



Ritchie Bros. Auctioneers Inc.: 1 Key Metric You Need to Know

Description

Ritchie Bros. Auctioneers Inc. ([TSX:RBA](#))([NYSE:RBA](#)) is a global player in used equipment sales, selling more than \$4.25 billion in 2015. Its competitive advantage lies in the value of its network, which increases in parallel with the number of buyers and sellers participating in its unreserved auctions.

Over the years, the source of its competitive advantage has somehow been diminished. Its auction clients have found ways to save on commission costs with the use of internet-auction platforms and other smart ways to sell their equipment on their own. Additionally, there have been auction sites that have popped up, and new equipment manufactured during the financial crisis was limited as well.

As such, its return on invested capital has significantly dropped to less than 10% in 2010. This is below the average return on invested capital of about 16% in the prior year.

ritchie bro chart unknown

Historical return on invested capital (ROIC). Source: Ritchie Bros. Auctioneers annual report

New management took over in 2014. It emphasized improving the company's capital-allocation decisions and is mainly focused on value-accretive acquisitions to improve its sales channel and boost its core business. Additionally, it has also shed its non-performing assets, which includes liquidating excess lands.

Consequently, Ritchie Bros. has slowly improved its return on invested capital from 10% in 2010 to 15% as of first half 2016. These returns clearly indicate that the company has an entrenched competitive position, which is expected to continue considering that the right strategic map is in place.

IronPlanet acquisition could be a game-changer

In August of this year, Ritchie Bros. disclosed the acquisition of IronPlanet—a leading online marketplace for used heavy equipment and other durable assets for \$759 million.

The acquisition will substantially improve the company's customer base and sales channel. Over the years, IronPlanet has aggressively acquired companies, including its purchase of CAT Auction

Services in 2015. Post-acquisition, Ritchie Bros. will have a long-term alliance with Caterpillar and its dealers.

The company expects that the acquisition will be earnings accretive by the first half of 2017 following the transaction closing. Further, it would also strengthen the overall balance sheet of the company.

The IronPlanet acquisition is a potential game-changer in the used-heavy-equipment auction industry as it effectively reduces competition risk. Thus, the company's competitive advantage will improve, translating to net profit expansion and an eventually higher share price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RBA (Ritchie Bros. Auctioneers)
2. TSX:RBA (Ritchie Bros. Auctioneers)

Category

1. Investing

Date

2025/07/01

Date Created

2016/10/17

Author

joefrenette

default watermark

default watermark