

Finning reports Q3 2017 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning” or the “Company”) reported third quarter 2017 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

- Q3 2017 EPS⁽¹⁾ of \$0.31 per share included an early debt redemption premium of \$0.04. Adjusted EPS⁽²⁾⁽³⁾ of \$0.35 was up nearly 60% from Q3 2016 on a 16% increase in revenue.
- Canada achieved EBIT⁽¹⁾ margin of 7.9%, driven by operational leverage on increased volumes.
- South America reported 12% growth in product support revenue in functional currency from Q3 2016.
- SG&A⁽¹⁾ as a percentage of revenue declined by 240 basis points from Q3 2016.
- Working capital to sales ratio⁽²⁾ improved by over 300 basis points from Q3 2016, driven by working capital efficiencies in all operations.
- Adjusted return on invested capital⁽²⁾⁽³⁾ increased compared to 2016, as a result of higher earnings and improved capital efficiency.

“I am pleased with continued improvement in our financial performance, supported by strengthening activity in our key markets,” said Scott Thomson, President and CEO of Finning. “While pricing remains highly competitive, the reduced cost structure and operational discipline is having a positive impact on profitability. In addition, our working capital metrics continue to improve as we optimize our global supply chain while capitalizing on growing demand for parts and equipment. As a result, we are achieving a higher return on invested capital across all our regions,” concluded Mr. Thomson.

Q3 2017 FINANCIAL SUMMARY

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q3 2017	Q3 2016	% change
Revenue	1,547	1,333	16
EBIT	103	73	42
<i>EBIT margin</i>	6.6%	5.4%	
EBITDA ⁽¹⁾⁽²⁾	149	119	26
<i>EBITDA margin⁽²⁾</i>	9.6%	8.9%	
Net income	52	36	41
EPS	0.31	0.22	41
Adjusted net income ⁽²⁾⁽³⁾	59	36	59
Adjusted EPS	0.35	0.22	59
Free cash flow ⁽²⁾	22	163	(87)

Q3 2017 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	59	47	11	(14)	103	0.31
Early debt redemption premium (finance costs)	-	-	-	-	-	0.04
Adjusted EPS						0.35
EBIT margin	7.9%	8.5%	4.1%	-	6.6%	
EBITDA	84	60	18	(13)	149	
EBITDA margin	11.4%	11.1%	6.5%	-	9.6%	

Included in Q3 2017 results was the redemption cost incurred on the early redemption of the \$350 million 6.02% Medium Term Notes due June 1, 2018. Both the principal and the redemption cost related to this debt were paid in October 2017. Management does not consider this significant item indicative of operational and financial trends either by nature or amount. There were no significant items identified by management to adjust the Company's results in Q3 2016.

Q3 2016 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	37	40	10	(14)	73	0.22
EBIT margin	5.9%	8.7%	3.8%	-	5.4%	
EBITDA	61	55	17	(14)	119	
EBITDA margin	9.8%	11.9%	6.5%	-	8.9%	

- Revenues increased by 16% from Q3 2016, with higher revenues across all regions and lines of business. New equipment sales were up 25%, reflecting strengthening activity levels and improved demand for new equipment in the Company's key markets. Product support revenues grew by 13%, driven by higher parts sales across all regions and market segments.
- Gross profit rose by 10% over Q3 2016. Gross profit margin of 26.3% was below 27.7% in Q3 2016 due to a shift in revenue mix to a higher percentage of new equipment sales and continued competitive pricing pressures in all regions.
- EBIT rose by \$30 million or 42% from Q3 2016 on a 16% increase in revenue, driven by improved operating leverage in Canada and UK & Ireland. SG&A as a percentage of revenue declined by 240 basis points from Q3 2016 to 19.8%, reflecting leverage of incremental revenues on fixed costs.
- EPS was \$0.31 per share, up from \$0.22 per share in Q3 2016. Excluding an early redemption premium of \$9 million or \$0.04 per share related to the redemption of the \$350 million Medium Term Notes in October 2017, Adjusted EPS was \$0.35.
- Q3 2017 free cash flow of \$22 million was below Q3 2016 due to inventory purchases to meet stronger demand, as well as higher receivable balances from increased sales and timing of collections.
- Equipment backlog⁽²⁾ was \$900 million, unchanged from Q2 2017, but almost double the backlog in Q3 2016, reflecting improved order intake⁽²⁾ over the recent quarters.

Invested Capital⁽²⁾ and ROIC⁽¹⁾	Q3 2017	Q4 2016	Q3 2016
Invested capital (\$ millions)			
Consolidated	3,083	2,797	2,917
Canada	1,746	1,595	1,650
South America (U.S. dollars)	852	741	778
UK & Ireland (U.K. pound sterling)	182	130	148
Invested capital turnover⁽²⁾ (times)	2.02	1.90	1.85
Adjusted ROIC (%)			
Consolidated	12.0	9.3	9.2
Canada	12.3	9.3	8.7
South America	16.4	15.0	15.6
UK & Ireland	13.7	5.9	3.4

- An increase in invested capital compared to Q4 2016 was mostly the result of higher inventory levels to meet strengthening demand for parts and equipment. In Canada, rapid growth in product support and component rebuild activity resulted in higher parts and internal service work in progress inventories, as well as an increase in accounts receivable. Parts and internal service work in progress inventories were also higher South America, in line with improving demand for product support. An increase in new equipment inventories was driven primarily by South America and UK & Ireland.
- The Company continues to make progress in transforming its global supply chain to improve working capital efficiencies. Despite higher inventory levels, inventory turns and working capital to sales ratio continued to improve from the end of 2016. Inventory turns of 2.60 times were up from 2.49 times in Q4 2016, and working capital to sales ratio of 28.3% improved from 30.4% in Q4 2016.
- Invested capital turnover rose to 2.02 times from 1.90 times in Q4 2016, driven primarily by higher revenues and working capital efficiencies.
- Adjusted ROIC increased compared to 2016, as a result of higher earnings and improved capital efficiency.

Q3 2017 HIGHLIGHTS BY OPERATION

All comparisons are to Q3 2016 unless otherwise stated.

Canada

- Revenues increased by 19%, with higher revenues in all lines of business and across key markets. New equipment sales were up 21%, driven by higher sales to mining and construction customers. Product support revenues grew by 19%, reflecting stronger demand for parts and component rebuilds in the oil sands and other mining regions, improved activity in construction markets, as well as higher engine parts sales and overhaul work in the oil and gas sector. Used and rental equipment revenues benefitted from the integrated management of used equipment and rental fleets, as well as a recovery in general construction markets.
- EBIT of \$59 million increased by 62%. While markets remained highly competitive, EBIT margin of 7.9% was up from 5.9% in Q3 2016, driven by leverage of incremental revenues on fixed costs. Despite higher variable SG&A costs associated with revenue growth in all lines of business, SG&A as a percentage of revenue declined by 340 basis points from Q3 2016.

South America

- Revenues were up 19% (up 24% in functional currency, U.S. dollar), with stronger new equipment and parts sales across all market segments. New equipment sales grew by 66% in functional currency, primarily as a result of

higher construction equipment sales in Argentina. Product support revenues rose by 12% in functional currency, driven mostly by higher parts and service revenues in the Chilean mining industry.

- EBIT of \$47 million was up 16%. EBIT margin of 8.5% was slightly below 8.7% in Q3 2016, mostly due to a significant shift in revenue mix to new equipment sales.

United Kingdom & Ireland

- Revenues increased by 4% (up 8% in functional currency, U.K. pound sterling), reflecting higher new equipment and parts sales. New equipment sales were up 12% in functional currency, driven by higher power systems revenues in the electric power generation market, and stronger demand for new equipment in general construction segments. Product support revenues increased by 7% in functional currency, as a result of improved parts sales to power systems businesses, particularly marine, and more robust activity in equipment markets.
- EBIT of \$11 million and EBIT margin of 4.1% were above Q3 2016 EBIT results, mostly due to higher revenues, improved project execution in power systems, and tight control of SG&A costs. UK & Ireland's Q3 2017 results demonstrated sustainable improvement in operating performance in a robust but highly competitive market.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.19 per share, payable on December 7, 2017 to shareholders of record on November 23, 2017. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	% change	2017	2016	% change
New equipment	535	427	25	1,508	1,319	14
Used equipment	80	72	11	249	271	(8)
Equipment rental	63	61	4	168	170	(1)
Product support	866	770	13	2,595	2,366	10
Other	3	3		10	11	
Total revenue	1,547	1,333	16	4,530	4,137	10
Gross profit	406	369	10	1,221	1,093	12
Gross profit margin	26.3%	27.7%		27.0%	26.4%	
SG&A	(305)	(295)	(4)	(942)	(947)	1
SG&A as a percentage of revenue	(19.8)%	(22.2)%		(20.8)%	(22.9)%	
Equity earnings of joint ventures & associate	2	(1)		6	6	
Other income (expenses)	-	-		2	(5)	
EBIT	103	73	42	287	147	96
EBIT margin	6.6%	5.4%		6.3%	3.5%	
Adjusted EBIT ⁽²⁾⁽³⁾	103	73	42	287	203	42
Adjusted EBIT margin ⁽²⁾⁽³⁾	6.6%	5.4%		6.3%	4.9%	
Net income	52	36	41	155	56	176
Basic EPS	0.31	0.22	41	0.92	0.33	176
Adjusted EPS	0.35	0.22	59	0.96	0.60	60
EBITDA	149	119	26	426	292	46
EBITDA margin	9.6%	8.9%		9.4%	7.1%	
Adjusted EBITDA ⁽²⁾⁽³⁾	149	119	26	426	348	23
Adjusted EBITDA margin ⁽²⁾⁽³⁾	9.6%	8.9%		9.4%	8.4%	
Free cash flow	22	163	(87)	(185)	257	(172)
	Sep 30, 2017		Dec 31, 2016			
Invested capital	3,083		2,797			
Invested capital turnover (times)	2.02		1.90			
Net debt to invested capital ⁽²⁾	37.5%		32.0%			
ROIC	10.3%		5.6%			
Adjusted ROIC	12.0%		9.3%			

Q3 2017 INVESTOR CALL

The Company will hold an investor call on November 7 at 10:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The call will be webcast live and archived for three months at http://www.finning.com/en_CA/company/investors.html. Finning no longer provides a phone playback recording; please use the webcast to access the archived call.

ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for over 80 years. Finning sells, rents, and provides parts and service for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, the United Kingdom and Ireland.

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FOOTNOTES

- (1) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).
- (2) These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where applicable, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" in the Company's MD&A. Management believes that providing certain non-GAAP financial 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 in the Company's MD&A, 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.
- (3) Certain 2017 and 2016 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 29 to 31 of the Company's MD&A. The financial metrics that have been adjusted to take these items into account are referred to as "Adjusted" metrics. The only significant item adjusted in Q3 2017 was the redemption premium discussed on page 2 of this news release. There were no significant items adjusted in Q3 2016.

FORWARD-LOOKING DISCLAIMER

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to markets and activities and the associated impact on the Company's financial results, and the optimization of its global supply chain. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations as at the date of this report. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar Inc.; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability and availability of, and benefits from information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of the MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operations.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date of this report. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.