

Finning reports Q3 2018 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning” or the “Company”) reported third quarter 2018 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

Q3 2018 HIGHLIGHTS

All comparisons are to restated Q3 2017 results⁽¹⁾ unless indicated otherwise.

- Reported EPS of \$0.15 included a write-off of the Company’s investment in Energyst of \$0.18 and the tax impact of a significant devaluation of the Argentine peso of \$0.12 primarily due to the revaluation of deferred tax balances. Adjusted EPS⁽²⁾⁽³⁾⁽⁴⁾ of \$0.45 was up 35% on a 14% increase in revenue.
- Canada delivered strong operating performance in a growing market. Revenues were up 24%, EBIT⁽²⁾ margin was 8.6%, and Adjusted return on invested capital⁽³⁾⁽⁴⁾ of 16.0% improved by 400 basis points.
- Chile’s revenues were up 23% in U.S. dollars, driven by new equipment sales; however, South America’s overall results were impacted by a severe market downturn in Argentina.
- Equipment backlog⁽³⁾ was maintained at \$1.5 billion as strong order intake⁽³⁾ in Canada and the UK & Ireland replenished significant new equipment deliveries in the quarter.

“We delivered a strong quarter in Canada and the UK & Ireland, marked by improved operating margins and higher return on invested capital. Although economic conditions in Argentina are extremely challenging, we achieved strong revenue growth in Chile, driven by new equipment deliveries in mining, and our profitability in Chile continued to be solid and in line with our expectations,” said Scott Thomson, president and CEO of Finning International.

“Our solid equipment order intake and backlog reflect continued broad-based market strength in western Canada and the UK & Ireland. In Canada, our September order intake was the highest in 2018. In Chile, increased copper production and the aging machine population bode well for our mining business. In addition, large-scale infrastructure projects planned in each of our regions provide significant opportunities,” continued Mr. Thomson.

“We expect to generate strong free cash flow⁽³⁾ in the fourth quarter, driven by significant equipment deliveries. Given our view there is a disconnect between our share price and fundamental value, our plan is to repurchase up to \$100 million worth of our shares by the end of 2018, subject to receipt of regulatory approvals,” concluded Mr. Thomson.

Q3 2018 FINANCIAL SUMMARY

All comparisons are to restated Q3 2017 results⁽¹⁾ unless indicated otherwise.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q3 2018	Q3 2017 Restated ⁽¹⁾	% change
Revenue	1,755	1,538	14
EBIT	93	100	(7)
<i>EBIT margin</i>	5.3%	6.5%	
EBITDA ⁽²⁾⁽³⁾	142	146	(3)
<i>EBITDA margin⁽³⁾</i>	8.1%	9.5%	
Net income	25	50	(49)
EPS	0.15	0.29	(49)
Free cash flow	(49)	22	(328)

Included in Q3 2018 and Q3 2017 results are 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 7 of the Company's management discussion and analysis dated November 5, 2018 (MD&A).

Q3 2018 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	78	37	15	(37)	93	0.15
Write-off of the investment in Energyst	-	-	-	30	30	0.18
Tax impact of devaluation of Argentine peso	-	-	-	-	-	0.12
Adjusted EBIT ⁽³⁾⁽⁴⁾ / Adjusted EPS	78	37	15	(7)	123	0.45
EBIT margin	8.6%	6.7%	5.1%	-	5.3%	
Adjusted EBIT margin ⁽³⁾⁽⁴⁾					7.0%	
EBITDA	104	52	23	(37)	142	
EBITDA margin	11.4%	9.3%	7.7%	-	8.1%	
Adjusted EBITDA ⁽³⁾⁽⁴⁾	104	52	23	(7)	172	
Adjusted EBITDA margin ⁽³⁾⁽⁴⁾					9.7%	

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	57	48	9	(14)	100	0.29
Redemption costs on early debt repayment	-	-	-	-	-	0.04
Adjusted EPS						0.33
EBIT margin	7.7%	8.6%	3.5%	-	6.5%	
EBITDA	82	61	16	(13)	146	
EBITDA margin	11.2%	11.2%	6.0%	-	9.5%	

- Revenues were up 14%, driven by a 34% increase in new equipment sales. Strong demand in Canada across all market segments and mining deliveries in Chile were the main drivers of higher new equipment sales in the quarter. Product support revenues increased by 4%, reflecting robust activity in the Canadian mining and construction sectors. Rental revenues were up by 8%, while used equipment sales were relatively unchanged.
- Gross profit increased by 11%. Gross profit margin of 25.6% was slightly below 26.4% in Q3 2017 due to a shift in revenue mix to new equipment sales.
- SG&A⁽²⁾ costs as a percentage of revenue declined by 110 basis points to 18.9%, driven by lower SG&A as a percentage of revenue in Canada.
- Adjusted EBIT was up 23% and Adjusted EBIT margin increased by 50 basis points to 7.0%. Improved profitability in Canada and the UK & Ireland was partly offset by an EBIT loss in Argentina resulting from challenging economic conditions.
- Adjusted EPS of \$0.45 was up 35%, driven by strong revenues and operating performance in Canada and the UK & Ireland.
- Free cash flow was (\$49) million use of cash compared to \$22 million free cash flow in Q3 2017, mostly due to higher inventory purchases to meet increased demand. The Company expects to generate strong free cash flow in Q4 2018, driven by significant equipment inventory deliveries.

Invested Capital⁽³⁾ and ROIC⁽²⁾⁽³⁾	Q3 2018	Q4 2017 restated⁽¹⁾	Q3 2017 restated⁽¹⁾
Invested capital (\$ millions)			
Consolidated	3,431	2,830	3,095
Canada	1,889	1,621	1,746
South America (U.S. dollars)	906	784	857
UK & Ireland (U.K. pound sterling)	239	147	186
Invested capital turnover⁽³⁾ (times)	2.14	2.09	2.01
Working capital to sales ratio⁽³⁾	26.7%	27.4%	28.6%
Inventory turns⁽³⁾ (times)	2.58	2.82	2.60
Adjusted ROIC (%)			
Consolidated	14.5	13.1	11.8
Canada	16.0	13.2	12.0
South America	16.4	18.1	16.5
UK & Ireland	14.0	12.8	12.9

- Invested capital turnover and working capital to sales ratio improved from all quarters in 2017, driven by Canada.
- Excluding the impact of foreign exchange, invested capital was up 20% from Q4 2017 due to higher equipment inventories in all operations to meet stronger demand, an investment in rental equipment in Canada, and a decrease in accounts payable balances in South America due to timing of payments.
- Adjusted ROIC increased by 270 basis points from Q3 2017 to 14.5%, driven by Canada and the UK & Ireland.

Q3 2018 HIGHLIGHTS BY OPERATION

All comparisons are to restated Q3 2017 results⁽¹⁾ unless indicated otherwise. All numbers are in functional currency: South America – U.S. dollar; UK & Ireland – U.K. pound sterling.

Canada

- Revenues increased by 24%, driven by positive market momentum across all sectors. New equipment sales were up 62%, with strong demand in mining, construction, and power systems. Product support revenues were up 10%, reflecting robust customer activity in construction, oil & gas, and mining, including component rebuilds. Rental revenues increased by 8% (up 35% from Q2 2018), while used equipment sales were 3% higher.
- Gross profit margin was below Q3 2017 due to a shift in revenue mix to a higher proportion of new equipment sales. SG&A as a percentage of revenue declined by 230 basis points, reflecting leverage of incremental revenues on fixed costs and disciplined spending. EBIT was up 37%, and EBIT margin improved by 90 basis points to 8.6%.

South America

- Revenues declined by 3%, impacted by significantly lower revenues in Argentina due to a sharp market downturn in the quarter.
 - o Argentina's revenues were down across all sectors and lines of business due to extremely challenging economic conditions, including the significant devaluation of the Argentine peso and reduced government spending. The construction sector in Argentina was impacted the most, with unit sales expected to be down about 80% in the second half of 2018 compared to the second half of 2017. The Company is taking actions to right-size its costs and capital in Argentina to align with reduced activity levels.
 - o In Chile, revenues increased by 23%, driven by new equipment sales which more than doubled from Q3 2017, reflecting improved demand in all sectors, with a notable increase in mining.
- EBIT was down 25% and EBIT margin of 6.7% was below 8.6% in Q3 2017 due to an EBIT loss in Argentina resulting from challenging economic conditions.

United Kingdom & Ireland

- Revenues increased by 10%, primarily driven by new equipment deliveries in power systems. New equipment sales and product support revenues were up 13% and 3%, respectively.
- EBIT was up 59% and EBIT margin increased by 160 basis points to 5.1%, driven by higher new equipment sales and improved margins in most lines of business.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.20 per share, payable on December 6, 2018 to shareholders of record on November 22, 2018. 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		
	2018	2017 restated ⁽¹⁾	% change fav (unfav)	2018	2017 restated ⁽¹⁾	% change fav (unfav)
New equipment	711	530	34	1,918	1,511	27
Used equipment	78	80	(1)	252	249	2
Equipment rental	68	63	8	175	168	4
Product support	894	862	4	2,798	2,585	8
Other	4	3		11	10	
Total revenue	1,755	1,538	14	5,154	4,523	14
Gross profit	449	405	11	1,355	1,220	11
Gross profit margin	25.6%	26.4%		26.3%	27.0%	
SG&A	(330)	(307)	(8)	(1,003)	(945)	(6)
SG&A as a percentage of revenue	(18.9)%	(20.0)%		(19.5)%	(20.9)%	
Equity earnings of joint ventures & associate	4	2		10	6	
Other (expenses) income	(30)	-		(30)	2	
EBIT	93	100	(7)	332	283	18
EBIT margin	5.3%	6.5%		6.4%	6.2%	
Adjusted EBIT	123	100	23	355	283	26
Adjusted EBIT margin	7.0%	6.5%		6.9%	6.2%	
Net income	25	50	(49)	177	152	16
Basic EPS	0.15	0.29	(49)	1.05	0.90	16
Adjusted EPS	0.45	0.33	35	1.32	0.94	40
EBITDA	142	146	(3)	470	422	11
EBITDA margin	8.1%	9.5%		9.1%	9.3%	
Adjusted EBITDA	172	146	17	493	422	17
Adjusted EBITDA margin	9.7%	9.5%		9.5%	9.3%	
Free cash flow	(49)	22	(328)	(340)	(185)	(83)
	Sep 30, 2018	Dec 31, 2017 restated ⁽¹⁾				
	3,431	2,830				
	2.14	2.09				
	38.4%	30.2%				
	13.7%	13.1%				
	14.5%	13.1%				

n/m – not meaningful

To access Finning's complete Q3 2018 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q3 2018 INVESTOR CALL

The Company will hold an investor call on November 6, 2018 at 9:00 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 https://www.finning.com/en_CA/company/investors.html.

ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for 85 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.

CONTACT INFORMATION

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FOOTNOTES

- (1) The 2017 comparative results described in this news release have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.
- (2) 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).
- (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 available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" in the Company's Q3 2018 management discussion and analysis (the Interim 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 Interim 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.
- (4) Certain 2018 and 2017 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 7, 13 and 31-32 of the Interim MD&A. The financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics.

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 terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to continued broad-based market strength in western Canada and the UK & Ireland; increased copper production and aging machine population in Chile benefitting the Company's mining business in South America; significant opportunities from large-scale infrastructure projects planned in each of the regions in which the Company operates; expectation of strong free cash flow in Q4 2018, driven by significant equipment inventory deliveries; and plans to repurchase up to \$100 million worth of the Company's shares by the end of 2018. 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 at the date in this MD&A. 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; 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 negotiate satisfactory purchase or investment terms and prices, obtain necessary regulatory or other approvals, and secure financing on attractive terms or at all; Finning's ability to manage its growth strategy effectively; Finning's ability to effectively price and manage long-term product support contracts with its customers; 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 occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable rates or that the amount of insurance coverage will be adequate to cover all liability or loss incurred by Finning; the potential of warranty claims being greater than Finning anticipates; 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 including but not limited to (i) that general economic and market conditions will be maintained; (ii) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (iii) Finning's ability to successfully execute its plans and intentions; (iv) Finning's ability to attract and retain skilled staff; (v) market competition; (vi) the products and technology offered by the Company's competitors; and (vii) that our current good relationships with Caterpillar, our suppliers, service providers and other third parties will be maintained. Refer in particular to the Outlook section of this 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 operation.