

## **Management's Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the three and six months ended June 30, 2019, compared to the preceding year. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2019, the annual MD&A contained in the 2018 Annual Report and the audited annual consolidated financial statements for the year ended December 31, 2018.

The unaudited interim condensed consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The information in this MD&A is current to July 24, 2019.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2018 Annual Report and the 2019 Annual Information Form. These filings are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.toromont.com](http://www.toromont.com).

### **Advisory**

Information in this MD&A that is not a historical fact is "forward-looking information". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "likely", "should", "could", "will", "may" and similar expressions are intended to identify statements containing forward-looking information. Forward-looking information in this MD&A reflects current estimates, beliefs, and assumptions, which are based on Toromont's perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. Toromont's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. Toromont can give no assurance that such estimates, beliefs and assumptions will prove to be correct. This MD&A also contains forward-looking statements about the recently acquired businesses.

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; changes in foreign exchange rates, including the Cdn\$/US\$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; potential environmental liabilities of the acquired businesses and changes to environmental regulation; failure to attract and retain key employees; damage to the reputation of Caterpillar, product quality and product safety risks which could expose Toromont to product liability claims and negative publicity; new, or changes to current, federal and provincial laws, rules and regulations including changes in infrastructure spending; and any requirement of Toromont to make contributions to the registered funded defined benefit pension plans, postemployment benefits plan or the multi-employer pension plan obligations in which it participates in and acquired in excess of those currently contemplated. Risks and uncertainties related to the 2017 significant acquisition could also cause the actual results to differ materially from the estimates beliefs and assumptions expressed or implied in the forward-looking statements, including but not limited to: changes in consumer and business confidence as a result of the change in ownership; the potential for liabilities assumed in the acquisition to exceed our estimates or for material

undiscovered liabilities in the 2017 acquisition; the potential for third parties to terminate or alter their agreements or relationships with Toromont as a result of the acquisition; and risks related to integration of the acquired operations with those of Toromont including cost of integration and ability to achieve the expected benefits. Readers are cautioned that the foregoing list of factors is not exhaustive.

Any of the above mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections herein. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

Readers are cautioned not to place undue reliance on statements containing forward-looking information, which reflect Toromont's expectations only as of the date of this MD&A, and not to use such information for anything other than their intended purpose. Toromont disclaims any obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## CONSOLIDATED OPERATING RESULTS

(\$ thousands, except per share amounts)	Three months ended June 30				Six months ended June 30			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
<b>REVENUES</b>	<b>\$ 978,320</b>	\$ 961,267	\$ 17,053	2%	<b>\$ 1,678,294</b>	\$ 1,638,095	\$ 40,199	2%
Cost of goods sold	<b>741,412</b>	736,401	5,011	1%	<b>1,270,725</b>	1,246,455	24,270	2%
Gross profit <sup>(1)</sup>	<b>236,908</b>	224,866	12,042	5%	<b>407,569</b>	391,640	15,929	4%
Selling and administrative expenses	<b>125,880</b>	125,886	(6)	-	<b>237,758</b>	243,445	(5,687)	(2%)
<b>OPERATING INCOME <sup>(1)</sup></b>	<b>111,028</b>	98,980	12,048	12%	<b>169,811</b>	148,195	21,616	15%
Interest expense	<b>6,988</b>	7,719	(731)	(9%)	<b>13,907</b>	16,614	(2,707)	(16%)
Interest and investment income	<b>(2,208)</b>	(2,051)	(157)	8%	<b>(4,780)</b>	(4,230)	(550)	13%
Income before income taxes	<b>106,248</b>	93,312	12,936	14%	<b>160,684</b>	135,811	24,873	18%
Income taxes	<b>28,850</b>	25,702	3,148	12%	<b>44,025</b>	37,422	6,603	18%
<b>NET EARNINGS</b>	<b>77,398</b>	67,610	9,788	14%	<b>116,659</b>	98,389	18,270	19%
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 0.95</b>	\$ 0.83	\$ 0.12	14%	<b>\$ 1.43</b>	\$ 1.21	\$ 0.22	18%
<b>KEY RATIOS:</b>								
Gross profit margin <sup>(1)</sup>	<b>24.2%</b>	23.4%			<b>24.3%</b>	23.9%		
Selling and administrative expenses as a % of revenues	<b>12.9%</b>	13.1%			<b>14.2%</b>	14.9%		
Operating income margin <sup>(1)</sup>	<b>11.3%</b>	10.3%			<b>10.1%</b>	9.0%		
Income taxes as a % of income before income taxes	<b>27.2%</b>	27.5%			<b>27.4%</b>	27.6%		

(1) Described in the sections titled "Additional GAAP Measures and Non-GAAP Measures".

Revenues increased 2% in both the quarter and year-to-date on good growth in the Equipment Group. Reduced equipment and package sales were more than offset by gains in product support and higher rental income in the Equipment Group on the larger fleets.

Gross profit margin increased 80 basis points ("bps") to 24.2% in the quarter and 40 bps year-to-date to 24.3%. The Equipment Group reported higher margins in both the quarter and year-to-date. CIMCO's margins were higher in the quarter but down slightly year-to-date. Both Groups benefited from a favorable mix of product support revenues to total revenues.

Selling and administrative expenses in the quarter were relatively in line with last year and were 20 bps lower as a percentage of revenues at 12.9%. Mark-to-market adjustments on Deferred Share Units (“DSUs”) favorably impacted expenses and served to offset higher compensation costs and allowances for doubtful accounts. On a year-to-date basis, selling and administrative expenses decreased \$5.7 million or 2%. Adjusted to exclude the non-recurring gain described in note 9 to the financial statements, year-to-date expenses decreased \$0.7 million (flat as a percentage) and were 40 bps lower as a percentage of revenues (14.5% versus 14.9%). Compensation costs, information technology related costs and mark-to-market adjustments on DSUs were higher, while allowances for doubtful accounts and customer support costs were lower.

Operating income increased \$12.0 million or 12% in the quarter to \$111.0 million and were up 100 bps to 11.3% as a percentage of revenues. Year-to-date, adjusted operating income was up \$16.6 million or 11% to \$164.8 million and was 80 bps higher as a percentage of revenues (9.8% versus 9.0% last year).

Interest expense decreased \$0.7 million in the quarter and \$2.7 million year-to-date on the lower average debt balances.

Interest income increased \$0.2 million in the quarter and \$0.6 million year-to-date. Higher interest income was earned on equipment on rent with a purchase option (“RPO”) in both the quarter and year-to-date. Interest earned on cash balances was relatively in line in the quarter but higher on a year-to-date basis.

The effective income tax rate was 27.2% in the quarter and 27.4% year-to-date.

Net earnings increased \$9.8 million or 14% to \$77.4 million in the quarter and \$18.3 million or 19% to \$116.7 million year-to-date, with EPS tracking the respective percentage increases. Adjusted year-to-date net earnings and EPS were both up 15%.

Comprehensive income was \$53.9 million in the quarter (2018 - \$77.4 million) and \$76.0 million year-to-date (2018 – \$116.5 million). Comprehensive income includes an actuarial loss on post-employment benefit plans reflecting a lower weighted-average discount rate (3.9% at December 31, 2018 versus 3.0% at June 30, 2019). Comprehensive income also includes losses on foreign currency derivative contracts used for hedging purposes. These losses are expected to offset future gains on the underlying hedged items.

## **BUSINESS SEGMENT OPERATING RESULTS**

The accounting policies of the segments are the same as those of the consolidated entity. Management evaluates overall business segment performance based on revenue growth, operating income relative to revenues and return on capital employed. Corporate expenses are allocated based on each segment’s revenue. Interest expense and interest and investment income are not allocated.

## Equipment Group

(\$ thousands)	Three months ended June 30				Six months ended June 30			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Equipment sales and rentals								
New	\$ 314,557	\$ 358,016	\$ (43,459)	(12%)	\$ 499,794	\$ 562,250	\$ (62,456)	(11%)
Used	99,240	88,530	10,710	12%	152,712	141,600	11,112	8%
Rentals	105,245	91,697	13,548	15%	186,327	162,571	23,756	15%
Total equipment sales and rentals	519,042	538,243	(19,201)	(4%)	838,833	866,421	(27,588)	(3%)
Product support	373,819	333,206	40,613	12%	685,378	615,403	69,975	11%
Power generation	2,596	2,671	(75)	(3%)	5,121	5,267	(146)	(3%)
<b>Total revenues</b>	<b>\$ 895,457</b>	<b>\$ 874,120</b>	<b>\$ 21,337</b>	<b>2%</b>	<b>\$ 1,529,332</b>	<b>\$ 1,487,091</b>	<b>\$ 42,241</b>	<b>3%</b>
<b>Operating income</b>	<b>\$ 104,455</b>	<b>\$ 93,927</b>	<b>\$ 10,528</b>	<b>11%</b>	<b>\$ 162,128</b>	<b>\$ 139,722</b>	<b>\$ 22,406</b>	<b>16%</b>
<b>KEY RATIOS:</b>								
Product support revenues as a % of total revenues	41.7%	38.1%			44.8%	41.4%		
Operating income margin	11.7%	10.7%			10.6%	9.4%		
Group total revenues as a % of consolidated revenues	91.5%	90.9%			91.1%	90.8%		

The Equipment Group delivered excellent results on continued growth in product support and rentals, together with higher used equipment sales.

New equipment sales across the Group were adversely impacted by several factors, including: softer construction activity in most of Ontario, Manitoba and Atlantic Canada; caution in the mining sector on lower commodity prices and bearish market signals; and limited supplier availability of some models and customer project deferrals in the power systems sector.

Total equipment sales (new and used) decreased \$32.7 million or 7% in the quarter and \$51.3 million or 7% year-to-date. Sales into mining markets were down 4% in the quarter and 27% year-to-date against a tough prior year comparator, which included large deliveries. Construction sales were down 2% in the quarter and 1% year-to-date. Good growth continued in Quebec, Northern Ontario and the Arctic. Power System sales were down 24% in the quarter and 9% year-to-date, reflecting decreases across all segments except electric power. Material handling revenues and sales into agricultural markets – both smaller market opportunities for the Company - were down in the quarter and year-to-date.

Rental revenues were up \$13.5 million or 15% in the quarter and \$23.8 million or 15% year-to-date. Light equipment rentals increased 14% in the quarter and 15% year-to-date, with good growth across the entire territory. Power rentals were up 14% in the quarter and 10% year-to-date, on continued growth in Quebec and Atlantic Canada, partially offset by lower activity in Ontario which benefitted from certain one-time activity last year. Heavy equipment rentals were down 11% in the quarter, with lower activity in Atlantic Canada, Ontario and Manitoba more than offsetting good growth in Quebec. For the year-to-date, heavy equipment rentals were up 1% with growth in Northern and Central Ontario only. Material handling equipment rentals were relatively unchanged. Rental revenues from equipment on rent with a purchase option (“RPO”) were up 66% in the quarter and 46% year-to-date, benefitting from a larger fleet and strong demand signals. At June 30, 2019, the RPO fleet was \$106.5 million versus \$70.4 million at this time last year.

Product support revenues grew \$40.6 million or 12% in the quarter and \$70.0 million or 11% year-to-date on growth in both parts and service into most markets.

Gross profit margins increased 50 bps in the quarter and 40 bps year-to-date versus last year, largely due to a favorable sales mix of product support revenues to total revenues. Equipment margins were up slightly in the quarter and relatively unchanged on a year-to-date basis. Rental margins were relatively unchanged in both periods. Product support margins were lower in the quarter and year-to-date on sales mix of parts to service, together with certain favorable project closeouts recorded last year.

Selling and administrative expenses were down \$0.6 million or 1% in the quarter, largely on lower customer support costs, partially offset by higher allowances for doubtful accounts. As a percentage of revenues, selling and administrative expenses decreased 40 bps to 12.6%. Year-to-date, adjusted selling and administrative expenses were down \$0.7 million (flat as percentage), mainly as a result of lower allowances for doubtful account, partially offset by higher compensation and information technology related costs. Adjusted selling and administrative expenses were 50 basis points lower as a percentage of revenues (14.3% versus 14.8% last year).

Operating income increased in both the quarter and year-to-date on the higher revenues and gross profit margins. For the quarter, operating income was up \$10.5 million or 11% to \$104.5 million and was 100 bps higher as a percentage of revenues at 11.7%. Year-to-date, adjusted operating income increased \$17.4 million or 12% and was up 90 bps to 10.3% as a percentage of revenues.

### Bookings and Backlogs

<i>(\$ millions)</i>	<b>2019</b>	2018	\$ change	% change
Bookings - three months ended June 30	<b>\$ 427.4</b>	\$ 423.0	\$ 4.4	1%
Bookings - six months ended June 30	<b>\$ 720.5</b>	\$ 792.7	\$ (72.2)	(9%)
Backlogs - as at June 30	<b>\$ 403.4</b>	\$ 407.0	\$ (3.6)	(1%)

Bookings were up \$4.4 million or 1% in the quarter. Strong construction orders (up 27%) were partially offset by lower power systems (down 37%), mining (down 50%), material handling (down 57%) and agriculture orders (down 20%).

On a year-to-date basis, bookings were down \$72.2 million or 9%, as strong construction orders were more than offset by decreases in the other segments.

Backlogs of \$403.4 million were down \$3.6 million or 1%. At June 30, 2019, the total backlog related to construction (41%), power systems (34%), mining (14%), agriculture (7%) and material handling (4%), substantially all of which is expected to be delivered this year.

Bookings and backlogs can vary significantly from period to period on large project activities, especially in mining and power systems, the timing of orders and deliveries and the availability of equipment from either inventory or suppliers.

## CIMCO

(\$ thousands)	Three months ended June 30				Six months ended June 30			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Package sales	\$ 44,882	\$ 53,826	\$ (8,944)	(17%)	\$ 76,409	\$ 89,445	\$ (13,036)	(15%)
Product support	37,981	33,321	4,660	14%	72,553	61,559	10,994	18%
<b>Total revenues</b>	<b>\$ 82,863</b>	<b>\$ 87,147</b>	<b>\$ (4,284)</b>	<b>(5%)</b>	<b>\$ 148,962</b>	<b>\$ 151,004</b>	<b>\$ (2,042)</b>	<b>(1%)</b>
<b>Operating income</b>	<b>\$ 6,573</b>	<b>\$ 5,053</b>	<b>\$ 1,520</b>	<b>30%</b>	<b>\$ 7,683</b>	<b>\$ 8,473</b>	<b>\$ (790)</b>	<b>(9%)</b>
<b>KEY RATIOS:</b>								
Product support revenues as a % of total revenues	45.8%	38.2%			48.7%	40.8%		
Operating income margin	7.9%	5.8%			5.2%	5.6%		
Group total revenues as a % of consolidated revenues	8.5%	9.1%			8.9%	9.2%		

Package sales were down \$8.9 million or 17% in the quarter and \$13.0 million or 15% year-to-date. In Canada, these were lower by 7% both in the quarter and year-to-date as higher recreational sales were more than offset by lower industrial sales. Good growth was again achieved in Atlantic and Western Canada, but more than offset by the decreases in Ontario and Quebec, both of which experienced record second quarter sales last year. In the US, package sales were down 48% in the quarter with similar trends seen in Canada, while down 44% year-to-date with decreases in both market segments. Package revenues reflect the progress of project construction applying the percentage-of-completion method for revenue recognition, which results in a degree of variability as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers).

Product support revenues were at record levels for a second quarter and first half of the year. In Canada, all regions increased to new highs for the respective periods and led to growth of 17% in the quarter and 21% year-to-date. In the US, new highs were also achieved for both periods and resulted in a 3% increase in the quarter and 8% year-to-date. The increased technician base contributed positively to the growth and recruitment remains a focus to further address strong demand signals in both Canada and the US.

Gross profit margins increased 360 bps in the quarter but were down 20 bps year-to-date. Package margins increased in the quarter but were down on a year-to-date basis. The increase in the quarter was due to improved execution. Year-to-date, competitive conditions continue to exert downward pressures on package margins, exacerbated by lower engineering recoveries due to the lower sales volume. Product support margins were lower in the quarter and year-to-date, largely attributable to the good pickups realized on project close-outs last year. The growing proportion of product support revenues to total revenues in both the quarter and year-to-date partially mitigated the impact of margin pressures.

Selling and administrative expenses were up \$0.6 million or 5% in the quarter, mainly on higher allowances for doubtful accounts and compensation costs, partially offset by decreases in most other categories. On a year-to-date basis, selling and administrative expenses were relatively in line with last year, with decreases in most categories offsetting higher compensation costs. As a percentage of revenues, selling and administrative expenses were up 150 bps in the quarter (15.3% versus 13.8% last year) and 20 bps year-to-date (16.0% versus 15.8% last year).

Operating income increased \$1.5 million or 30% in the quarter to a new second quarter high, largely reflecting the higher gross profit margins and were up 210 bps to 7.9% as a percentage of revenues. Year-to-date, operating income was down \$0.8 million or 9%. Operating income margin was 5.2%, down 40 bps from a year ago.

## Bookings and Backlogs

<i>(\$ millions)</i>	<b>2019</b>	2018	\$ change	% change
Bookings - three months ended June 30	\$ 45.2	\$ 61.7	\$ (16.5)	(27%)
Bookings - six months ended June 30	\$ 114.8	\$ 122.1	\$ (7.3)	(6%)
Backlogs - as at June 30	\$ 148.1	\$ 163.3	\$ (15.2)	(9%)

Bookings were down \$16.5 million or 27% in the quarter. Recreational orders increased 41% on very strong activity in the US, partially offset by lower activity in Canada (down 32%). Industrial orders were down 51% with decreases in both Canada (down 50%) and the US (down 58%).

On a year-to-date basis, bookings were down \$7.3 million or 6%. Recreational orders increased 44% with strong growth in the US (up 83%) and Canada (up 31%). Industrial orders were down 31% with decreases in both Canada (down 32%) and the US (down 22%).

Backlogs of \$148.1 million were down \$15.2 million or 9%. Industrial backlogs (down 36%) were lower in both Canada and the US, partially offset by higher recreational backlogs (up 47%) in both countries. Approximately two-thirds of the backlog is expected to be realized as revenue this year.

## CONSOLIDATED FINANCIAL CONDITION

The Company maintained a strong financial position. At June 30, 2019, the ratio of net debt to total capitalization was 26%, compared to 18% at December 31, 2018 and 28% at June 30, 2018.

### Non-cash Working Capital

The Company's investment in non-cash working capital was \$485.3 million at June 30, 2019. The major components, along with the changes from June 30 and December 31, 2018, are identified in the following table.

<i>As at (\$ thousands)</i>	<b>June 30 2019</b>	June 30 2018	<b>Change</b>		December 31 2018	<b>Change</b>	
			\$	%		\$	%
Accounts receivable	\$ 539,520	\$ 510,251	\$ 29,269	6%	\$ 522,462	\$ 17,058	3%
Inventories	1,069,704	862,118	207,586	24%	873,507	196,197	22%
Other current assets	11,881	13,666	(1,785)	(13%)	9,932	1,949	20%
Accounts payable and accrued liabilities	(931,781)	(807,582)	(124,199)	15%	(916,300)	(15,481)	2%
Provisions	(23,837)	(23,115)	(722)	3%	(24,382)	545	(2%)
Income taxes receivable (payable)	2,764	(4,827)	7,591	nm	(28,368)	31,132	nm
Derivative financial instruments	(12,554)	15,456	(28,010)	nm	27,624	(40,178)	nm
Dividends payable	(22,010)	(18,686)	(3,324)	18%	(18,737)	(3,273)	17%
Deferred revenues and contract liabilities	(148,383)	(174,545)	26,162	(15%)	(136,244)	(12,139)	9%
<b>Total non-cash working capital</b>	<b>\$ 485,304</b>	<b>\$ 372,736</b>	<b>\$ 112,568</b>	<b>30%</b>	<b>\$ 309,494</b>	<b>\$ 175,810</b>	<b>57%</b>

Accounts receivable increased 6% compared to June 30, 2018, reflecting a 2% increase in revenues in the quarter and slower collections. Days sales outstanding ("DSOs") increased 2 days to 47 days, with deteriorations in both the Equipment Group (up 2 days) and at CIMCO (up 11 days).

In comparison to December 31, 2018, accounts receivable increased 3% for similar reasons as the quarter. DSOs were 43 days at December 31, 2018.

Inventories at June 30, 2019 were 24% higher compared to June 30, 2018:

- Equipment Group inventories were up \$210.3 million or 25%, with higher equipment (up \$171.1 million or 32%), parts (up \$33.9 million or 15%) and service work-in-process (up \$5.3 million or 7%). The higher equipment and parts inventory levels were mainly attributable to improved availability from suppliers, together with certain inventory held in advance of customer specified delivery dates later in the year. Additionally, RPO inventories have increased significantly (up \$36.1 million). The higher service work-in-process levels reflect busy shops and good demand given the large installed base.
- CIMCO inventories were down \$2.7 million or 8%, mainly on lower work-in-process levels, reflecting project construction schedules.

Inventories at June 30, 2019 were 22% higher compared to December 31, 2018 with increases in both Groups:

- Equipment Group inventories were 22% higher with increases in all categories. Inventory levels are typically lowest at the end of a fiscal year due to seasonality, with inventories building during the year in advance of the busy selling period. RPO inventories were up \$31.8 million or 43%.
- CIMCO inventories were up 46% on higher work-in-process.

Other current assets can vary period-over-period and mainly relates to prepaid expenses for property taxes and software licenses.

Accounts payable and accrued liabilities at June 30, 2019 were 15% higher than at June 30, 2018, principally due to transitional terms from suppliers related to inventory purchases and a higher DSU liability on the higher relative closing share price. Additionally, the adoption of *IFRS 16 – Leases*, in the current year resulted in the recognition of current lease liabilities, which were \$6.6 million at June 30, 2019 (refer to note 1 of the notes to the unaudited interim condensed consolidated financial statements).

In comparison to December 31, 2018, accounts payable and accrued liabilities were up 2% for similar reasons as the quarter, partially offset by the payout of annual performance incentive bonuses.

Income taxes receivable (payable) reflects the difference between tax installments and current tax expense.

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar led to a cumulative net loss of \$12.6 million as at June 30, 2019. This is not expected to affect net earnings as the unrealized losses will offset future gains on the related hedged items.

Dividends payable increased compared to June 30 and December 31, 2018, reflecting the higher dividend rate. The quarterly dividend rate was increased 17% from \$0.23 per share to \$0.27 per share, effective with the April 3, 2019 payment.

Deferred revenues and contract liabilities represent billings to customers in excess of revenue recognized.

- In the Equipment Group, these arise mainly due to progress billings from the sale of power and energy systems and long-term product support maintenance contracts, as well as on sales of equipment with residual value guarantees and customer deposits for machinery to be delivered in the future. At June 30, 2019, these were down 8% versus June 30, 2018, and up 5% versus December 31, 2018, largely related to the impact of progress billings and timing of customer deposits for deliveries later in the year.

- At CIMCO, these arise on progress billings from the sale of refrigeration packages. At June 30, 2019, these were down 36% versus June 30, 2018 and up 32% versus December 31, 2018, reflecting the relative activity levels seen in Canada and the US, and customer's construction schedules.

### **Employee Future Benefits**

The Company completed the alignment of benefit programs across the Equipment Group in the first quarter of 2019, which on the whole, led to improved benefits for most employees in the acquired businesses and to increased administrative efficiencies for the Company. This will increase certain operating costs over ensuing years, however the impact is not expected to be significant in any given year. A single component of this comprehensive alignment program led to changes in the structure and elements of certain post-employment benefit plans, which resulted in a non-recurring curtailment gain of \$5.0 million (\$3.7 million after-tax) recorded in the first quarter ended March 31, 2019.

### **Legal and Other Contingencies**

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management and by active management of these matters. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

### **Outstanding Share Data**

As at the date of this MD&A, the Company had 81,533,398 common shares and 2,313,555 share options outstanding.

### **Dividends**

The Company declared and paid the following dividends to common shareholders during the last eight quarters.

<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend Amount per Share</b>	<b>Dividends Paid in Total (\$ millions)</b>
September 8, 2017	October 2, 2017	\$0.19	\$14.9
December 8, 2017	January 3, 2018	\$0.19	\$15.4
March 9, 2018	April 2, 2018	\$0.23	\$18.6
June 8, 2018	July 3, 2018	\$0.23	\$18.7
September 7, 2018	October 2, 2018	\$0.23	\$18.7
December 7, 2018	January 3, 2019	\$0.23	\$18.7
March 8, 2019	April 3, 2019	\$0.27	\$22.0
June 7, 2019	July 3, 2019	\$0.27	\$22.0

## LIQUIDITY AND CAPITAL RESOURCES

### Sources of Liquidity

Toromont's liquidity requirements can be met through a variety of sources, including cash generated from operations, long and short-term borrowings and the issuance of common shares. Borrowings are obtained through a variety of senior debentures, notes payable and committed long-term credit facilities.

Toromont's debt portfolio is unsecured, unsubordinated and ranks pari passu.

The Company maintains a \$500.0 million revolving credit facility, maturing in October 2022. No amounts were drawn on the facility at June 30, 2019, December 31, 2018 or June 30, 2018. Standby letters of credit utilized \$30.2 million of the facility at June 30, 2019, \$29.9 million at December 31, 2018 and \$27.4 million at June 30, 2018.

The Company expects that continued cash flows from operations in 2019, together with cash on hand and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets.

### Principal Components of Cash Flow

Cash from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<b>Cash, beginning of period</b>	\$ 184,171	\$ 171,223	\$ 345,434	\$ 160,507
Cash, provided by (used in):				
<b>Operating activities</b>				
Operations	112,466	100,415	185,109	164,620
Change in non-cash working capital and other	(25,726)	91,858	(194,218)	194,905
Net rental fleet additions	(62,817)	(63,458)	(106,639)	(91,342)
	23,923	128,815	(115,748)	268,183
<b>Investing activities</b>	(30,412)	(6,835)	(36,752)	28,784
<b>Financing activities</b>	(22,935)	(13,583)	(38,282)	(177,962)
Effect of foreign exchange on cash balances	(295)	104	(200)	212
Decrease (increase) in cash in the period	(29,719)	108,501	(190,982)	119,217
<b>Cash, end of period</b>	\$ 154,452	\$ 279,724	\$ 154,452	\$ 279,724

### Cash Flows from Operating Activities

Operating activities provided cash in the second quarter and used cash on a year-to-date basis.

The increased cash generated from operations for the quarter and year-to-date were as a result of the higher net earnings. The adoption of IFRS 16 – *Leases* on January 1, 2019, results in higher cash from operating activities as lease payments are presented under financing activities (refer to note 1 of the notes to the unaudited interim condensed consolidated financial statements).

Non-cash working capital and other used significant amounts of cash in the quarter and year-to-date, mainly as a result of lower accounts payable and accrued liabilities as amounts came due, lower

deferred revenues and contract liabilities reflecting customer's construction schedules, lower income taxes payable and higher inventories, partially offset by higher changes in derivatives financial instruments.

Net rental fleet additions (purchases less proceeds of dispositions) were relatively in line in the quarter versus last year. On a year-to-date basis, the increase of 17% compared to last year reflects the strategic timing of investments to grow and diversify the rental fleet portfolio across the previously acquired territories.

The components and changes in non-cash working capital are discussed in more detail in this MD&A under the heading "Consolidated Financial Condition".

### **Cash Flows from Investing Activities**

Investments in property, plant and equipment, net of disposition proceeds in the quarter (\$30.5 million versus \$6.8 million last year) accounted for the use of cash and were mainly attributed to increased investments in land and buildings for new and expanded branch facilities, service vehicles and information technology related infrastructure.

On a year-to-date basis, the \$36.8 million use of cash in 2019 related to net investments in property, plant and equipment. Cash of \$28.8 million provided last year reflected a \$42.7 million final working capital adjustment received, stemming from the 2017 acquisition, partially offset by investments of \$13.8 million in property, plant and equipment, net of disposition proceeds.

### **Cash Flows from Financing Activities**

The Company paid dividends of \$22.0 million or \$0.27 per share (2018 - \$18.6 million or \$0.23 per share) during the second quarter and \$40.7 million or \$0.50 per share (2018 - \$34.0 million or \$0.42 per share) year-to-date.

The Company received \$1.6 million (2018 - \$5.1 million) in the quarter on the exercise of stock options and \$8.4 million (2018 - \$7.0 million) year-to-date.

Principal portion of lease liability payments resulting from the adoption of IFRS 16 – *Leases*, were \$2.5 million for the quarter and \$4.9 million year-to-date versus \$nil for the comparable periods last year.

For the six months ended June 30, 2018, the significant use of cash, apart from the items highlighted above, was mainly due to the repayment of \$150.0 million drawn on a term credit facility used to partially fund the 2017 acquisition.

## OUTLOOK

The expansion of our territories to include Quebec and Atlantic Canada presents a great opportunity for the long-term performance of Toromont. It provides a substantial growth platform and strengthens our Company by providing a large contiguous and diverse operating landscape extending across all of Eastern and Central Canada and into the Far North. Effective execution will be required to realize on this significant potential for a greater combined presence in key Canadian economic sectors such as mining, construction and power systems, combined with the growing rental services, product support and material handling markets. Focus is currently on safety of our people, customer deliverables, business integration, operational excellence initiatives and transition to generate favorable long-term returns.

The Equipment Group's parts and service business has realized significant growth in recent years, driven by the larger installed base of equipment, and provides increased stability and predictability in a variable business environment. The Company continues to hire technicians to address growing demand signals, including increased equipment rebuilds and readying used iron. Broader product lines, investment in rental equipment and developing product support technologies supporting remote diagnostics and telematics are expected to support longer-term growth.

Increased investment in rental fleets together with the inclusion of equipment lines utilized in the weaker shoulder and winter seasons, present the opportunities to grow and to stabilize seasonality.

Production at existing mine sites is generating meaningful product support opportunities and incremental equipment sales to facilitate mine expansion. Our substantially increased base of installed equipment is a good bell-weather for future product support activity.

CIMCO's increasing installed base and long-term product support levels are positive signals for future growth trends. CIMCO has a wide product offering using natural refrigerants including innovative CO<sub>2</sub> solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provides continued growth opportunities.

The diversity of the markets served, expanding product offering and services, financial strength and disciplined operating culture position our Company for continued growth in the long term.

## QUARTERLY RESULTS

The following table summarizes unaudited quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2018 annual audited consolidated financial statements.

<i>(\$ thousands, except per share amounts)</i>	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>REVENUES</b>				
Equipment Group	\$ 800,128	\$ 873,868	\$ 633,875	\$ 895,457
CIMCO	99,966	92,179	66,099	82,863
Total revenues	\$ 900,094	\$ 966,047	\$ 699,974	\$ 978,320
<b>NET EARNINGS</b>	\$ 68,697	\$ 84,898	\$ 39,261	\$ 77,398
<b>PER SHARE INFORMATION:</b>				
Basic earnings per share	\$ 0.84	\$ 1.04	\$ 0.48	\$ 0.95
Diluted earnings per share	\$ 0.84	\$ 1.03	\$ 0.48	\$ 0.94
Dividends paid per share	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.27
Weighted average common shares outstanding - basic (in thousands)	81,383	81,427	81,326	81,510

<i>(\$ thousands, except per share amounts)</i>	Q3 2017	Q4 2017	Q1 2018	Q2 2018
<b>REVENUES</b>				
Equipment Group	\$ 488,020	\$ 726,011	\$ 612,971	\$ 874,120
CIMCO	96,138	96,755	63,857	87,147
Total revenues	\$ 584,158	\$ 822,766	\$ 676,828	\$ 961,267
<b>NET EARNINGS</b>	\$ 49,355	\$ 59,136	\$ 30,779	\$ 67,610
<b>PER SHARE INFORMATION:</b>				
Basic earnings per share	\$ 0.63	\$ 0.73	\$ 0.38	\$ 0.83
Diluted earnings per share	\$ 0.62	\$ 0.72	\$ 0.38	\$ 0.83
Dividends paid per share	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.23
Weighted average common shares outstanding - basic (in thousands)	78,522	80,916	80,976	81,131

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality. The acquisition in the fourth quarter of 2017 also affects comparability on a year-over-year basis.

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter had typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option. This pattern is impacted by the timing of significant sales to mining and other customers, resulting from the timing of mine site development and access, and construction project schedules.

CIMCO has also had a distinct seasonal trend in results historically, due to timing of construction activity. Lower revenues are recorded during the first quarter on slower construction schedules due to winter weather. Revenues increase in subsequent quarters as construction schedules ramp up. This trend can be, and has been, impacted somewhat by significant governmental funding initiatives and significant industrial projects.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarters of the fiscal year. This seasonal sales trend also leads accounts receivable to be at their highest level at year end.

## **RISKS AND RISK MANAGEMENT**

In the normal course of business, Toromont is exposed to risks that may potentially impact its financial results in any or all of its business segments. The Company and each operating segment employ risk management strategies with a view to mitigating these risks on a cost-effective basis. There have been no material change to the operating and financial risk assessment and related risk management strategies as described in the Company's 2018 Annual Report.

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

### *Accounting Policies*

The significant accounting policies used in the preparation of the accompanying unaudited interim condensed consolidated financial statements are consistent with those used in the Company's 2018 audited annual consolidated financial statements, and described in note 1 therein, except as described in note 1 to the unaudited interim condensed consolidated financial statements for the three and six month periods ending June 30, 2019.

### *Estimates*

The preparation of financial statements in conformity with IFRS requires estimates and assumptions that affect the results of operations and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and are based upon historical experience, trends in the industry and information available from outside sources. Management reviews its estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material impact, positive or negative, on Toromont's financial position and results of operations. There have been no material changes to the critical accounting estimates as described in Note 2 to the Company's 2018 audited annual consolidated financial statements, contained in the Company's 2018 Annual Report.

## **CONTROLS AND PROCEDURES**

### Disclosure Controls and Procedures

Management, under the supervision of the President and Chief Executive Officer ("CEO") and Executive Vice President and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and have designed such disclosure controls and procedures, or have caused it to be designed under their supervision, to provide reasonable assurance

that material information with respect to Toromont is made known to them.

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures.

Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at June 30, 2019.

#### Internal Control over Financial Reporting

Management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and have designed such internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

There have been no changes in the design of the Company's internal control over financial reporting during the three and six month periods ended June 30, 2019, that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, a projection of the evaluation of the effectiveness of internal control over financial reporting to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. Internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

#### **ADDITIONAL GAAP MEASURES**

IFRS mandates certain minimum line items for financial statements and also requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of the Company's financial position or performance. IFRS also requires the notes to the financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such measures outside of the minimum mandated line items are considered additional GAAP measures. The Company's consolidated financial statements and notes thereto include certain additional GAAP measures where management considers such information to be useful to the understanding of the Company's results.

## Gross Profit

Gross Profit is defined as total revenues less cost of goods sold.

## Operating Income

Operating income is defined as net earnings before interest expense, interest and investment income and income taxes and is used by management to assess and evaluate the financial performance of its operating segments. Financing and related interest charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments do not correspond to income tax jurisdictions, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of the business segments.

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Net earnings	\$ 77,398	\$ 67,610	\$ 116,659	\$ 98,389
<i>plus:</i> Interest expense	6,988	7,719	13,907	16,614
<i>less:</i> Interest and investment income	(2,208)	(2,051)	(4,780)	(4,230)
<i>plus:</i> Income taxes	28,850	25,702	44,025	37,422
<b>Operating income</b>	<b>\$ 111,028</b>	<b>\$ 98,980</b>	<b>\$ 169,811</b>	<b>\$ 148,195</b>

## Net Debt to Total Capitalization and Equity

Net debt to total capitalization and equity are calculated as net debt divided by total capitalization and shareholders' equity, respectively, as defined below, and are used by management as measures of the Company's financial leverage.

Net debt is calculated as long-term debt plus current portion of long-term debt less cash. Total capitalization is calculated as shareholders' equity plus net debt.

The calculations are as follows:

As at (\$ thousands)	June 30 2019	December 31 2018	June 30 2018
Long-term debt	\$ 645,005	\$ 644,540	\$ 743,759
Current portion of long-term debt	-	1,022	2,010
<i>less:</i> Cash	154,452	345,434	279,724
<b>Net debt</b>	<b>490,553</b>	<b>300,128</b>	<b>466,045</b>
Shareholders' equity	1,370,997	1,327,679	1,213,944
<b>Total capitalization</b>	<b>\$ 1,861,550</b>	<b>\$ 1,627,807</b>	<b>\$ 1,679,989</b>
<b>Net debt to total capitalization</b>	<b>26%</b>	<b>18%</b>	<b>28%</b>
<b>Net debt to equity</b>	<b>0.36:1</b>	<b>0.23:1</b>	<b>0.38:1</b>

## NON-GAAP MEASURES

Management believes that providing certain non-GAAP measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out below, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

The non-GAAP measures used by management do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with IFRS.

### *Working Capital*

Working capital is defined as total current assets less total current liabilities. Management views working capital as a measure for assessing overall liquidity.

<i>As at (\$ thousands)</i>	<b>June 30 2019</b>	December 31 2018	June 30 2018
Total current assets	\$ 1,778,321	\$ 1,779,100	\$ 1,682,406
less: Total current liabilities	1,138,565	1,125,194	1,031,956
<b>Working capital</b>	<b>\$ 639,756</b>	<b>\$ 653,906</b>	<b>\$ 650,450</b>

### *Non-Cash Working Capital*

Non-cash working capital is defined as total current assets (excluding cash) less total current liabilities (excluding current portion of long-term debt).

<i>As at (\$ thousands)</i>	<b>June 30 2019</b>	December 31 2018	June 30 2018
Total current assets	\$ 1,778,321	\$ 1,779,100	\$ 1,682,406
less: Cash	154,452	345,434	279,724
	<b>1,623,869</b>	1,433,666	1,402,682
Total current liabilities	1,138,565	1,125,194	1,031,956
less: Current portion of long-term debt	-	1,022	2,010
	<b>1,138,565</b>	1,124,172	1,029,946
<b>Non-cash working capital</b>	<b>\$ 485,304</b>	<b>\$ 309,494</b>	<b>\$ 372,736</b>

### Market Capitalization & Total Enterprise Value

Market capitalization represents the total market value of the Company's equity. It is calculated by multiplying the market price of the Company's share by the total outstanding shares.

Total enterprise value represents the total value of the Company and is often used as a more comprehensive alternative to market capitalization. It is calculated by adding net debt (defined above) to market capitalization.

The calculations are as follows:

<i>As at (\$ thousands, except for share price)</i>	<b>June 30 2019</b>	December 31 2018	June 30 2018
Outstanding common shares	<b>81,533</b>	81,226	81,280
x Ending share price	<b>\$ 62.07</b>	\$ 54.26	\$ 56.86
<b>Market capitalization</b>	<b>\$ 5,060,778</b>	\$ 4,407,344	\$ 4,621,571
Long-term debt	<b>\$ 645,005</b>	\$ 644,540	\$ 743,759
Current portion of long-term debt	-	1,022	2,010
less: Cash	<b>154,452</b>	345,434	279,724
<b>Net debt</b>	<b>\$ 490,553</b>	\$ 300,128	\$ 466,045
<b>Total enterprise value</b>	<b>\$ 5,551,331</b>	\$ 4,707,472	\$ 5,087,616

### Significant item

A curtailment gain of \$5.0 million (\$3.7 million after tax) as described in note 9 of the notes to the interim condensed consolidated financial statements was recorded in the first quarter of 2019. It did not impact the second quarter and therefore adjusted for the reported results of the Company for the six months ended June 30, 2019 only. This item was not considered to be indicative of operational and financial trends, either by nature or amount and as such, a reconciliation adjusting for the impact of this item is shown below:

<i>(\$ thousands, except per share amounts)</i>	<b>Six months ended June 30, 2019</b>		
	<b>Reported</b>	Curtailment gain	<b>Adjusted - excluding curtailment gain</b>
Selling and administrative expenses	<b>\$ 237,758</b>	\$ (5,000)	<b>\$ 242,758</b>
Operating income	<b>\$ 169,811</b>	\$ 5,000	<b>\$ 164,811</b>
Net earnings	<b>\$ 116,659</b>	\$ 3,700	<b>\$ 112,959</b>
Basic earnings per share ("EPS")	<b>\$ 1.43</b>	\$ 0.04	<b>\$ 1.39</b>

### Key Performance Indicators ("KPIs")

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin, operating margin, order bookings and backlogs, return on capital employed and return on equity. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

### Gross Profit Margin

This measure is defined as gross profit (defined above) divided by total revenues.

### Operating Income Margin

This measure is defined as operating income (defined above) divided by total revenues.

### Order Bookings and Backlogs

The Company's order bookings represent equipment unit orders that management believes are firm. Backlogs are defined as the retail value of equipment unit ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future equipment deliveries. There are no directly comparable IFRS measures for order bookings or backlog.

### Return on Capital Employed ("ROCE")

ROCE is utilized to assess both current operating performance and prospective investments. The trailing twelve months adjusted earnings numerator used for the calculation is income before income taxes, interest expense and interest income (excluding interest on rental conversions). The denominator in the calculation is the monthly average capital employed, which is defined as net debt plus shareholders' equity or total capitalization.

(\$ thousands)	Trailing twelve months ended		
	June 30 2019	December 31 2018	June 30 2018
Net earnings	\$ 270,253	\$ 251,984	\$ 206,880
<i>plus:</i> Interest expense	27,936	30,643	25,221
<i>less:</i> Interest and investment income	(9,468)	(8,918)	(6,781)
<i>plus:</i> Interest income - rental conversions	3,726	3,461	3,073
<i>plus:</i> Income taxes	102,468	95,865	78,041
Adjusted net earnings	\$ 394,915	\$ 373,035	\$ 306,435
Average capital employed	\$ 1,753,283	\$ 1,720,921	\$ 1,548,287
<b>Return on capital employed</b>	<b>22.5%</b>	<b>21.7%</b>	<b>19.8%</b>

### Return on Equity ("ROE")

ROE is monitored to assess the profitability of the consolidated Company and is calculated by dividing trailing twelve months net earnings by opening shareholders' equity (adjusted for shares issued and redeemed during the period).

(\$ thousands)	Trailing twelve months ended		
	June 30 2019	December 31 2018	June 30 2018
Net earnings	\$ 270,253	\$ 251,984	\$ 206,880
Opening shareholders' equity (net of adjustments)	\$ 1,214,346	\$ 1,130,947	\$ 1,010,461
<b>Return on equity</b>	<b>22.3%</b>	<b>22.3%</b>	<b>20.5%</b>