RITCHIE BROS AUCTIONEERS INC
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2018

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number: 001-13425

Ritchie Bros. Auctioneers Incorporated

(Exact Name of Registrant as Specified in its Charter)

Canada	**N/A**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9500 Glenlyon Parkway	
Burnaby, British Columbia, Canada	**V5J 0C6**
(Address of Principal Executive Offices)	(Zip Code)

(778) 331-5500

(Registrant's Telephone Number, including Area Code)

Indicate by checkmark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x

Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company)

Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date: 107,769,787 common shares, without par value, outstanding as of May 9, 2018.

RITCHIE BROS. AUCTIONEERS INCORPORATED

FORM 10-Q

For the quarter ended March 31, 2018

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PART I – FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Income Statements

(Expressed in thousands of United States dollars, except share and per share data)

(Unaudited)

Three months ended March 31,	2018	2017
Revenues:		
Service revenues	$176,016	$123,379
Revenue from inventory sales	84,162	76,048
Total revenues	260,178	199,427
Operating expenses:		
Costs of services	36,657	24,340
Cost of inventory sold	75,791	63,401
Selling, general and administrative expenses	97,470	70,575
Acquisition-related costs	1,633	8,627
Depreciation and amortization expenses	16,191	10,338
Gain on disposition of property, plant and equipment	(345)	(721)
Foreign exchange gain	(92)	(730)
Total operating expenses	227,305	175,830
Operating income	32,873	23,597
Interest expense	(11,310)	(8,133)
Other income, net	913	2,284
Income before income taxes	22,476	17,748
Income tax expense (recovery):		
Current income tax expense	4,004	7,488
Deferred income tax expense (recovery)	1,265	(173)
Income tax expense	5,269	7,315
Net income	$17,207	$10,433
Net income attributable to:		
Stockholders	$17,138	$10,377
Non-controlling interests	69	56
Net income	$17,207	$10,433

Earnings per share attributable to stockholders:		
Basic	$0.16	$0.10
Diluted	$0.16	$0.10
Weighted average number of shares outstanding:		
Basic	107,355,381	106,851,595
Diluted	108,643,897	107,788,949

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars)

(Unaudited)

Three months ended March 31,	2018	2017
Net income	$17,207	$10,433
Other comprehensive income, net of income tax:		
Foreign currency translation adjustment	4,907	7,440
Total comprehensive income	$22,114	$17,873
Total comprehensive income attributable to:		
Stockholders	22,033	17,813
Non-controlling interests	81	60
	$22,114	$17,873

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Balance Sheets

(Expressed in thousands of United States dollars, except share data)

(Unaudited)

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$278,944	$ 267,910
Restricted cash	62,414	63,206
Trade and other receivables	182,157	92,105
Inventory	34,350	38,238
Other current assets	30,657	27,026
Assets held for sale	251	584
Income taxes receivable	17,515	19,418
Total current assets	606,288	508,487
Property, plant and equipment	522,871	526,581
Equity-accounted investments	6,915	7,408
Other non-current assets	26,807	24,146
Intangible assets	259,052	261,094
Goodwill	674,097	670,922
Deferred tax assets	19,934	18,674
Total assets	$2,115,964	$ 2,017,312
Liabilities and Equity		
Auction proceeds payable	$303,416	$ 199,245
Trade and other payables	170,777	164,553
Income taxes payable	2,021	732
Short-term debt	5,861	7,018
Current portion of long-term debt	9,264	16,907
Total current liabilities	491,339	388,455
Long-term debt	771,030	795,985
Other non-current liabilities	44,857	46,773
Deferred tax liabilities	34,712	32,334
Total liabilities	1,341,938	1,263,547
Contingencies		
Contingently redeemable performance share units	16,576	9,014
Stockholders' equity:		
Share capital:		

Common stock; no par value, unlimited shares authorized, issued and outstanding shares: 107,471,895 (December 31, 2017: 107,269,783)	144,387	138,582
Additional paid-in capital	44,327	41,005
Retained earnings	601,205	602,609
Accumulated other comprehensive loss	(37,619)	(42,514)
Stockholders' equity	752,300	739,682
Non-controlling interest	5,150	5,069
Total shareholders' equity	757,450	744,751
Total liabilities and equity	$2,115,964	$ 2,017,312

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Equity

(Expressed in thousands of United States dollars, except where noted)

(Unaudited)

	Attributable to stockholders							Contingently redeemable performance share units
	Common stock		Additional paid-In		Accumulated other	Non-controlling		
	Number of shares	Amount	capital ("APIC")	Retained earnings	comprehensive income (loss)	interest ("NCI")	Total equity	("PSUs")
Balance, December 31, 2017	107,269,783	$138,582	$41,005	$602,609	$(42,514)	$5,069	$744,751	$9,014
Net income	-	-	-	17,138	-	69	17,207	-
Other comprehensive income	-	-	-	-	4,895	12	4,907	-
	-	-	-	17,138	4,895	81	22,114	-
Stock option exercises	202,112	5,805	(1,492)	-	-	-	4,313	-
Stock option compensation expense	-	-	2,343	-	-	-	2,343	-
Modification of PSUs	-	-	703	(134)	-	-	569	6,132
Equity-classified PSU expense	-	-	1,678	-	-	-	1,678	1,357
Equity-classified PSU dividend equivalents	-	-	90	(200)	-	-	(110)	110
Change in fair value of contingently redeemable PSUs	-	-	-	37	-	-	37	(37)
Cash dividends paid	-	-	-	(18,245)	-	-	(18,245)	-
Balance, March 31, 2018	107,471,895	$144,387	$44,327	$601,205	$(37,619)	$5,150	$757,450	$16,576

See accompanying notes to the condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

(Unaudited)

Three months ended March 31,	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income	$17,207	$10,433
Adjustments for items not affecting cash:		
Depreciation and amortization expenses	16,191	10,338
Stock option compensation expense	2,343	1,311
Equity-classified PSU expense	3,035	1,012
Amortization of debt issuance costs	1,066	445
Other, net	2,131	(1,042)
Net changes in operating assets and liabilities	25,265	112,045
Net cash provided by operating activities	67,238	134,542
Investing activities:		
Property, plant and equipment additions	(2,564)	(1,863)
Intangible asset additions	(7,034)	(5,664)
Proceeds on disposition of property, plant and equipment	1,066	1,505
Other, net	(4,674)	-
Net cash used in investing activities	(13,206)	(6,022)
Financing activities:		
Dividends paid to stockholders	(18,245)	(18,160)
Dividends paid to NCI	-	(41)
Issuances of share capital	4,313	3,412
Proceeds from short-term debt	308	1,219
Repayment of short-term debt	(1,754)	(1,009)
Repayment of long-term debt	(29,237)	-
Repayment of finance lease obligations	(802)	(438)
Other, net	-	(48)
Net cash used in financing activities	(45,417)	(15,065)
Effect of changes in foreign currency rates on cash, cash equivalents, and restricted cash	1,627	3,336
Increase	10,242	116,791
Beginning of period	331,116	758,089
Cash, cash equivalents, and restricted cash, end of period	$341,358	$874,880

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies

Ritchie Bros. Auctioneers Incorporated and its subsidiaries (collectively referred to as the "Company") provide global asset management and disposition services, offering customers end-to-end solutions for buying and selling used industrial equipment and other durable assets through its live unreserved auctions, online reserved and unreserved marketplaces, listing services, and private brokerage services. Ritchie Bros. Auctioneers Incorporated is a company incorporated in Canada under the Canada Business Corporations Act, whose shares are publicly traded on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE").

(a) Basis of preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). They include the accounts of Ritchie Bros. Auctioneers Incorporated and its subsidiaries from their respective dates of formation or acquisition. All significant intercompany balances and transactions have been eliminated.

Certain information and footnote disclosure required by US GAAP for complete annual financial statements have been omitted and, therefore, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC"). In the opinion of management, these unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, cash flows and changes in equity for the interim periods presented. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(b) Revenue recognition

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) using the full retrospective method, which included restating prior years for comparative amounts. This new accounting policy resulted in a change in the financial statement presentation only on the income statement, as described in Note 1(i) New and amended accounting standards in this Quarterly Report on Form 10-Q.

Revenues are comprised of:

· Service revenues, including the following:

i. Revenue from auction and marketplace ("A&M") activities, including commissions earned at our live and online auctions where we act as an agent for consignors of equipment and other assets, and various auction-related fees, including listing and buyer transaction fees; and

ii. Other services revenues, including revenues from listing services, refurbishment, logistical services, financing, appraisal fees and other ancillary service fees; and

· Revenue from inventory sales

The Company recognizes revenue when control of the promised goods or services is transferred to our customers, or upon completion of the performance obligation, in an amount that reflects the consideration we expect to be entitled to in exchange for those good or services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For live event-based auctions or online auctions, revenue is recognized when the auction sale is complete and the Company has determined that the sale proceeds are collectible. Revenue is measured at the fair value of the consideration received or receivable and is shown net of value-added tax and duties.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

Service revenues

Commissions from sales at the Company's auctions represent the percentage earned by the Company on the gross proceeds from equipment and other assets sold at auction. The majority of the Company's commissions are earned as a pre-negotiated fixed rate of the gross selling price. Other commissions from sales at the Company's auctions are earned from underwritten commission contracts, when the Company guarantees a certain level of proceeds to a consignor.

The Company accepts equipment and other assets on consignment stimulating buyer interest through professional marketing techniques, and matches sellers (also known as consignors) to buyers through the auction or private sale process. Prior to offering an item for sale on its online marketplaces, the Company also performs inspections.

Following the sale of the item, the Company invoices the buyer for the purchase price of the asset, taxes, and, if applicable, the buyer transaction fee, collects payment from the buyer, and remits the proceeds, net of the seller commissions, applicable taxes, and applicable fees. Commissions are calculated as a percentage of the hammer price of the property sold at auction. Fees are also charged to sellers for listing and inspecting equipment. Other revenues earned in the process of conducting the Company's auctions include administrative, documentation, and advertising fees.

On the fall of the auctioneer's hammer, the highest bidder becomes legally obligated to pay the full purchase price, which is the hammer price of the property purchased and the seller is legally obligated to relinquish the property in exchange for the hammer price less any seller's commissions. Commission and fee revenues are recognized on the date of the auction sale upon the fall of the auctioneer's hammer.

Under the standard terms and conditions of its auction sales, the Company is not obligated to pay a consignor for property that has not been paid for by the buyer, provided the property has not been released to the buyer. If the buyer defaults on its payment obligation, also referred to as a collapsed sale, the sale is cancelled in the period in which the determination is made, and the property is returned to the consignor or placed in a later event-based or online auction. Historically cancelled sales have not been material.

Online marketplace commission revenue is reduced by a provision for disputes, which is an estimate of disputed items that are expected to be settled at a cost to the Company, related to settlements of discrepancies under the Company's equipment condition certification program. The equipment condition certification refers to a written inspection report provided to potential buyers that reflects the condition of a specific piece of equipment offered for sale, and includes ratings, comments, and photographs of the equipment following inspection by one of the Company's equipment inspectors. The equipment condition certification provides that a buyer may file a written dispute claim during an eligible dispute period for consideration and resolution at the sole determination of the Company if the purchased equipment is not substantially in the condition represented in the inspection report. Typically disputes under the equipment condition certification program are settled with minor repairs or additional services, such as washing or detailing the item; the estimated costs of such items or services are included in the provision for disputes.

Commission revenues are recorded net of commissions owed to third parties, which are principally the result of situations when the commission is shared with a consignor or with the counterparty in an auction guarantee risk and reward sharing arrangement. Additionally, in certain situations, commissions are shared with third parties who introduce the Company to consignors who sell property at auction.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

Underwritten commission contracts can take the form of guarantee contracts. Guarantee contracts typically include a pre-negotiated percentage of the guaranteed gross proceeds plus a percentage of proceeds in excess of the guaranteed amount. If actual auction proceeds are less than the guaranteed amount, commission is reduced; if proceeds are sufficiently lower, the Company can incur a loss on the sale. Losses, if any, resulting from guarantee contracts are recorded in the period in which the relevant auction is completed. If a loss relating to a guarantee contract held at the period end to be sold after the period end is known or is probable and estimable at the financial statement reporting date, the loss is accrued in the financial statements for that period. The Company's exposure from these guarantee contracts fluctuates over time.

Other services revenue also includes fees for refurbishment, logistical services, financing, appraisal fees and other ancillary service fees. Fees are recognized in the period in which the service is provided to the customer.

Revenue on inventory sales

Underwritten commission contracts can take the form of inventory contracts. Revenues related to inventory contracts are recognized in the period in which the sale is completed, title to the property passes to the purchaser and the Company has fulfilled any other obligations that may be relevant to the transaction. In its role as auctioneer, the Company auctions its inventory to equipment buyers through the auction process. Following the sale of the item, the Company invoices the buyer for the purchase price of the asset, taxes, and, if applicable, the buyer transaction fee, and collects payment from the buyer.

On the fall of the auctioneer's hammer, the highest bidder becomes legally obligated to pay the full purchase price, which is the hammer price of the property purchased. Title to the property is transferred in exchange for the hammer price, and if applicable, the buyer transaction fee plus applicable taxes.

(c) Cost of services

Costs of services are comprised of expenses incurred in direct relation to conducting auctions (“direct expenses”), earning online marketplace revenues, and earning other fee revenues. Direct expenses include direct labour, buildings and facilities charges, and travel, advertising and promotion costs.

Costs of services incurred to earn online marketplace revenues in addition to the costs listed above also include inspection costs. Inspections are generally performed at the seller’s physical location. The cost of inspections includes payroll costs and related benefits for the Company’s employees that perform and manage field inspection services, the related inspection report preparation and quality assurance costs, fees paid to contractors who perform field inspections, related travel and incidental costs for the Company’s inspection service organization, and office and occupancy costs for its inspection services personnel. Costs of earning online marketplace revenues also include costs for the Company’s customer support, online marketplace operations, logistics, title and lien investigation functions, and lease and operations costs related to the Company’s third-party data centers at which its websites are hosted.

Costs of services incurred in earning other fee revenues include direct labour (including commissions on sales), software maintenance fees, and materials. Costs of services exclude depreciation and amortization expenses.

(d) Cost of inventory sold

Cost of inventory sold represents the purchase price of assets sold for the Company’s own account and is determined using a specific identification basis.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies (continued)

(e) Share-based payments

The Company classifies a share-based payment award as an equity or liability payment based on the substantive terms of the award and any related arrangement.

Equity-classified share-based payments

The Company has three stock option compensation plans that provide for the award of stock options to selected employees, directors and officers of the Company. The cost of options granted is measured at the fair value of the underlying option at the grant date using the Black-Scholes option pricing model. The Company also has a senior executive PSU plan and an employee PSU plan that provides for the award of PSUs to certain senior executives and employees, respectively, of the Company. The Company has the option to settle certain share unit awards in cash or shares and expects to settle them in shares. The cost of PSUs granted is measured at the fair value of the underlying PSUs at the grant date using a binomial model.

This fair value of awards expected to vest under these plans is expensed over the respective remaining service period of the individual awards, on an accelerated recognition basis, with the corresponding increase to APIC recorded in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in earnings, such that the consolidated expense reflects the revised estimate, with a corresponding adjustment to equity.

Any consideration paid on exercise of the stock options is credited to the common shares. Dividend equivalents on the equity-classified PSUs are recognized as a reduction to retained earnings over the service period.

PSUs awarded under the senior executive and employee PSU plans (described in note 17) are contingently redeemable in cash in the event of death of the participant. The contingently redeemable portion of the senior executive and employee PSU awards, which represents the amount that would be redeemable based on the conditions at the date of grant, to the extent attributable to prior service, is recognized as temporary equity. The balance reported in temporary equity increases on the same basis as the related compensation expense over the service period of the award, with any excess of the temporary equity value over the amount recognized in compensation expense charged against retained earnings. In the event it becomes probable an award is going to become eligible for redemption by the holder, the award would be reclassified to a liability award.

Liability-classified share-based payments

The Company maintains other share unit compensation plans that vest over a period of up to five years after grant. Under those plans, the Company is either required or expects to settle vested awards on a cash basis or by providing cash to acquire shares on the open market on the employee's behalf, where the settlement amount is determined using the volume weighted average price of the Company's common shares for the twenty days prior to the vesting date or, in the case of deferred share unit ("DSU") recipients, following cessation of service on the Board of Directors.

These awards are classified as liability awards, measured at fair value at the date of grant and re-measured at fair value at each reporting date up to and including the settlement date. The determination of the fair value of the share units under these plans is described in note 17. The fair value of the awards is expensed over the respective vesting period of the individual awards with recognition of a corresponding liability. Changes in fair value after vesting are recognized through compensation expense. Compensation expense reflects estimates of the number of instruments expected to vest.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies (continued)

(e) Share-based payments

Liability-classified share-based payments (continued)

The impact of forfeitures and fair value revisions, if any, are recognized in earnings such that the cumulative expense reflects the revisions, with a corresponding adjustment to the settlement liability. Liability-classified share unit liabilities due within 12 months of the reporting date are presented in trade and other payables while settlements due beyond 12 months of the reporting date are presented in non-current liabilities.

(f) Inventories

Inventory consists of equipment and other assets purchased for resale in an upcoming live on site auction or online marketplace event. The Company purchases inventory for resale through a competitive process where the consignor has determined this to be the preferred method of disposition through the auction process. In addition, certain jurisdictions require auctioneers to hold title to assets and facilitate title transfer on sale. Inventory is valued at the lower of cost and net realizable value where net realizable value represents the expected sale price upon disposition less make-ready costs and the costs of disposal and transportation. The significant elements of cost include the acquisition price of the inventory and make-ready costs to prepare the inventory for sale that are not selling expenses. Write-downs to the carrying value of inventory are recorded in cost of inventory sold on the consolidated income statement.

(g) Impairment of long-lived and indefinite-lived assets

Long-lived assets, comprised of property, plant and equipment and intangible assets subject to amortization, are assessed for impairment whenever events or circumstances indicate that their carrying value may not be recoverable. For the purpose of impairment testing, long-lived assets are grouped and tested for recoverability at the lowest level that generates independent cash flows. An impairment loss is recognized when the carrying value of the assets or asset groups is greater than the future projected undiscounted cash flows. The impairment loss is calculated as the excess of the carrying value over the fair value of the asset or asset group. Fair value is based on valuation techniques or third-party appraisals. Significant estimates and judgments are applied in determining these cash flows and fair values.

Indefinite-lived intangible assets are tested annually for impairment as of December 31, and between annual tests if indicators of potential impairment exist. The Company has the option of performing a qualitative assessment to first determine whether the quantitative impairment test is necessary. This involves an assessment of qualitative factors to determine the existence of events or circumstances that would indicate whether it is more likely than not that the carrying amount of the indefinite-lived intangible asset is less than its fair value. If the qualitative assessment indicates it is not more likely than not that the carrying amount is less than its fair value, a quantitative impairment test is not required. Where a quantitative impairment test is required, the procedure is to compare the indefinite-lived intangible asset's fair value with its carrying amount. An impairment loss is recognized as the difference between the indefinite-lived intangible asset's carrying amount and its fair value.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies (continued)

(h) Goodwill

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to the assets acquired and liabilities assumed in a business combination.

Goodwill is not amortized, but it is tested annually for impairment at the reporting unit level as of December 31 and between annual tests if indicators of potential impairment exist. The Company has the option of performing a qualitative assessment of a reporting unit to first determine whether the quantitative impairment test is necessary. This involves an assessment of qualitative factors to determine the existence of events or circumstances that would indicate whether it is more likely than not that the carrying amount of the reporting unit to which goodwill belongs is less than its fair value. If the qualitative assessment indicates it is not more likely than not that the reporting unit's carrying amount is less than its fair value, a quantitative impairment test is not required.

If a quantitative impairment test is required, the procedure is to identify potential impairment by comparing the reporting unit's fair value with its carrying amount, including goodwill. The reporting unit's fair value is determined using various valuation approaches and techniques that involve assumptions based on what the Company believes a hypothetical marketplace participant would use in estimating fair value on the measurement date. An impairment loss is recognized as the difference between the reporting unit's carrying amount and its fair value. If the difference between the reporting unit's carrying amount and fair value is greater than the amount of goodwill allocated to the reporting unit, the impairment loss is restricted by the amount of the goodwill allocated to the reporting unit.

(i) New and amended accounting standards

(i) Effective January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* The Company implemented the new standard using a full retrospective method, in order to provide more useful comparative information to financial statement users.

The primary impact of the adoption of ASU 2014-09 is the change in the presentation of revenue from inventory, ancillary service, and logistical services contracts on a gross basis as a principal versus net as an agent. This is due to the new standard requiring an entity to determine whether the entity controls the specified good or service before transfer to the customer, with the entity being principal in these transactions. Prior to adopting ASU 2014-09, an entity evaluated indicators to determine if it was a principal or agent. As the Company determined that it controls the inventory and provision of ancillary and logistical services before transfer to its customers, the Company concluded that it was acting as a principal rather than an agent. As a result of adoption of the new accounting standard there was no impact on the timing of recognition of revenue, operating income, net income, or on the consolidated balance sheet or consolidated statement of cash flows.

Presenting revenue from inventory sale on a gross basis as a principal selling a tangible product versus net as an agent providing a service significantly changes the face of the Company's consolidated income statement in two primary ways:

1) Prior to the adoption of ASU 2014-09, all revenue from inventory sales were presented net of costs within service revenues on the income statement. With the adoption of ASU 2014-09, the Company has presented separately revenue from inventory sales and service revenue and accordingly service revenues excludes revenue from inventory sales and cost of inventory sold. Those amounts are now presented gross as separate line items on the face of the consolidated income statement; and

2) Ancillary and logistical service revenues are presented within service revenues, now on a gross basis, with the related costs of services presented separately within costs of services.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies (continued)

(i) New and amended accounting standards (continued)

Impact to reported results

The new presentation based on ASU 2014-09 results in an increase the amount of revenue reported but there is no change in the operating income compared to the prior presentation:

Three months ended March 31, 2017

Consolidated income statement line item	As reported	New Revenue Standard Adjustment	Consolidated income statement line item	As Adjusted
		$ 76,048	Revenue from inventory sales	$ 76,048
Revenues	$ 124,499	(1,120)	Service revenues	123,379
		74,928	Total revenues	199,427
		(63,401)	Cost of inventory sold	(63,401)
Costs of services	(12,813)	(11,527)	Costs of services	(24,340)
	$ 111,686	$ -		$ 111,686

(ii) In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 identifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. The amendments are applied retrospectively on the amendment date. The Company expects the adoption of ASU 2016-15 will result in the $1,302,000 Mascus contingent consideration paid in the second quarter of 2017 to be reclassified from operating to investing cash flows.

(j) Recent accounting standards not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which 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. For short-term leases, defined as those with a term of 12 months or less, the lessee is permitted to make an accounting policy election not to recognize the lease assets and liabilities, and instead recognize the lease expense generally on a straight-line basis over the lease term. The accounting treatment under this election is consistent with current operating lease accounting. No extensive amendments were made to lessor accounting, but amendments of note include changes to the definition of initial direct costs and accounting for collectability uncertainties in a lease.

ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Both lessees and lessors must apply ASU 2016-02 using a “modified retrospective transition”, which reflects the new guidance from the beginning of the earliest period presented in the financial statements. However, lessees and lessors can elect to apply certain practical expedients on transition.

Management continues to perform a detailed inventory and analysis of all the Company’s leases, of which there are approximately 480 operating and 115 finance leases for which the Company is a lessee at the reporting date. The most significant operating leases in terms of the amount of rental charges and duration of the contract are for various auction sites and offices located in North America, Europe, the Middle East, and Asia. However, in terms of the number of leases, the majority consist of leases for computer, automotive, and yard equipment.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

1. Summary of significant accounting policies (continued)

(j) Recent accounting standards not yet adopted (continued)

The Company continues to evaluate the new guidance to determine the impact it will have on its consolidated financial statements. Under the expectation that the majority, if not all, of the operating leases will be brought onto the Company's balance sheet on adoption of ASU 2016-02, management is currently investigating the functionality within the Company's financial system to automate the lease accounting process and is evaluating alternative software solutions to facilitate adoption.

The adoption of ASU 2016-02 is expected to add complexity to the accounting for leases, as well as require extensive system and process changes to manage the large number of operating leases that the Company anticipates will be brought onto its balance sheet. As a result, management has determined that the Company will not early adopt ASU 2016-02, and will continue to evaluate the elections available to the Company involving the application of practical expedients on transition.

2. Significant judgments, estimates and assumptions

The preparation of financial statements in conformity with US GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Future differences arising between actual results and the judgments, estimates and assumptions made by the Company at the reporting date, or future changes to estimates and assumptions, could necessitate adjustments to the underlying reported amounts of assets, liabilities, revenues and expenses in future reporting periods.

Judgments, estimates and underlying assumptions are evaluated on an ongoing basis by management, and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstance and such changes are reflected in the assumptions when they occur. Significant items subject to estimates include purchase price allocations, the carrying amounts of goodwill, the useful lives of long-lived assets, share based compensation, deferred income taxes, reserves for tax uncertainties, and other contingencies.

3. Seasonality

The Company's operations are both seasonal and event driven. Revenues tend to be the highest during the second and fourth calendar quarters. The Company generally conducts more live, on site auctions during these quarters than during the first and third calendar quarters. Late December through mid-February and mid-July through August are traditionally less active periods. Online volumes are similarly affected as supply of used equipment is lower in the third quarter as it is actively being used and not available for sale.

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

4. Segment information

The Company's principal business activity is the management and disposition of used industrial equipment and other durable assets. The Company's operations are comprised of one reportable segment and other business activities that are not reportable as follows:

- Auctions and Marketplaces – This is the Company's only reportable segment, which consists of the Company's live on site auctions, its online auctions and marketplaces, and its brokerage service;

- Other includes the results of Ritchie Bros. Financial Services ("RBFS"), Mascus online services, and the results from various value-added services and make-ready activities, including the Company's equipment refurbishment services, Asset Appraisal Services, and Ritchie Bros. Logistical Services.

	Three months ended March 31, 2018		
	A&M	Other	Consolidated
Service revenues	$ 148,405	$ 27,611	$ 176,016
Revenue from inventory sales	84,162	-	84,162
Total revenues	232,567	27,611	260,178
Costs of services	21,448	15,209	36,657
Cost of inventory sold	75,791	-	75,791
Selling, general and administrative expenses ("SG&A")	93,002	4,468	97,470
Segment profit	$ 42,326	$ 7,934	$ 50,260
Acquisition-related costs			1,633
D&A expenses			16,191
Gain on disposition of property, plant and equipment ("PPE")			(345)
Foreign exchange gain			(92)
Operating income			$ 32,873
Interest expense			(11,310)
Other income, net			913
Income tax expense			(5,269)
Net income			$ 17,207

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

4. Segment information (continued)

	Three months ended March 31, 2017		
	A&M	Other	Consolidated
Service revenues	$ 103,030	$ 20,349	$ 123,379
Revenue from inventory sales	76,048	-	76,048
Total revenues	179,078	20,349	199,427
Costs of services	12,587	11,753	24,340
Cost of inventory sold	63,401	-	63,401
SG&A expenses	67,111	3,464	70,575
Segment profit	$ 35,979	$ 5,132	$ 41,111
Acquisition-related costs			8,627
D&A expenses			10,338
Gain on disposition of PPE			(721)
Foreign exchange gain			(730)
Operating income			$ 23,597
Interest expense			(8,133)
Other income, net			2,284
Income tax expense			(7,315)
Net income			$ 10,433

The Company's geographic breakdown of total revenue is as follows:

	United States	Canada	Europe	Other	Consolidated
Total revenues for the three months ended:					
March 31, 2018	$135,563	$65,809	$34,574	$24,232	$ 260,178
March 31, 2017	112,083	41,492	18,267	27,585	199,427

5. Total revenues

Three months ended March 31,	2018	2017
Service revenues:		
Commissions	$101,294	$79,297
Fees	74,722	44,082
	176,016	123,379

Revenue from inventory sales	84,162	76,048
Total revenues	$260,178	$199,427

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

6. Operating expenses

Costs of services

Three months ended March 31,	2018	2017
Ancillary and logistical service expenses	$14,580	$11,527
Employee compensation expenses	9,019	5,476
Buildings, facilities and technology expenses	2,627	1,546
Travel, advertising and promotion expenses	6,808	4,656
Other costs of services	3,623	1,135
	$36,657	$24,340

SG&A expenses

Three months ended March 31,	2018	2017
Employee compensation expenses	$63,293	$44,455
Buildings, facilities and technology expenses	15,273	12,270
Travel, advertising and promotion expenses	9,719	6,586
Professional fees	4,267	3,100
Other SG&A expenses	4,918	4,164
	$97,470	$70,575

Acquisition-related costs

Three months ended March 31,	2018	2017
IronPlanet: (note 19)	$639	$7,691
Other acquisitions:		
Continuing employment costs	968	864
Other acquisition-related costs	26	72
	$1,633	$8,627

Depreciation and amortization expenses

Three months ended March 31,	2018	2017
Depreciation expense	$6,916	$6,792
Amortization expense	9,275	3,546
	$16,191	$10,338

Notes to the Condensed Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States dollars, except where noted)
(Unaudited)

7. Income taxes

At the end of each interim period, the Company estimates the effective tax rate expected to be applicable for the full fiscal year. The estimate reflects, among other items, management's best estimate of operating results. It does not include the estimated impact of foreign exchange rates or unusual and/or infrequent items, which may cause significant variations in the customary relationship between income tax expense and income before income taxes.

For the three months ended March 31, 2018, income tax expense was $5,269,000, compared to an income tax expense of $7,315,000 for the same period in 2017. Our effective tax rate was 23% in the first quarter of 2018, compared to 41% in the first quarter of 2017. The effective tax rate decreased in the first quarter of 2018 compared to the first quarter of 2017 primarily due to a greater proportion of income taxed in jurisdictions with lower tax rates and partially offset by our estimated Base Erosion Anti-Abuse Tax ("BEAT"). Additionally, in 2017 a $2,290,000 expense relating to an increase in uncertain tax positions was recognized and an increase in annual non-deductible acquisition costs was estimated.

Recent Tax Legislation

On December 22, 2017 H.R. 1, originally known as the Tax Cuts and Jobs Act, (the "Tax Act") was enacted. The Tax Act makes broad and complex changes to the U.S. tax code that impacted our quarter ended March 31, 2018, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018 and (2) imposing BEAT - a tax on certain deductible payments from our U.S. subsidiary to any of its foreign-related parties.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. For the three months ended March 31, 2018, we have not made any adjustments to the provisional amounts recorded at December 31, 2017. Additional work is still necessary for a more detailed analysis of our deferred tax assets and liabilities, our historical foreign earnings subject to the one-time transition tax, and potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to tax expense in the corresponding quarter of 2018 when the analysis is complete.

8. Earnings per share attributable to stockholders

Basic earnings per share ("EPS") attributable to stockholders was calculated by dividing the net income attributable to stockholders by the weighted average ("WA") number of common shares outstanding. Diluted EPS attributable to stockholders was calculated by dividing the net income attributable to stockholders after giving effect to outstanding dilutive stock options and PSUs by the WA number of shares outstanding adjusted for all dilutive securities.

Three months ended March 31, 2018	Net income attributable to stockholders	WA number of shares	Per share amount
Basic	17,138	107,355,381	$ 0.16
Effect of dilutive securities:			
Share units	-	358,087	-
Stock options	-	930,429	-