

Finning reports Q1 2017 results

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

HIGHLIGHTS

- EPS⁽¹⁾ was \$0.28 per share.
- Strong operating performance in all regions.
 - Canada achieved the highest profitability over the last six quarters, driven by stronger product support revenues and a reduced cost structure.
 - South America reported the highest EBIT⁽¹⁾ since Q4 2015, with strong new equipment sales in Argentina and solid product support in Chile.
 - Reduced cost structure and higher revenues (in functional currency) resulted in significantly improved performance in the UK & Ireland.
- Equipment backlog⁽³⁾ rose by 60% from Q4 2016 to over \$700 million, driven mostly by improved order intake⁽³⁾ in Canada.

“Our first quarter results provide a solid start to the year, reflecting strong execution to advance our operational priorities and the positive impact of a reduced cost base across our operations. While total revenues declined from last year, product support increased and profitability improved,” said Scott Thomson, president and CEO of Finning International Inc. “Despite an encouraging increase in equipment backlog, we expect new equipment markets to remain soft and competitive in the near term. Given continued uncertainty in our territories, we maintain our expectation that 2017 revenue will be essentially flat relative to last year.”

“Despite continued top line pressures, each of our regions is achieving meaningful progress in working capital efficiencies, driven in large part by improvement in our equipment supply chain. This gives me confidence in our ability to demonstrate a significantly improved return on invested capital when demand recovers,” concluded Mr. Thomson.

Q1 2017 FINANCIAL SUMMARY

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q1 2017	Q1 2016	% change
Revenue	1,402	1,494	(6)
EBIT	86	45	92
<i>EBIT margin</i>	6.1%	3.0%	
EBITDA ⁽¹⁾⁽³⁾	131	96	37
<i>EBITDA margin⁽³⁾</i>	9.3%	6.4%	
Net income	47	15	218
Basic EPS	0.28	0.09	218
Free cash flow	(76)	30	n/m

n/m – percentage change not meaningful

Q1 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	47	42	8	(11)	86	0.28
<i>EBIT margin</i>	6.8%	8.4%	3.8%	-	6.1%	
EBITDA	71	57	14	(11)	131	
<i>EBITDA margin</i>	10.2%	11.4%	6.9%	-	9.3%	

Included in Q1 2016 results were the following significant items that management does not consider indicative of operational and financial trends either by nature or amount. These significant items are summarized below and described in more detail on page 3 of the Company's Management's Discussion and Analysis ("MD&A"). There were no significant items in Q1 2017.

Q1 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	25	32	(4)	(8)	45	0.09
Severance costs	8	7	2	-	17	0.07
Power systems project provisions	-	-	5	-	5	0.03
Adjusted EBIT ⁽²⁾⁽³⁾ / Adjusted EPS ⁽²⁾⁽³⁾	33	39	3	(8)	67	0.19
Adjusted EBITDA ⁽²⁾⁽³⁾	60	55	11	(8)	118	
<i>EBIT margin</i>	3.0%	7.3%	(1.9)%	-	3.0%	
<i>Adjusted EBIT margin⁽²⁾⁽³⁾</i>	4.0%	8.9%	1.5%	-	4.5%	
<i>Adjusted EBITDA margin⁽²⁾⁽³⁾</i>	7.1%	12.8%	5.3%	-	7.9%	

- Revenues were down 6% from Q1 2016 due to lower revenues in Canada and the negative impact of the foreign currency translation on revenues from the UK & Ireland and South America. New equipment sales declined by 18%, as sales in Canada were lower compared to a very strong Q1 2016. This was partly offset by higher new equipment volumes in South America and the UK & Ireland. Product support revenues increased by 4%, driven by Canada. In functional currencies, product support showed modest improvement in South America and the UK & Ireland, however, it was lower when translated into Canadian dollars.
- Gross profit was up modestly on lower revenues compared to Q1 2016, reflecting a shift in revenue mix to product support, as well as higher margins in new and used equipment, and rental operations.
- EBIT increased by \$19 million from Adjusted EBIT in Q1 2016, driven by higher gross profit and a reduced cost structure. SG&A⁽¹⁾ was down 4% from Q1 2016, excluding severance. All operations achieved higher EBIT, with the most significant improvement in Canada - up \$14 million from Adjusted Q1 2016.
- EPS was \$0.28 per share, up from Adjusted EPS of \$0.19 in Q1 2016.
- Q1 free cash flow was (\$76) million use of cash, reflecting an increase in internal service work in progress inventory to meet higher demand, as well as previously reported acceleration of free cash flow in Q4 2016.

Invested Capital⁽³⁾ and ROIC⁽¹⁾⁽³⁾	Q1 2017	Q4 2016	Q1 2016
Invested capital (<i>\$ millions</i>)			
Consolidated	2,926	2,797	3,085
Canada	1,629	1,595	1,685
South America (U.S. dollars)	768	741	796
UK & Ireland (U.K. pound sterling)	168	130	182
Invested capital turnover⁽³⁾ (<i>times</i>)	1.90	1.90	1.82
Adjusted ROIC⁽²⁾⁽³⁾ (<i>%</i>)			
Consolidated	10.0	9.3	10.4
Canada	10.2	9.3	10.1
South America	15.4	15.0	14.5
UK & Ireland	8.2	5.9	7.4

- A \$129 million increase in invested capital from Q4 2016 was mostly attributable to higher internal service work in progress inventory, primarily in Canada in line with growing demand for product support, as well as lower accounts payable balances in South America.
- Invested capital turnover of 1.90 times was up from 1.82 times in Q1 2016, despite a decline in revenues. This was driven by higher inventory turns and lower working capital to sales ratio from Q1 2016, reflecting the progress in improving supply chain efficiencies.
- Adjusted ROIC increased in all regions compared to Adjusted ROIC in Q4 2016 and Q1 2016, driven by lower average invested capital levels.

Q1 2017 HIGHLIGHTS BY OPERATION

Canada

- Revenues declined by 19% primarily due to lower new equipment sales - down 53% compared to a strong Q1 2016, which included large mining deliveries in the oil sands and construction equipment deliveries to Site C in British Columbia. Product support revenues increased by 12% driven primarily by higher parts sales in the oil sands and other mining segments, as customers were resuming maintenance following a period of deferrals. Improved activity in the pipeline and oil & gas sectors also contributed to stronger product support.
- Canada reported improved gross profit on lower revenues compared to Q1 2016, driven by a shift in revenue mix to product support, as well as higher margins in new and used equipment, and rental operations. Combined with lower SG&A costs relative to Q1 2016, this resulted in a significantly improved EBIT performance. EBIT of \$47 million was 40% higher than Adjusted EBIT in Q1 2016, and was the highest Adjusted EBIT over the last six quarters. Canada achieved an EBIT margin of 6.8% in Q1 2017, driven by stronger product support revenues and a reduced cost structure.

South America

- Revenues were up 16% (up 21% in functional currency, US dollars) on stronger new equipment sales which more than doubled from Q1 2016. This was driven mostly by higher construction sales in Argentina, as well as the delivery of a few large machines to mining customers. In functional currency, product support revenues grew modestly from Q1 2016, despite a 7-week labour dispute at the Escondida mine, as a result of an increase in product support revenues from other customers, as well as the successful implementation of a mitigation plan with Escondida. Since it will take some time for the Escondida mine to return to full capacity, the Company expects an adverse impact on its product support business in Q2 2017.

- EBIT of \$42 million was up 9% from Adjusted EBIT in Q1 2016. EBIT margin of 8.4% was below Adjusted EBIT margin of 8.9% in Q1 2016, primarily due to the shift in revenue mix to new equipment sales.

United Kingdom & Ireland

- UK & Ireland successfully capitalized on healthy market activity in Q1 2017, particularly in the quarrying, infrastructure, and power generation segments. In functional currency (UK Pound Sterling), revenues were up 18% from Q1 2016, driven by higher new equipment and engine sales, as well as improved activity in the used equipment markets. Product support revenues were up modestly in functional currency on higher parts volumes. However, due to the negative translation impact of a weaker UK Pound Sterling to Canadian dollar, reported total revenues in Canadian dollars were slightly below Q1 2016.
- EBIT of \$8 million and EBIT margin of 3.8% improved significantly from Adjusted EBIT results in Q1 2016, primarily due to a reduced cost structure. In functional currency, UK and Ireland's SG&A costs were down 3% from Q1 2016 (excluding severance), while revenues increased in all lines of business. Management remains focused on improving ROIC performance in a very competitive market environment. Q1 2017 Adjusted ROIC of 8.2% was the highest over the last five quarters.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.1825 per share, payable on June 8, 2017 to shareholders of record on May 25, 2017. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

<i>\$ millions, except per share amounts</i>	Three months ended Mar 31		
	2017	2016	% change fav (unfav)
New equipment	423	515	(18)
Used equipment	73	98	(25)
Equipment rental	51	56	(10)
Product support	852	821	4
Other	3	4	-
Total revenue	1,402	1,494	(6)
Gross profit	393	381	3
<i>Gross profit margin</i>	28.0%	25.5%	
SG&A	(307)	(337)	9
<i>SG&A as a percentage of revenue</i>	(21.9)%	(22.5)%	
Equity (loss) earnings of joint ventures and associate	(1)	1	
Other income	1	-	
EBIT	86	45	92
EBIT margin	6.1%	3.0%	
Adjusted EBIT	86	67	29
Adjusted EBIT margin	6.1%	4.5%	
Net income	47	15	218
Basic EPS	0.28	0.09	218
Adjusted EPS	0.28	0.19	49
EBITDA	131	96	37
EBITDA margin	9.3%	6.4%	
Adjusted EBITDA	131	118	11
Adjusted EBITDA margin	9.3%	7.9%	
Free cash flow	(76)	30	n/m
	Mar 31, 2017	Dec 31, 2016	
Invested capital	2,926	2,797	
Invested capital turnover (times)	1.90	1.90	
Net debt to invested capital	34.5%	32.0%	
ROIC	7.1%	5.6%	
Adjusted ROIC	10.0%	9.3%	

n/m – percentage change not meaningful

Q1 2017 INVESTOR CALL

The Company will hold an investor call on May 10 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 services 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.

CONTACT INFORMATION

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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) Reported metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are summarized on page 2 of this news release and described on pages 23 to 25 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. There were no significant items adjusted in Q1 2017.
- (3) 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.

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: expected revenue levels compared to last year; expectation for new equipment markets to remain soft and competitive in the near term; expectation for continued uncertainty in Finning's territories; the impact of the Escondida mine returning to full capacity and the expected adverse impact on the Company's product support business; and the UK and Ireland's focus on improving ROIC performance in a very competitive market. 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.