

## 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 months ended March 31, 2020, 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 months ended March 31, 2020, the annual MD&A contained in the 2019 Annual Report and the audited annual consolidated financial statements for the year ended December 31, 2019.

The unaudited interim condensed consolidated financial statements reported herein have been prepared in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting*, and are reported in Canadian dollars. The information in this MD&A is current to April 30, 2020.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2019 Annual Report and the 2020 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; potential risks and uncertainties relating to the novel COVID-19 global pandemic, including an economic downturn, reduction or disruption in supply or demand for our products and services, or adverse impacts on our workforce, capital resources, or share trading price or liquidity; increased regulation of or restrictions placed on our businesses as a result of COVID-19; 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; 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 and acquired in excess of those currently contemplated; and increased insurance premiums. 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 of Toromont's most recent annual Management Discussion and Analysis, as filed with Canadian securities regulators at [www.sedar.com](http://www.sedar.com) or at our website [www.toromont.com](http://www.toromont.com). 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

	Three months ended March 31			
<i>(\$ thousands, except per share amounts)</i>	2020	2019	\$ change	% change
<b>REVENUES</b>	<b>\$ 715,459</b>	\$ 699,974	\$ 15,485	2%
Cost of goods sold	<b>544,601</b>	529,313	15,288	3%
Gross profit <sup>(1)</sup>	<b>170,858</b>	170,661	197	-
Selling and administrative expenses	<b>115,617</b>	111,878	3,739	3%
<b>OPERATING INCOME <sup>(1)</sup></b>	<b>55,241</b>	58,783	(3,542)	(6%)
Interest expense	<b>6,931</b>	6,919	12	-
Interest and investment income	<b>(2,726)</b>	(2,572)	(154)	6%
Income before income taxes	<b>51,036</b>	54,436	(3,400)	(6%)
Income taxes	<b>13,640</b>	15,175	(1,535)	(10%)
<b>NET EARNINGS</b>	<b>37,396</b>	39,261	(1,865)	(5%)
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 0.46</b>	\$ 0.48	\$ (0.02)	(4%)
<b>KEY RATIOS:</b>				
Gross profit margin <sup>(1)</sup>	<b>23.9%</b>	24.4%		
Selling and administrative expenses as a % of revenues	<b>16.2%</b>	16.0%		
Operating income margin <sup>(1)</sup>	<b>7.7%</b>	8.4%		
Income taxes as a % of income before income taxes	<b>26.7%</b>	27.9%		

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

Results for the quarter were lower as the COVID-19 pandemic reduced activity in several sectors. While Toromont's businesses have, to date, been declared essential services in all jurisdictions in which we operate, we are not insulated from the broader economic, financial and market impacts. Activity reductions of several mine sites and construction projects reduced demand for our products and services in the latter part of the quarter.

Revenues increased \$15.5 million or 2% for the quarter. Equipment Group revenues increased 4% on good equipment and product support sales. CIMCO revenues declined 13% mainly on timing of construction schedules and winter slowdowns; however booking activity was very strong. Product support revenues increased 3% with growth in both Groups. Revenues were dampened by the onset of COVID-19 in the latter part of the quarter. Product support and rental revenues were trending 5% and 7% higher respectively through February, however reduced activity in March largely offset this growth. It is difficult to quantify the impact of COVID-19 on equipment revenues.

Gross profit margin decreased 50 basis points ("bps") to 23.9% versus the first quarter last year. Equipment Group margins decreased on competitive market conditions and under-absorption of the larger rental fleet reflective of the substantial investment made in 2019 and the use of a straight-line depreciation method. At CIMCO, both package and product support margins were higher on good execution as well as a favourable sales mix of product support revenues to total revenues.

Selling and administrative expenses in the first quarter of 2020 included a \$4.1 million gain on sale of a property, while the first quarter of 2019 included a \$5.0 million curtailment gain. Other selling and administrative expenses were up \$2.8 million or 2%. The mark-to-market adjustment on deferred share units reduced expenses \$3.9 million in the first quarter of 2020 on the lower share price, whereas in the first quarter of 2019, an increase in the share price led to an expense of \$5.2 million. All other compensation increased \$6.3 million on normal salary increases and increased headcount. Allowance for doubtful accounts increased \$3.1 million on delayed collections and aging receivables. Customer support costs on the higher volume and information technology costs related to system integration and improvements were also higher.

Operating income decreased \$3.5 million or 6% in the quarter and was 70 bps lower as a percentage of revenues (7.7% versus 8.4% last year), reflecting lower gross margins and higher relative expense levels.

Interest expense was largely unchanged on similar average debt balances period over period.

Interest income increased \$0.2 million in the quarter on higher average cash balances held through the quarter.

The effective income tax rate for the quarter was 26.7% compared to 27.9% in the first quarter last year, lower on the impact of the gain on sale of property which is taxed at a lower rate.

Net earnings for the quarter were down \$1.9 million or 5% to \$37.4 million with basic earnings per share ("EPS") decreasing 4% to \$0.46.

Comprehensive income in the quarter was \$68.0 million (2019 – \$22.1 million). Other comprehensive income included an actuarial gain on post-employment benefit plans of \$17.8 million after-tax (2019 – actuarial loss of \$14.1 million). These gains and losses largely reflect changes in the weighted average discount rates used in the valuation, which are reflective of underlying financial markets, as well as changes in the fair value of pension plan assets. Other comprehensive income also included a favorable net change in the fair value of cash flow hedges of \$11.9 million after-tax (2019 – unfavourable net change of \$2.9 million). These changes reflect mark-to-market differences in value of foreign exchange derivative contracts designated as cash flow hedges and are largely a function of the underlying USD/CAD exchange rates at period end compared to contract date.

## 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 March 31			
	2020	2019	\$ change	% change
Equipment sales and rentals				
New	\$ 186,773	\$ 185,237	\$ 1,536	1%
Used	64,962	53,472	11,490	21%
Rentals	80,978	81,082	(104)	-
Total equipment sales and rentals	332,713	319,791	12,922	4%
Product support	322,351	311,560	10,791	3%
Power generation	2,712	2,524	188	7%
<b>Total revenues</b>	<b>\$ 657,776</b>	<b>\$ 633,875</b>	<b>\$ 23,901</b>	<b>4%</b>
<b>Operating income</b>	<b>\$ 55,076</b>	<b>\$ 57,673</b>	<b>\$ (2,597)</b>	<b>(5%)</b>
<b>KEY RATIOS:</b>				
Product support revenues as a % of total revenues	49.0%	49.2%		
Operating income margin	8.4%	9.1%		
Group total revenues as a % of consolidated revenues	91.9%	90.6%		

Results for the first quarter in the Equipment Group have historically been lower than other quarters of the year due to seasonality, with revenues accounting for on average less than 20% of the full year's revenues.

Total equipment sales (new and used) increased \$13.0 million or 5%. Sales into construction markets increased 10%, with good growth in Ontario and Quebec. Sales into mining markets were down 5% while power system sales decreased 7%. Material handling equipment sales increased 11% while agricultural sales were down 13%.

Rental revenues were largely unchanged year-over-year as revenue declines in March from COVID-19 largely offset revenue growth from the early part of the quarter. Heavy equipment

rentals decreased 16%, power rentals were 11% lower and material handling rentals were down 4%. Light equipment rentals reflected a moderate increase of 2%, with good activity in Central Canada partially offset by lower activity in Quebec. Rental revenues from equipment on rent with a purchase option (“RPO”) were up 22% on a larger average fleet over the period, however at March 31, 2020, the RPO fleet was \$62.1 million versus \$76.9 million at this time last year, reflecting conversion activity as well as inventory returns.

Product support revenues grew \$10.8 million or 3% on higher parts (up 4%) and service revenues (up 3%). Activity within construction markets was healthy, up 4% with increases in most regions. Power systems activity increased 21% reflecting the larger installed base and timing of larger rebuild projects. Mining activity increased 1%, as early revenue growth was dampened by mine shut-downs in March 2020, as a result of COVID-19.

Gross profit margins decreased 100 bps in the quarter versus last year. Equipment margins were 70 bps lower on the continued tight pricing environment. Rental margins were 10 bps lower reflecting lower fleet utilization. Product support margins were down 20 bps. Sales mix was neutral year-over-year. Product support revenues were 49.0% as a percentage of total revenues compared to 49.2% in the first quarter last year.

Selling and administrative expenses in the first quarter of 2020 included a \$4.1 million gain on sale of a property, while the first quarter of 2019 included a \$5.0 million curtailment gain. Other selling and administrative expenses were up \$1.4 million or 1%. Allowances for doubtful accounts increased \$1.6 million on aging of accounts receivable and delayed collections. Compensation costs were lower as annual salary increases and higher headcount were more than offset by mark-to-market recovery of expense on deferred share units. Information technology related costs were higher in support of system integration efforts. Selling and administrative expenses were 20 basis points lower as a percentage of revenues (15.7% versus 15.9% last year).

Operating income decreased \$2.6 million (5%) to \$55.1 million, reflecting the higher revenues, offset by lower margins and higher expenses.

### Bookings and Backlogs

<i>(\$ millions)</i>	<b>2020</b>	2019	\$ change	% change
Bookings - three months ended March 31	<b>\$ 337.7</b>	\$ 293.1	\$ 44.6	15%
Backlogs - as at March 31	<b>\$ 353.1</b>	\$ 395.1	\$ (42.0)	(11%)

Bookings increased \$44.6 million or 15%. Higher construction (+19%), power systems (+50%) and material handling orders (+17%), were offset by lower mining (down 35%) and agriculture orders (down 31%).

Backlogs of \$353.1 million were down \$42.0 million or 11% across all sectors except construction. At March 31, 2020, the total backlog related to construction (47%), power systems (34%), mining (8%), agriculture (6%) and material handling (6%), substantially all of which are currently expected to be delivered this year but subject to timing differences depending on vendor supply and customer delivery schedules.

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 March 31			
	2020	2019	\$ change	% change
Package sales	\$ 22,609	\$ 31,527	\$ (8,918)	(28%)
Product support	35,074	34,572	502	1%
<b>Total revenues</b>	<b>\$ 57,683</b>	<b>\$ 66,099</b>	<b>\$ (8,416)</b>	<b>(13%)</b>
<b>Operating income</b>	<b>\$ 165</b>	<b>\$ 1,110</b>	<b>\$ (945)</b>	<b>(85%)</b>
<b>KEY RATIOS:</b>				
Product support revenues as a % of total revenues	<b>60.8%</b>	52.3%		
Operating income margin	<b>0.3%</b>	1.7%		
Group total revenues as a % of consolidated revenues	<b>8.1%</b>	9.4%		

The first quarter is seasonally the slowest period for CIMCO due to winter shutdowns which negatively impact construction schedules and result in package revenues in the first quarter to account for less than 20% of the total year's package revenue. Against a smaller base, this can create larger variances.

Package revenues reflect the progress of project construction applying the percentage-of-completion method for revenue recognition. This introduces a degree of variability as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers). In Canada, package revenues were down \$7.8 million or 28% reflecting lower industrial revenues (down \$9.8 million or 43%), partially offset by higher recreational revenues (up \$2.0 million or 42%). Ontario reported strong activity levels while all other regions were lower. In the US, package revenues decreased \$1.1 million or 29%, as lower industrial revenues (down \$1.7 million or 66%), were partially offset by higher recreational revenues (up \$0.6 million or 49%).

Product support revenues increased \$0.5 million or 1% versus the first quarter last year on growth in the US (up 6%) while revenues in Canada were largely unchanged. The increased technician base and essential services designation continues to support activity levels. Activity slowed through the latter part of the quarter on the impact of the pandemic, dampening revenue growth for the quarter after a healthy start to the year.

Gross profit margins increased 360 bps in the quarter versus last year. The increase in gross profit margins was due to higher package (up 170 bps) and product support margins (up 40 bps) combined with a favorable sales mix of product support revenues to total revenues (up 150 bps). The growing proportion of product support revenues to total revenues (60.8% versus 52.3% last year) continues to mitigate the impact of margin pressures due to increased competition in the market.

Selling and administrative expenses were up \$1.5 million or 13% on a higher allowance for doubtful accounts on delayed collection activity. Excluding this item, selling and administrative expenses were unchanged from the similar period last year. As a percentage of revenues, selling

and administrative expenses were higher by 500 bps (21.9% versus 16.9% last year) reflecting the lower revenues.

Operating income was \$0.2 million in the first quarter, down from \$1.1 million in the comparable period last year, reflecting lower package revenues and an increase in allowance for doubtful accounts.

## Bookings and Backlogs

<i>(\$ millions)</i>	<b>2020</b>	2019	\$ change	% change
Bookings - three months ended March 31	<b>\$ 112.2</b>	\$ 69.7	\$ 42.5	61%
Backlogs - as at March 31	<b>\$ 213.9</b>	\$ 149.8	\$ 64.1	43%

Bookings were up \$42.5 million or 61% to \$112.2 million. Several large industrial orders were received in Canada while recreational orders were lower. Overall bookings in the US were 19% lower, but on a smaller base.

Backlogs of \$213.9 million were up \$64.1 million or 43% versus March last year. Industrial backlogs (up 86%) were higher in Canada (+99%) and lower in the US (-30%), while recreational backlogs (down 5%) were higher in the US (+42%) and lower in Canada (-27%). Approximately 70% of the backlog is expected to be realized as revenue this year, however this is subject to construction schedules and potential changes stemming from the COVID-19 pandemic.

## CONSOLIDATED FINANCIAL CONDITION

The Company maintained a strong financial position. At March 31, 2020, the ratio of net debt to total capitalization was 18%, compared to 15% at December 31, 2019 and 26% at March 31, 2019.

## Non-cash Working Capital

The Company's investment in non-cash working capital was \$571.4 million at March 31, 2020. The major components, along with the changes from March 31 and December 31, 2019, are identified in the following table.

<i>(\$ thousands)</i>	<b>March 31 2020</b>	March 31 2019	<b>Change</b>		December 31 2019	<b>Change</b>	
			\$	%		\$	%
Accounts receivable	<b>\$ 454,148</b>	\$ 466,219	\$ (12,071)	(3%)	\$ 525,052	\$ (70,904)	(14%)
Inventories	<b>976,401</b>	1,014,915	(38,514)	(4%)	912,186	64,215	7%
Other current assets	<b>16,547</b>	13,521	3,026	22%	12,063	4,484	37%
Accounts payable and accrued liabilities	<b>(726,082)</b>	(851,791)	125,709	(15%)	(797,807)	71,725	(9%)
Provisions	<b>(24,287)</b>	(24,087)	(200)	1%	(23,680)	(607)	3%
Income taxes receivable	<b>16,651</b>	9,678	6,973	72%	9,275	7,376	80%
Derivative financial instruments	<b>36,916</b>	7,054	29,862	nm	(10,366)	47,282	nm
Dividends payable	<b>(25,435)</b>	(21,998)	(3,437)	16%	(22,139)	(3,296)	15%
Deferred revenues and contract liabilities	<b>(153,483)</b>	(149,442)	(4,041)	3%	(140,898)	(12,585)	9%
<b>Total non-cash working capital</b>	<b>\$ 571,376</b>	\$ 464,069	\$ 107,307	23%	\$ 463,686	\$ 107,690	23%

Accounts receivable decreased 3% compared to March 31, 2019, reflecting good collection activity. Days sales outstanding (“DSOs”) decreased 3 days to 50 days on an improvement in the Equipment Group (down 5 days).

In comparison to December 31, 2019, accounts receivable decreased 14% on lower trailing revenues (Q1 2020 revenues were 30% lower than Q4 2019 revenues), partially offset by slower collections. DSOs were 43 days at December 31, 2019.

Inventories at March 31, 2020, were 4% lower compared to March 31, 2019:

- Equipment Group inventories were down \$42.8 million or 4%, with lower equipment (down \$42.1 million or 6%) and service work-in-process (down \$6.2 million or 8%) while parts were up by \$5.5 million or 2%. Equipment inventory was intentionally reduced through the end of 2019 from the previous high levels. The higher parts inventory levels reflect higher input costs, including foreign exchange, and positioning for better penetration in the expanded territories. The lower service work-in-process levels reflects reduced hours worked through the latter part of the quarter as activity was reduced in the field and in the shops.
- CIMCO inventories were up \$4.3 million or 20%, mainly on higher work-in-process levels (up 21%), reflecting good orders in process and timing of project construction schedules. Parts inventories were also up 13% reflecting continued growth in product support demand.

Inventories at March 31, 2020 were 7% higher compared to December 31, 2019 with increases in both Groups:

- Equipment Group inventories were 7% higher as is typical in the first quarter with increases in equipment (up 9%) and work-in-progress (up 18%), offset by a slight decrease in parts inventories. 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.
- CIMCO inventories were up 16% on higher work-in-process (up 19%) reflecting order backlogs.

The increase in other current assets compared to March 31 and December 31, 2019, mainly related to higher prepaid expenses for property taxes and software licenses.

Accounts payable and accrued liabilities at March 31, 2020 were 15% lower than at March 31, 2019, principally due to the timing of purchases and payments for inventory. Certain transitional terms provided in conjunction with the 2017 acquisition are expected to end mid-year 2020, at which time accounts payable will begin to revert to normal levels.

In comparison to December 31, 2019, accounts payable and accrued liabilities were down 9%, mainly reflecting the timing of purchase and payment for inventory and other supplies, the payout of annual performance incentive bonuses, and a lower DSU liability on the lower relative closing share price.

Income taxes receivable 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 (weaker) led to a cumulative net gain of \$36.9 million as at March 31, 2020. This is not expected to affect net earnings as the unrealized gains offset future losses on the related hedged items, either current accounts payable or future transactions.

Dividends payable increased compared to March 31 and December 31, 2019, reflective of the higher dividend rate. The quarterly dividend rate was increased 14.8% from \$0.27 per share to \$0.31 per share, effective with the April 2, 2020 payment.

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

- In the Equipment Group, these balances 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 March 31, 2020, these were down 5% versus March 31, 2019 and up 1% versus December 31, 2019, largely related to progress billings and customer deposits for deliveries later in the year.
- At CIMCO, these balances arise on progress billings from the sale of refrigeration packages. At March 31, 2020, these were up 44% versus March 31, 2019 and up 49% versus December 31, 2019, reflecting the higher activity levels seen in Canada and the US, and timing of billings compared to customer's construction schedules.

### **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 82,015,440 common shares and 2,291,725 share options outstanding.

## Dividends

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

Record Date	Payment Date	Dividend Amount per Share	Dividends Paid in Total (\$ millions)
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
September 6, 2019	October 2, 2019	\$0.27	\$22.0
December 9, 2019	January 3, 2020	\$0.27	\$22.0
March 9, 2020	April 2, 2020	\$0.31	\$22.1

## 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 short- and 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. As at March 31, 2020, \$100.0 million was drawn on the facility. No amounts were drawn on the facility at December 31, 2019 or March 31, 2019. Standby letters of credit utilized \$34.0 million of the facility at March 31, 2020, \$33.1 million at December 31, 2019 and \$30.2 million at March 31, 2019.

On April 17, 2020, Toromont closed a \$250 million one-year syndicated facility on substantially similar terms to the existing revolving credit facility, to provide additional liquidity should the COVID-19 pandemic impacts persist for an extended period.

While the direct impacts of COVID-19 are not determinable at this time, the Company expects that continued cash flows from operations in 2020, 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. The Company also has a certain degree of flexibility in its operating and investing plans to mitigate fluctuations.

## 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 March 31	
	2020	2019
<b>Cash, beginning of period</b>	\$ 365,589	\$ 345,434
Cash, provided by (used in):		
<b>Operating activities</b>		
Operations	81,896	72,643
Change in non-cash working capital and other	(98,551)	(168,492)
Net rental fleet additions	(24,230)	(43,822)
	(40,885)	(139,671)
<b>Investing activities</b>	(9,297)	(6,340)
<b>Financing activities</b>	72,627	(15,347)
Effect of foreign exchange on cash balances	148	95
Increase (decrease) in cash in the period	22,593	(161,263)
<b>Cash, end of period</b>	\$ 388,182	\$ 184,171

### Cash Flows from Operating Activities

Operating activities utilized cash in the first quarter of 2020.

Cash generated from operations increased 13% from the similar quarter last year despite the slight decrease in net earnings.

Non-cash working capital used cash in the first quarter of 2020. Higher inventory levels, a reduction of accounts payable, in part due to payment of prior year profit sharing amounts, and an increase in valuation of foreign exchange derivative contracts all utilized cash in the quarter.

Non-cash working capital used less cash in the first quarter of 2020 as compared to the first quarter of 2019, as the increase in inventory was less year-over-year, and certain tax installments were lower due to timing of payments and instalments, as well as deferral options provided by the government in the latter part of the first quarter of 2020. Offsetting this was a larger reduction in accounts payable, including the foreign exchange derivative contracts, reflecting timing of payment of supplier invoices.

Net rental fleet additions (purchases less proceeds of dispositions) were lower in the first quarter of 2020 compared to the similar period last year. The Company has reduced investment in the light equipment rental fleet portfolio across Eastern Canada after a heavy investment in the prior year, and time required to absorb investments to full utilization.

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 totalled \$19.0 million and included land of \$10.2 million for a new fabrication and head office facility for CIMCO. Other additions included \$5.4 million for service and delivery vehicles.

During the quarter, a property previously identified as available for sale was disposed of for \$9.4 million, resulting in a capital gain of \$4.1 million (\$3.5 million after-tax).

In the first quarter of 2019, the Company invested \$6.3 million in property, plant and equipment, net of disposition proceeds.

### Cash Flows from Financing Activities

During the first quarter of 2020, the Company drew down \$100 million on its committed, revolving credit facility.

Other uses and sources of cash during the quarter included:

- Dividends paid to common shareholders of \$22.1 million or \$0.27 per share (2019 - \$18.7 million or \$0.23 per share);
- Repurchase of the Company's common shares for \$4.0 million, under the NCIB program (see note 4 to the unaudited condensed interim financial statements for further details);
- Cash received on exercise of share options of \$1.5 million (2019 - \$6.8 million); and
- Lease liability payments of \$2.7 million versus \$2.4 last year.

## **OUTLOOK**

The recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-isolation and quarantine periods, and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand and increase government regulations or intervention, all of which may negatively impact the business, financial results and conditions of the Company. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments as well as the impact on the financial results and condition of the Company in future periods. Toromont's businesses are currently characterized as essential in all circumstances requiring such a designation to date.

The Equipment Group's parts and service business provides stability along with a large and diversified installed base of equipment, so long as it is working in the field. Prior to the outbreak, the long-term outlook for infrastructure projects and other construction activity was positive across most territories. The Company has a large base of mining customers which in some cases has seen reduced operating activities as a result of the COVID-19 implications. These customers and

jurisdictions they operate in continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine expansion is still possible depending on global economic and financial conditions.

The Company has taken actions to reduce expenses, participating in governmental programs such as work share where available. Workforce planning initiatives also included voluntary compensation reductions by the executive team and the Board of Directors, wage increase freezes in some cases, advancement of vacation schedules and selective temporary layoffs. Human capital, including our technician workforce, is one of our most valuable assets and we will protect that asset to the extent possible. We continue to move forward with our investment in information technology, aligning our dealership under one operating system as well as facilitating and securing remote access to our networks. Actions are being balanced between short-term adjustments relative to demand, while also being sensitive to long-term requirements ensuring the business is positioned well to meet increased client requirements.

Broader product lines, investment in rental equipment and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth once economic, financial and social environments return to a more normalized state.

CIMCO's installed base and product support levels should support current and future operations and 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. Record booking activity in the quarter and backlog bodes well for future results.

The diversity of the markets served, expanding product offering and services, strong financial position and disciplined operating culture position the Company well 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 2019 annual audited consolidated financial statements.

<i>(\$ thousands, except per share amounts)</i>	Q2 2019	Q3 2019	Q4 2019	Q1 2020
<b>REVENUES</b>				
Equipment Group	\$ 895,457	\$ 881,487	\$ 933,131	\$ 657,776
CIMCO	82,863	93,734	92,059	57,683
Total revenues	\$ 978,320	\$ 975,221	\$ 1,025,190	\$ 715,459
<b>NET EARNINGS</b>	\$ 77,398	\$ 79,688	\$ 90,454	\$ 37,396
<b>PER SHARE INFORMATION:</b>				
Basic earnings per share	\$ 0.95	\$ 0.98	\$ 1.10	\$ 0.46
Diluted earnings per share	\$ 0.94	\$ 0.97	\$ 1.10	\$ 0.45
Dividends paid per share	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27
Weighted average common shares outstanding - basic (in thousands)	81,510	81,622	81,897	82,015

<i>(\$ thousands, except per share amounts)</i>	Q2 2018	Q3 2018	Q4 2018	Q1 2019
<b>REVENUES</b>				
Equipment Group	\$ 874,120	\$ 800,128	\$ 873,868	\$ 633,875
CIMCO	87,147	99,966	92,179	66,099
Total revenues	\$ 961,267	\$ 900,094	\$ 966,047	\$ 699,974
<b>NET EARNINGS</b>	\$ 67,610	\$ 68,697	\$ 84,898	\$ 39,261
<b>PER SHARE INFORMATION:</b>				
Basic earnings per share	\$ 0.83	\$ 0.84	\$ 1.04	\$ 0.48
Diluted earnings per share	\$ 0.83	\$ 0.84	\$ 1.03	\$ 0.48
Dividends paid per share	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.23
Weighted average common shares outstanding - basic (in thousands)	81,131	81,383	81,427	81,326

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality.

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.

The recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-isolation and quarantine periods, and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand and increase government regulations or intervention, among other things, all of which may negatively impact the business, financial results and conditions of the Company and alter the typical seasonal trend.

## **RISKS AND RISK MANAGEMENT**

The significant risks and uncertainties affecting the Company and its business are discussed in the Company's MD&A for the year ended December 31, 2019 under "Risks and Risk Management".

### Coronavirus (COVID-19)

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, self-isolation, physical and social distancing and the closure of non-essential businesses, have caused material disruption to businesses in Canada and globally which has resulted in an uncertain and challenging economic environment.

Global debt and equity capital markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

As an emerging risk, the duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

The risks and uncertainties disclosed in our December 31, 2019 MD&A could be particularly exacerbated by extraordinary externalities such as the COVID-19 pandemic and the recent commodity price challenges, including, risks described under "Business Cycle", "Product and Supply", "Credit Risk", "Foreign Exchange", "Interest Rate", "Financing Arrangements" and "Environmental Regulation". Such risks include, but are not limited to:

- a) uncertainty associated with the costs and ability of resources, including technicians, required to provide the appropriate/required levels of service to our customers on site;
- b) a material reduction in demand for, or profitability of, our products or services;

- c) an increase in account receivable delinquencies from financial hardship for our customers;
- d) issues delivering the Company's products and services due to illness, Company or government imposed isolation programs, restrictions on the movement of personnel and supply chain disruptions;
- e) the impact of additional legislation, regulation and other government interventions in response to the COVID-19 pandemic;
- f) the negative impact on global debt and equity capital markets, including the trading price of the Company's securities; and
- g) the ability to access capital markets at a reasonable cost.

Any of these risks, and others, could have a material adverse effect on our business, operations, capital resources and/or financial results of operations.

The COVID-19 pandemic has resulted in a substantive shift in management's focus towards ensuring the continued safety of our employees, continuing to serve our customers' needs as an essential service, and protecting the business and organization for the long-term. A Critical Incident Executive Response Team was activated at an early stage and focuses on developing plans, assessing developments and responding appropriately, including restriction of business travel, enabling work from home where practical, implementing social distancing practices and enhancing sanitation protocols in all areas. Steps have also been taken to ensure that information technology, including remote access, is secure. The Company is updating employees on a frequent basis to provide information on the situation and on necessary precautions to take. We continue to have an open dialogue with public safety and government officials at all levels, as well as key suppliers, partners, and customers.

## **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 2019 audited annual consolidated financial statements, and described in note 1 therein. Several amendments, apply for the first time in 2020, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Company for the three month period ending March 31, 2020.

### 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 2019 audited annual consolidated financial statements, contained in the Company's 2019 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 as designed were effective as at March 31, 2020.

### 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 months ended March 31, 2020, 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 March 31	
	2020	2019
Net earnings	\$ 37,396	\$ 39,261
<i>plus:</i> Interest expense	6,931	6,919
<i>less:</i> Interest and investment income	(2,726)	(2,572)
<i>plus:</i> Income taxes	13,640	15,175
<b>Operating income</b>	<b>\$ 55,241</b>	<b>\$ 58,783</b>

### Net Debt to Total Capitalization/Equity

Net debt to total capitalization/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:

<i>(\$ thousands)</i>	<b>March 31 2020</b>	December 31 2019	March 31 2019
Long-term debt	\$ 745,703	\$ 645,471	\$ 644,773
<i>less:</i> Cash	388,182	365,589	184,171
Net debt	357,521	279,882	460,602
Shareholders' equity	1,575,306	1,533,891	1,336,041
<b>Total capitalization</b>	<b>\$ 1,932,827</b>	<b>\$ 1,813,773</b>	<b>\$ 1,796,643</b>
<b>Net debt to total capitalization</b>	<b>18%</b>	15%	26%
<b>Net debt to equity</b>	<b>0.23:1</b>	0.18:1	0.34:1

## 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>(\$ thousands)</i>	<b>March 31 2020</b>	December 31 2019	March 31 2019
Total current assets	\$ 1,888,845	\$ 1,824,254	\$ 1,695,579
<i>less:</i> Total current liabilities	929,287	994,979	1,047,339
<b>Working capital</b>	<b>\$ 959,558</b>	<b>\$ 829,275</b>	<b>\$ 648,240</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>(\$ thousands)</i>	<b>March 31 2020</b>	December 31 2019	March 31 2019
Total current assets	\$ 1,888,845	\$ 1,824,254	\$ 1,695,579
<i>less: Cash</i>	<b>388,182</b>	365,589	184,171
	<b>1,500,663</b>	1,458,665	1,511,408
Total current liabilities	<b>929,287</b>	994,979	1,047,339
	<b>929,287</b>	994,979	1,047,339
<b>Non-cash working capital</b>	<b>\$ 571,376</b>	\$ 463,686	\$ 464,069

### 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>(\$ thousands, except for share price)</i>	<b>March 31 2020</b>	December 31 2019	March 31 2019
Outstanding common shares	<b>81,981</b>	82,012	81,484
<i>times: Ending share price</i>	<b>\$ 61.65</b>	\$ 70.59	\$ 68.25
<b>Market capitalization</b>	<b>\$ 5,054,106</b>	\$ 5,789,258	\$ 5,561,259
Long-term debt	<b>\$ 745,703</b>	\$ 645,471	\$ 644,773
<i>less: Cash</i>	<b>388,182</b>	365,589	184,171
<b>Net debt</b>	<b>\$ 357,521</b>	\$ 279,882	\$ 460,602
<b>Total enterprise value</b>	<b>\$ 5,411,627</b>	\$ 6,069,140	\$ 6,021,861

### **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.

	Trailing twelve months ended		
	March 31 2020	December 31 2019	March 31 2019
<i>(\$ thousands)</i>			
Net earnings	\$ 284,934	\$ 286,800	\$ 260,467
<i>plus:</i> Interest expense	27,718	27,707	28,667
<i>less:</i> Interest and investment income	(9,905)	(9,752)	(9,311)
<i>plus:</i> Interest income - rental conversions	4,116	4,283	3,393
<i>plus:</i> Income taxes	106,204	107,740	99,320
Adjusted net earnings	\$ 413,067	\$ 416,778	\$ 382,536
Average capital employed	\$ 1,875,188	\$ 1,823,420	\$ 1,705,567
<b>Return on capital employed</b>	<b>22.0%</b>	22.9%	22.4%

### 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).

	Trailing twelve months ended		
	March 31 2020	December 31 2019	March 31 2019
<i>(\$ thousands)</i>			
Net earnings	\$ 284,934	\$ 286,800	\$ 260,467
Opening shareholders' equity (net of adjustments)	\$ 1,345,979	\$ 1,338,468	\$ 1,157,001
<b>Return on equity</b>	<b>21.2%</b>	21.4%	22.5%