



## Ritchie Bros. (TSX:RBA): Lower Earnings But the Ecosystem Is Expanding

### Description

People with [investment appetites](#) in Q2 2022 will likely pick energy stocks over others because of the sector's red-hot performance. However, you can't put all your eggs in one basket. Some sectors might be in [negative territory](#) year to date, but it doesn't mean there are no profitable options available.

For example, **Ritchie Bros. Auctioneers** ([TSX:RBA](#)) ([NYSE:RBA](#)) in the industrial sector is an excellent portfolio diversifier if you need to spread out the risks. The company has been in existence for 64 years and has been paying [dividends](#) consistently since 2003. Moreover, it has a commanding foothold in the specialty business services industry.

### Profitable buy-and-sell operations

Ritchie Bros. is a world leader in asset management and disposition of used industrial equipment and other durable assets. Besides the expertise in providing transaction solutions for commercial assets, it boasts an unprecedented market reach. The \$7.45 billion company has over 40 permanent auction sites globally (12 countries) where it conducts buy-and-sell activities, mostly heavy machinery.

Equipment sellers, consisting of construction companies, equipment dealers, original equipment manufacturers (OEMs), and other equipment owners use Ritchie Bros.'s platform. Because the trusted marketplace attracts large and diverse bidders, the consigners realize the highest net return on their equipment sales.

Ritchie's customers, whether buyers or sellers, come from various sectors, such as agriculture, energy, heavy construction, mining, and transportation, among others. The company capitalizes on the fragmented used equipment marketplace by building on its core business and expanding into additional services.

Apart from the online marketplaces and unreserved auctions, Ritchie provides equipment financing for buyers through Ritchie Bros. Financial Services. Equipment refinancing, as a financial tool belt for business growth or transition periods, is also available.

## Robust ecosystem

In 2021, total revenue increased 3% to US\$1.41 billion versus 2020. However, because of lower operating income, net income decreased 11% year over year to US\$151.9 million. In Q4 2021, net income dropped 37% to US\$30.59 million compared to Q4 2020.

Ann Fandozzi, CEO of Ritchie Bros., said, "As a result of investments we are making to accelerate growth, our services revenue grew 6% in the quarter, despite a very challenging supply environment. We are seeing an acceleration in non-GTV related services outpacing that rate, with Ritchie Bros. Financial Services growing 61%."

Still, management maintains a positive business outlook. Fandozzi added, "We are pleased with the momentum in our transformation to a trusted global marketplace. Total Inventory Management System (IMS) activations, the gateway into the Ritchie Bros ecosystem, increased a robust 89% compared to last quarter."

## Look at the big picture

The 2021 earnings report wasn't impressive, but not reflective of the big picture. Ritchie's cumulative operating free cash flow from 2017 to 2021 has reached US\$1 billion. Its strong cash flow profile and flexible balance sheet supports the company's growth strategy.

As of year-end 2021, unrestricted cash on hand was US\$326.1 million. Also, since it's an established market leader, the omnichannel marketplace is well positioned for growth. The company is evolving from transactional selling to meeting the customers' needs through solution selling. This industrial stock trades at \$67.42 per share and pays a 1.88% dividend. Based

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