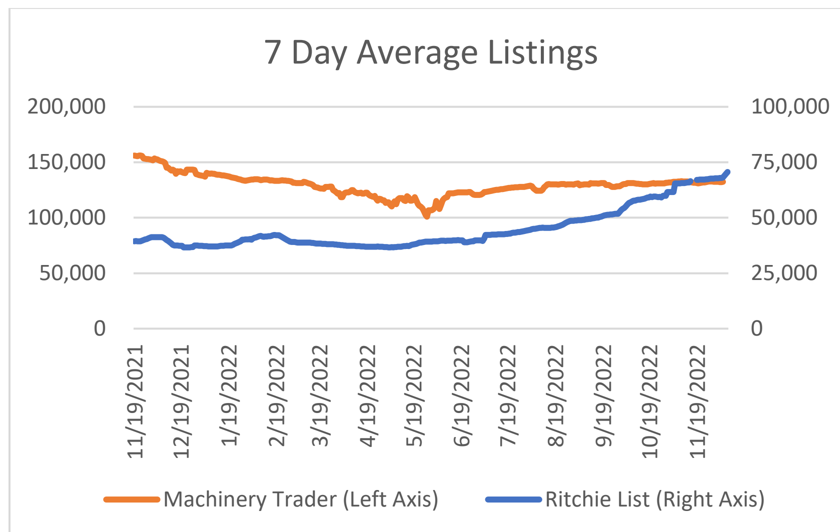
[18] RBA Q3 2022 earnings presentation.
[19] 100,000 pieces of equipment multiplied by four reports per piece of equipment multiplied by US$300 per report = US$120mm. Note that this is based on a relatively low equipment count (driven by the semiconductor chip shortage) of items that transact at >US$10,000.
[20] Source: RBA November 7, 2022 10Q.

RBA Management has stated that, in the future, the parts marketplace will also be fully integrated into the IMS, allowing the purchase of such parts at any point during the life of an asset. We view the long-term revenue opportunity here to be comparable to the existing auction business; by way of reference, parts and maintenance comprise a larger piece of revenue than vehicle sales for dealers.

Ritchie List, P2P Marketplace Opportunity

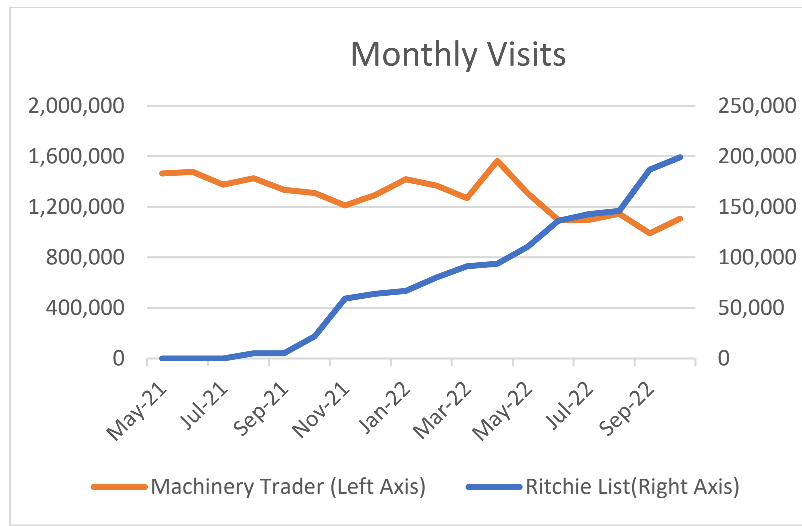
We view the primary competitors of the Company's core marketplace to be alternative use cases such as platforms for peer to peer ("P2P") transactions and dealer trade-ins. The largest player in the P2P market, Machinery Trader, developed out of a catalog business and offers a clunky user interface, while possessing many antiquated practices to this day, such as requiring listers to purchase print advertisements to receive an online listing. Launched in Q4 2021 by RBA, Ritchie List is a competing platform which allows sellers to pay a small listing fee to list their equipment directly.

While Richie List initially had 35,000 – 40,000 listings on the site and ~20,000 monthly visits, listings have nearly doubled from launch, and traffic has grown by 10x. As illustrated below, Ritchie List has made material progress, as evidenced by their listings growth.



Source: Westside Data Analytics.

This same trend is visible on the demand side with monthly visits to Ritchie List growing rapidly.



Source: Similarweb.com.

With strong execution and continued focus, we believe RBA can 'win' with a superior product, particularly as RBA integrates its relevant services, including escrow accounts, titling, lien searches, financing, logistics, inspections, appraisals, parts, and more to improve the experience for buyers and sellers. These related services provide high margin incremental revenue streams for RBA and provide a significant product differentiation improving the seller and buyer experience.

Today, with limited adjacency revenue, and only charging 30 cents per listing per day (as compared to ~US$39 per listing per day on Machinery Trader for a comparable national listing), Ritchie List doesn't contribute significantly to the Company's revenue or EBITDA. With featured listings, we estimate Ritchie List generates approximately US$10mm of run-rate revenue today. We believe Ritchie List can add hundreds of millions of high margin revenues via adjacency services being attached to literally hundreds of thousands of transactions and material pricing increases on listings. Although we are not advocating a near or medium-term focus on pricing, **if Ritchie List pricing were on par with Machinery Trader's, this would add well over US$500mm of high margin revenue with today's listing volumes.**[21] In essence, RBA should continue to pursue a strategy of ensuring it has a superior product and aim to create the most liquidity, through traffic and listings, to maximize long-term value for all constituents, as ultimately the combination of liquidity and product is what drives value for marketplaces.

Rouse Data Monetization Opportunity

With the acquisition of Rouse, RBA gained access to a unique dataset collecting rental equipment utilization and pricing on a nightly basis. Rouse is a 'give-to-get' operating model which requires participants to share their own data to benefit from the anonymized benchmarking data. Naturally, this business entails a strong network effect. Combined with RBA's own auction data, it can be directly translated into valuation data, which is of great value to equipment buyers, sellers, and lenders. For

[21] 70,000 listings * US$38.70 of incremental revenue * 365 days = US$989mm.

instance, lenders often contractually require that appraisals are done through Rouse due to the accuracy and reliability of their pricing and therefore valuation data. As RBA integrates this data across their ecosystem to allow for the subscription or sale of this data on Ritchie List, and through their IMS, we expect to see significant growth to the scale of approximately US$50mm of extremely high margin revenue.[22]

Satellite Yards Opportunity

In addition to the above product developments, the Company has furthered its real estate strategy with the use of satellite yards. When COVID-19 pushed RBA to completely virtual auctions, it allowed the Company to shift its real estate strategy such that equipment was not required to be housed at one location where the upcoming auction would be held. Instead, it enabled RBA to pool inventory from multiple sites for one virtual auction. This approach allows RBA to operate much smaller, conveniently located satellite yards, which reduces the cost of logistics and increases the ease of use for sellers. These satellite yards are driving meaningful incremental sales, with 41% of the volume coming from sellers that haven't worked with RBA in at least three years.[23]

Due, in part, to a 12 – 18-month testing period, RBA has only established 24 satellite yards to date. We believe further expansion of the satellite yard initiative provides an attractive 10+ year runway of growth for RBA to expand its footprint and continue growing its supply base. While we fully support the management team's ambitions to invest behind this opportunity, we contend that RBA can multiply its footprint with single digit millions of lease expense, rather than undertaking the IAA Merger, which is currently valued at ~US$7bn, and using RBA's undervalued equity to acquire more yards. Specifically, the average satellite yard is approximately five acres in size, requires immaterial capital expenditures, and costs less than US$100,000 in annual lease expenses, allowing RBA to rapidly open locations at minimal cost.

Operationally, as we will further cover below, one of the core issues that IAA is facing today is the over-utilization of its yards. Adding further complexity to the on-the-ground operations of IAA's already crowded yards with non-uniform equipment is operationally detractive, particularly if occurring when IAA is attempting to arrest its ongoing market share losses. Additionally, due to the small and unspecific nature of the satellite yards, RBA can and has opened these locations at a small cost. Rather than inheriting IAA's existing yards, if RBA were to continue focusing its time, capital, and efforts on opening its own satellite yards, RBA would be able to carefully select the geographic dispersion and locations it hand picks. The best path forward for the Company on its satellite yard development and real estate footprint expansion is an organic one undertaken on the Company's own terms that deploys millions and hopefully tens of millions of dollars over time.

Valuation Implications of RBA Growth Initiatives

The above revenue opportunities, in addition to the organic growth of RBA's transaction value in its marketplaces, collectively drive the Company's own financial targets that were first issued at RBA's

[22] Internal estimate based on previous RBA Rouse revenue disclosures.
[23] Disclosed by management during RBA's May 2022 Investor Day.

investor day on December 7, 2020 and have since been re-iterated consistently, which target "low double digit to high teens" service revenue growth, with operating income growth outpacing service revenue growth given the high contribution margins of the revenue. Although each of the software and services initiatives has already demonstrated strong traction, we believe that only a fraction of the potential revenue discussed above is captured in the financial targets.

Source: Ritchie Brothers Investor Presentation, June 2022.

In our conversation with the Chairman of the Board earlier this month, we heard that the Board and management continually review and discuss these evergreen metrics, and that they remain confident in this forecast. Likewise, RBA's recent financial performance and the rapid adoption of RBA's various high margin software and services offerings both underpin these growth rates and may offer additional upside that hasn't been fully modeled in.

Using the above metrics supplied by RBA, a DCF analysis of RBA's cash flows (included in the Appendix attached hereto) using conservative assumptions regarding working capital and the risk-free rate, indicates a valuation of US$103 per share on the low-end.[24] Incorporating the mid-point of the Company's targeted growth of Adjusted Operating Income and a WACC in-line with RBA's historical cost of capital indicates a valuation north of US$160 per share.[25] In all cases, we believe the Company is poised to compound EBITDA and valuation to higher levels with the continued growth in attach rate of its services businesses and the expansion of its software offerings.

Per Share Value Sensitivity Table

		Adj. Operating Income CAGR				
		16.0%	**17.0%**	**18.0%**	**19.0%**	**20.0%**
WACC	**7.0%**	**$169**	**$177**	**$186**	**$195**	**$206**
	7.5%	**$145**	**$152**	**$160**	**$168**	**$177**
	8.0%	**$128**	**$134**	**$141**	**$148**	**$155**
	8.5%	**$114**	**$120**	**$125**	**$132**	**$138**
	9.0%	**$103**	**$108**	**$113**	**$119**	**$125**

Source: Luxor calculation employing RBA management's guidance.

Other standard valuation methodologies also reveal severe undervaluation of RBA's shares. Today, without accounting for the material value of its excess and under-monetized real estate, RBA trades at a ~6.5% forward FCF yield with modest net leverage of under 0.5x 2022 EBITDA. This represents an unusually cheap valuation for an "A+" quality business compounding EBITDA at ~20% per year for the next several years, with structurally minimal capital expenditures and working capital needs. By contrast, publicly traded peers typically trade at forward FCF yields of 3% - 4% despite distinctly inferior growth runways.[26]

Considering the significant management bandwidth and focus required to capture these opportunities, it would be an enormous and easily avoidable 'unforced error' to direct attention and resources elsewhere. In addition to their meaningful contribution to both the additional EBITDA and ecosystem value these services create, RBA will command a higher trading multiple as these high margin streams collectively become a higher percentage of RBA's consolidated sales, and RBA's position in the ecosystem is further solidified.

Issuing shares at a material discount to fair value and anything short of RBA's management and Board being laser-focused on the tremendous value creation available from existing organic growth opportunities is a mistake.

[24] DCF built using management's evergreen targets (i.e., targeted average annual performance over a five-to-seven-year period) with a 16% Adj. Operating Income CAGR and a 9.0% WACC.
[25] DCF built using management's evergreen targets with an 18% Adj. Operating Income CAGR and a 7.5% WACC.

[26] Comparable marketplace businesses include Auction Technology Group, AutoTrader, Baltic Classifieds, CarSales, Copart, Costar, Hemnet, Property Guru, REA Group, Rightmove, Scout24, and Trainline.

Where We Are in The Cycle

Recently, both RBA and IAA have weathered a slowdown in the volume of units flowing through their marketplaces that was offset by higher asset prices. This has been sparked by the pandemic and the semiconductor shortage in 2021-2022 restricting the production of new cars and new equipment, which greatly affected the respective ecosystems. This similarity of events has led to a misconception that RBA and IAA are in similar parts of the cycle. Although such parallels exist with respect to the dynamics behind the volume and price of units transacted, the economic outlook differs considerably.

In the case of the salvage industry, average selling prices ("ASPs") are currently tracking ~60% above their 2019 levels, which drives material increases to revenue per vehicle since revenue is largely earned as a commission on the total transaction value. This additional revenue is generated with practically no incremental cost and has driven improved unit economics for IAA. As volumes recover and prices decline and/or normalize, as industry participants expect to eventually happen, this will materially reduce the revenue per vehicle IAA earns and consequently compress their margins and earnings power. This will be further exacerbated by the inflationary environment that will drive up IAA's lease expenses, and in particular, their leases directly linked to the consumer price index ("CPI").

While RBA also generates more commission revenue per item in the current high asset price environment, its services business suffers as it can only provide appraisals, inspections, titling, financing, logistics, etc. based on the volume of items that are auctioned. In Q3 2022, RBA experienced healthy growth with the easing of the tight supply environment, and investors saw a big positive inflection in service revenues growing 30% year over year, which in turn drove the 20% EBITDA beat over consensus expectations. As volume returns for RBA, while there will be some headwind to commission earnings, this will be more than offset by the high incremental margins from service revenues. Further, as RBA owns the vast majority of its land, inflating lease expenses are not of material consequence.

In short, despite statements by RBA management about that these companies are at similar places in the cycle, RBA is at trough margins due to the compression of their service revenues, while IAA has been experiencing peak margins due to the previous expansion of the revenue per vehicle generated. As revenue per vehicle compresses and lease costs inflate, we expect margins to compress for IAA.

IAA Overview

IAA Requires Significant Capital to Have a Chance at Stabilizing Market Share Losses

IAA is a far lower quality business than RBA, thereby creating an entirely unnecessary level of erosion in business quality for RBA if the IAA Merger is consummated. Even more troubling, RBA management is either unaware of, or has willfully chosen to avoid disclosing, the level of investment and other resources necessary to (a) reverse the ongoing trend of acute and accelerating market share loss at IAA and (b) address structural disadvantages arising from IAA's focus on capital efficiency and failure to re-invest in their business.

Contrary to RBA's attempts to frame IAA in a different light in its materials and discussion with RBA investors, IAA is well known to investors and analysts involved with the salvage auction space as a turnaround in need of investment.

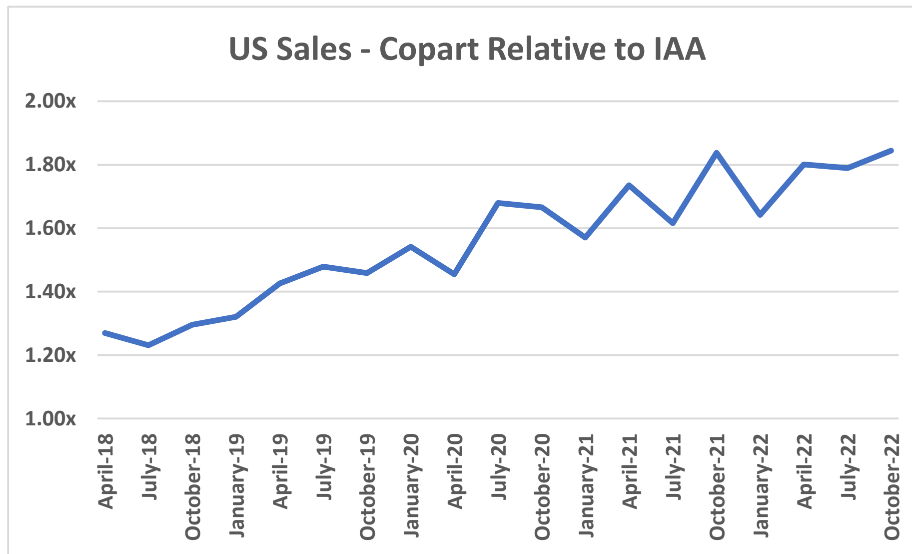
It is our contention that a combination of these businesses lacks meaningful natural synergies beyond back office and G&A synergies which can be found with many other potential transactions that do not entail issuing 70% more shares in the Company. Over the past five plus years, it appears that IAA has been starved for capital, first under its previous owner, KAR Auction Services ("KAR"), which used IAA to fund alternative investments, and more recently post-spin with management attempting to hit margin targets while bleeding market-share. Consequently, IAA has made numerous strategic decisions that have enabled its primary competitor, Copart, to leapfrog IAA in customer experience, market share, and operating margins, and we disagree with RBA management's claim that simply running more volume through IAA's real estate will close the non-lease related gap on margins and competitiveness. As an indication, IAA already processes >15% more salvage vehicles per acre of land than Copart. This crowding of the IAA yards due to a lack of investment is one of the many reasons why IAA operates with lower service quality and longer turnaround times, which costs insurance companies time, money, and customers. Likewise, this inferior real estate strategy is visible both on an aggregate basis where Copart has just shy of twice the total acreage of IAA, but also on a per yard basis, with the companies having a similar number of yards, just far more acreage per yard for Copart.

This difference in real estate footprint in the industry appears to have become more pronounced starting in 2016, when Copart began re-shaping its footprint and investing aggressively into their market position. Based on comments made on Copart's most recent quarterly earnings call, it appears to still be in the early days of this strategy: "So we expect to continue investing in land very substantially, both for day-to-day operations as well as for catastrophic readiness. You've seen that 'elevated' investment profile since the spring of 2016, and we continue to aggressively pursue land to support our core business as well as to address the spikes that, of course, occur in the context of catastrophic events."[27] Since 2016, Copart has invested >US$2.6bn in capital expenditures and acquisitions, with the significant majority of this spend being geared towards improving its real estate footprint.

While this capital investment has predominantly been spent on real estate, Copart has also materially stepped up their investments in their own heavy equipment to operate the yards, their international expansion to attract more buyers, and having ownership of their towing fleet. Having less crowded yards, their own fleet to leverage for reliable collection of vehicles, and more equipment to manage the salvage yards, has allowed Copart to consistently offer faster and better service levels, which improves the carriers returns, and the carriers' customer's experience. It has been this gap in customer experience and returns between Copart and IAA that has resulted in IAA losing significant swaths of business not only from GEICO, but also, from our research, from Liberty Mutual, Farmers Insurance Group, and American Family, which have dwarfed their much smaller wins. At the time of Copart's strategy shift in 2016, Copart and IAA were roughly of comparable size in the US. Today, Copart is quickly running away with the market. For the avoidance of doubt, we have shown this looking at both revenue and units.

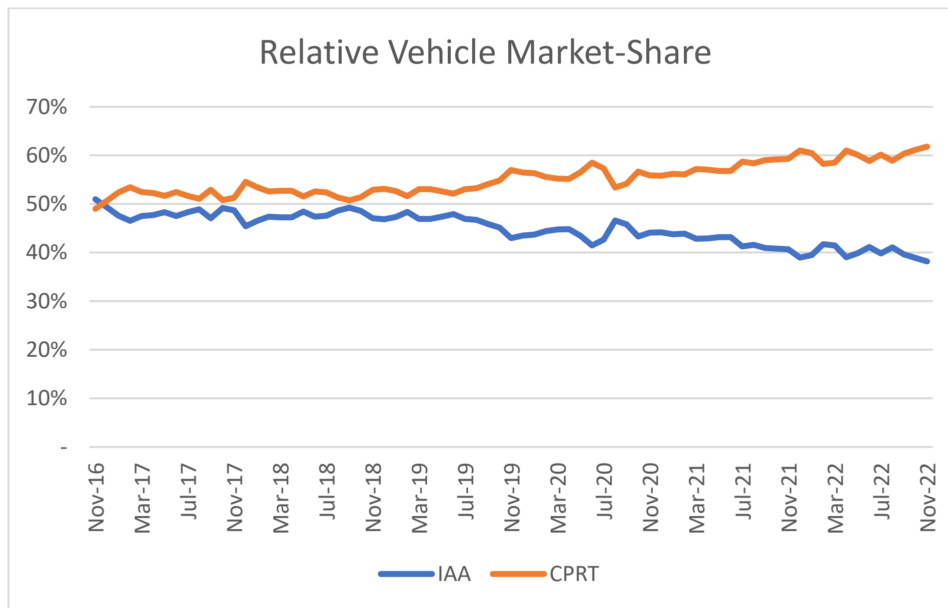
[27] Source: Jeffery Liaw, Copart's Co-CEO, on Copart's Q1 FY2023 earnings call.

Copart's US revenue is now 80% larger than IAA's.



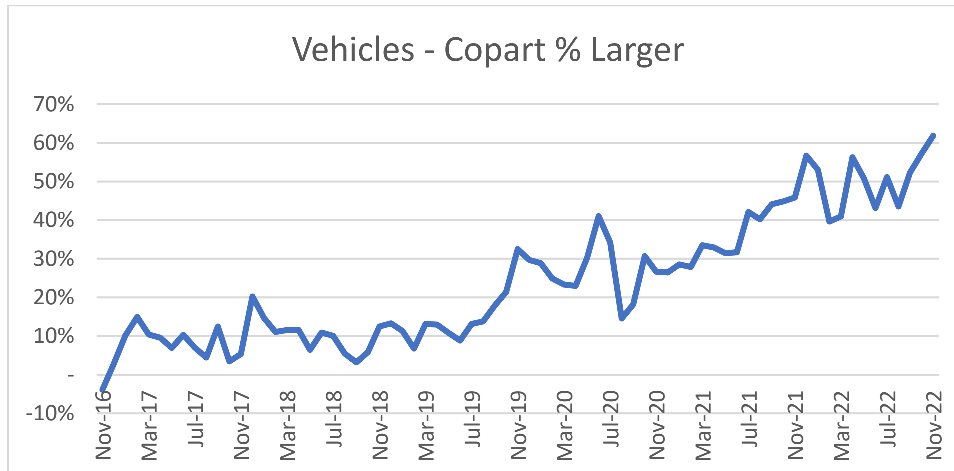
Source: Public filings. Due to fiscal year timing, comparison off by 1 month. IAA did not report US only sales under KAR ownership.

Copart's share of vehicles has rapidly grown from comparable to IAA in 2016 to now being >60% larger.



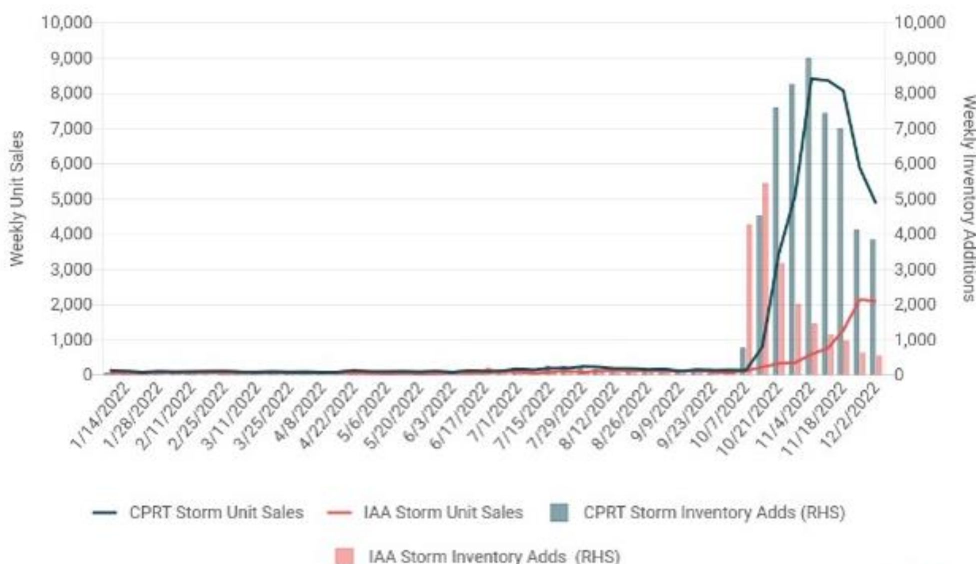
Source: YipitData.

Copart's market share gains show no signs of abating, and, in fact, appear to be accelerating.



Source: YipitData.

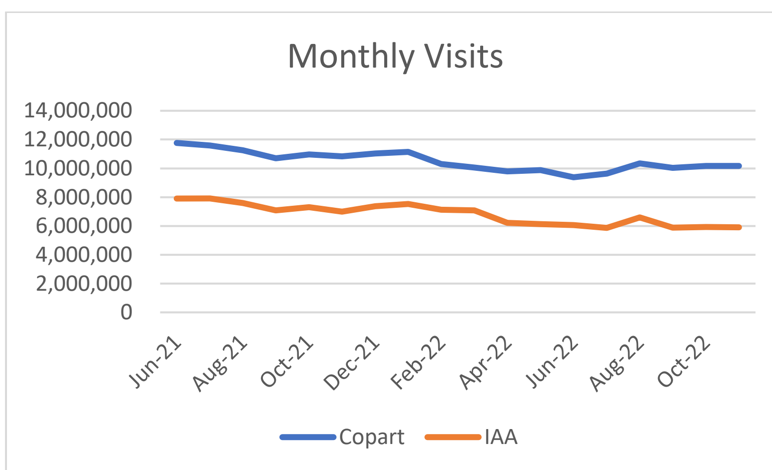
We believe the discrepancy in service levels and turnaround times between IAA and Copart is a consistent problem for IAA across its day-to-day operations as well as in the case of catastrophic ("CAT") events. It is easiest for us to empirically measure the discrepancy through CAT events, as all resulting claims start from the same event, allowing us to fairly measure the turnaround time to sale. As illustrated in the chart below, since Hurricane Ian made landfall on September 28, 2022, Copart has sold 34K CAT units, and managed to sell 60% in roughly the first month. Meanwhile, IAA has sold ~8K CAT units, but only managed to sell 10% in roughly the first month. We find RBA management's claim naïve that by contributing a few hundred acres of real estate (in comparison to Copart's >17,000 acres), which lacks the proper environmental zoning, it can significantly close the gap for IAA on footprint and customer experience.



Source: YipitData.

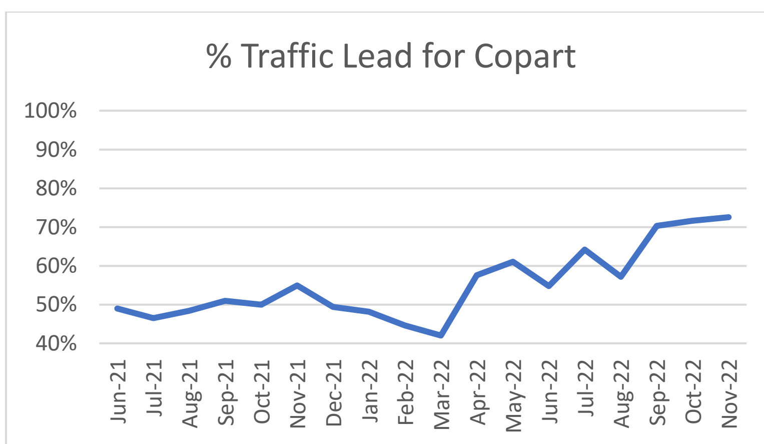
As we have illustrated above, the divergence in strategies between IAA and Copart regarding re-investment, has led to a material change in market shares. Liquidity is a vital statistic in a marketplace. In addition to service levels, sellers want to be in front of the most buyers to get the best price and experience the most demand, while buyers want to be in front of the most sellers to get the most selection. This network effect builds strong moats around marketplace businesses and allows the leading players to drive outsized returns on capital.

This journey to leading market share (and hence liquidity) tends to snowball, as more liquidity drives a better offering for buyers and sellers, thereby improving the platform's market position. In our many years of investing in marketplace businesses, we have found this disparity in liquidity often happens slowly at first and then suddenly expands. The discrepancy in value proposition between IAA and Copart can also be observed based on the traffic that each platform generates for their auctions. More traffic tends to lead to more demand, which drives higher auction prices.



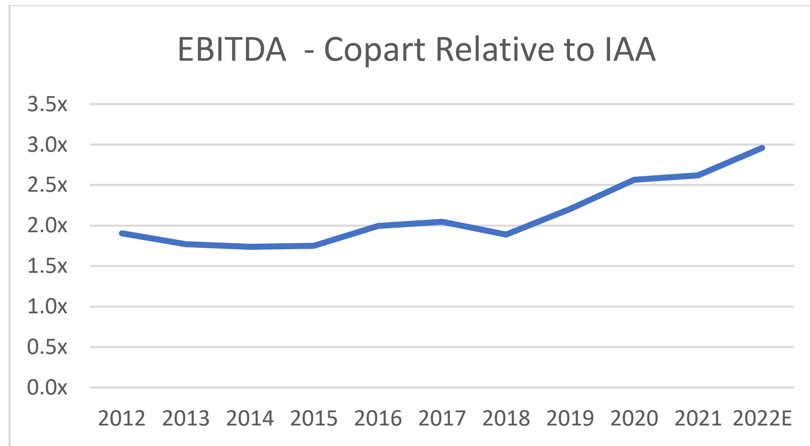
Source: Similarweb.com.

IAA's traffic is down 25% over the last 12 months, while Copart's is down 12%, increasing the gap such that Copart now has 72% more traffic than IAA.



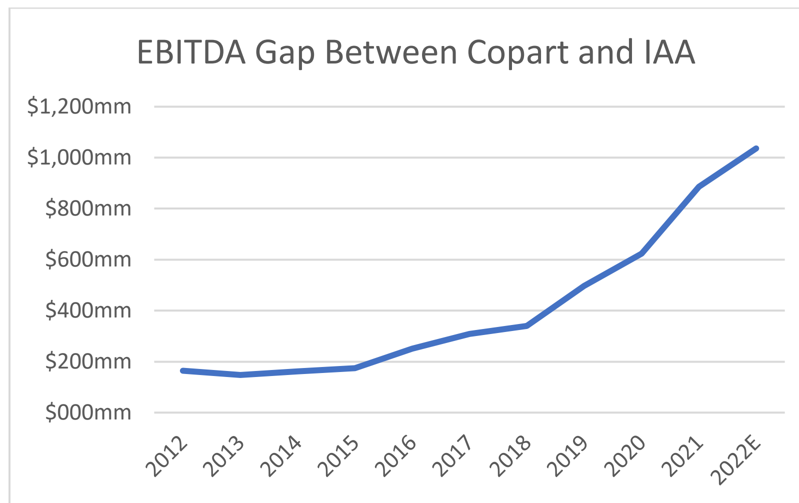
Source: Similarweb.com.

It is clear that IAA is on the wrong side of these supply and demand trends, as illustrated above. With Copart rapidly expanding their market position, we believe the contrast in Copart's and IAA's Q4 2022 results will only continue to demonstrate this trend. This market share trend is further intensified when it comes to the disparity in profits out of which the leader can re-invest into the market and further their lead, as Copart is now doing. Said differently, Copart's EBITDA is now nearly three times the size of IAA's, or US$1bn larger, and they are leveraging that to significantly expand their real estate footprint (US$150mm of capital expenditures this past quarter alone) and further widened the gap in their respective offerings.



Source: Public Filings. Due to fiscal year timing, comparison off by 1 month i.e., January year-end vs. December year-end.

The absolute delta between Copart and IAA in earnings is leading to an increasingly growing gap in capital reinvested into their respective product offerings.



Source: Public Filings. Due to fiscal year timing, comparison off by 1 month i.e., January year-end vs. December year-end.

The precarious position that IAA finds itself in with declining EBITDA year over year in recent quarters is further strained by the uniquely high level of customer concentration in the auto salvage market. After losing GEICO as a customer over the past few years, IAA currently has two main customers, Progressive and State Farm, who account for ~40% of their supply. As marketplace investors, a lack of diversification is unquestionably an unwelcome dynamic, and losing either of these customers would be a disastrous blow to IAA's market position, unit economics, and overall profits. From our research and conversations with market participants, we are now seeing State Farm pull their business from IAA in several markets. It first happened in Nevada and New Mexico and has now begun in Louisiana as well. We cannot be sure if this is a national trend with a slow bleed region by region, as was the trend with GEICO, or unrelated occurrences, but given the Company's track record of predicting that trajectory with GEICO, we are skeptical of any comments they make on this front.

In any event, the continuation of this trend risks severe deterioration in the remaining market share and earnings power of IAA. We suspect the RBA Board was not fully aware of the concentration and severity of this dynamic when agreeing to the IAA Merger, in large part because the stated plan of leveraging up against the EBITDA of the combined company in the face of this uncertainty creates unnecessary risk for RBA investors, while limiting its degrees of financial and operational flexibility.

The notion of leveraging RBA's yards to help with IAA's footprint is an idea that remains highly uncertain in timing, financial impact, and potential to realize. To this end, RBA was not able to state any financial impact when initially presenting the IAA Merger, and has subsequently only dangled unquantified possibilities with no reference to the investments required. An analysis of zoning permits reveals that only seven of RBA's current yards are properly zoned to handle junk or salvage, and we believe this is a multi-year permitting process on a yard-by-yard basis, with approval far from guaranteed. As a result, we struggle to understand how RBA's yards can be used to add meaningful value to IAA and improve IAA's weakening competitive state on a day-to-day basis. Further, adding ~300 acres of CAT properties that are not zoned to handle the myriad of environmental issues from leaking fluids represents a tiny footprint compared to the >17,000 acreage that Copart owns. If ~300 acres is all that is needed to fix IAA's operational problems, we expect this would have been addressed long before agreeing to the IAA Merger.

IAA is a business 'living on the knife's edge' and requiring a turnaround to sustain long-term value. **IAA is structurally disadvantaged to its primary competitor, is rapidly losing market share, and is possibly on the verge of losing another top customer.** We do not think these easily fixed by better execution; we think the solution instead, requires substantial capital investments to build a towing fleet, grow a larger buyer base, expand and restructure the real estate footprint, and improve the operations. In any event, the intense focus required by RBA's management to try to rectify IAA's historical shortcomings will come at the tremendous opportunity cost of not leaning into the many RBA growth initiatives outlined above. Our view becomes even firmer when considering the discounted price of RBA shares being used to finance the IAA Merger, and the financial leverage that would be added to the capital structure. Accordingly, for the reasons set forth in this letter, we intend to vote our RBA shares against the IAA Merger.

Appendix

RBA DCF Based on Management's Long-Term Projections

US$ in mms	2019	2020	2021	2022	2023	2024	2025	2026	19 - 26 CAGR	21 YTD	22 YTD
Reported Adj. Operating Income	$260	$315	$323	$384	$465	$564	$683	$828	***18.0%***	$240	$302
% Y/Y Growth		*21.0%*	*2.8%*	*18.6%*	*21.2%*	*21.2%*	*21.2%*	*21.2%*			*25.7%*
Less: Share Based Comp	$16	$22	$23	$38	$40	$42	$44	$46		$17	$28
Less: Interest Expense	$41	$36	$37	$59	$44	$44	$44	$44		$27	$48
Plus: Interest Income	$4	$2	$1	$4	$3	$3	$3	$3		$1	$3
Less: Income Tax	$42	$66	$53	$93	$96	$120	$149	$185		$43	$73
% Tax-Rate	*20.2%*	*25.3%*	*20.2%*	*32.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*			
Adjusted Net Income	**$164**	**$194**	**$211**	**$198**	**$288**	**$360**	**$448**	**$556**	***19.0%***	**$155**	**$157**
Plus: D&A	$71	$75	$88	$98	$115	$130	$140	$150		$65	$73
Less: Capex	$14	$14	$10	$29	$12	$12	$12	$12		$7	$26
Less: Acquired Intangible Assets	$27	$29	$34	$36	$35	$37	$40	$42		$26	$28
Plus: Dispositions of PP&E	$6	$16	$2	$165	$5	$5	$5	$5		$2	$165
Plus: Working Capital	$77	($29)	$24	$30	$20	$20	$20	$20		$80	$30
Cash Flows	**$276**	**$213**	**$282**	**$426**	**$381**	**$466**	**$561**	**$677**	***13.6%***	**$269**	**$370**
Discount Period					0.5	1.5	2.5	3.5			
Discount Factor					0.96	0.90	0.83	0.77			
Present Value of Cash Flows					**$367**	**$418**	**$467**	**$523**			

Terminal Value Calc	
Perpetuity Growth Rate	*4.0%*
Terminal Year FCF	677
Terminal Value	**19,490**
Terminal FCF Multiple	28.8
Implied Adj. EBITDA Multiple	19.0
Discount Factor	0.77
NPV of Terminal Value	**15,077**

BETA to SPY	
6 Month	0.55
1 Year	0.65
2Year	0.77

(1) Excludes cash generation in Q4 2022.

Cost of Equity	
Risk Free Rate (RFR)	4.0%
Equity Beta	0.70
Equity Premium	*6.0%*
Cost of Equity	***8.2%***
Cost of Debt	*7.0%*
Tax Rate	*25.0%*
Tax Adj. Cost of Debt	*5.3%*
% Equity	*80.0%*
% Debt	*20.0%*
WACC	***7.6%***

Cumulative NPV of Cash Flows	1,252
NPV of Terminal Value	15,077
Enterprise Value	**16,330**
Cash + Investments[1]	439
Debt	639
Equity Value	**17,408**
Shares	112.0
NPV Per Share	**$155**

Source: Luxor calculation leveraging management's guidance.