

Finning reports Q2 2018 results

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

Q2 2018 HIGHLIGHTS

All comparisons are to restated Q2 2017 results⁽¹⁾ unless indicated otherwise.

- EPS⁽²⁾ of \$0.48 per share was up 44% as revenues increased by 9%.
- Product support revenues were up 11% - strong activity across all regions.
- Canada’s revenues were up 15% reflecting strong market activity, and EBIT⁽²⁾ margin improved by 150 basis points to 8.5%, driven by leverage on fixed costs.
- South America’s revenues increased by 11% in functional currency, driven by 24% revenue growth in Chile.
- Invested capital turnover⁽³⁾ and working capital to sales ratio⁽³⁾ improved as a result of higher sales coupled with supply chain efficiencies.
- Adjusted return on invested capital⁽³⁾⁽⁴⁾ was 14.2%, the highest since Q2 2015.

“I am pleased with the strong earnings leverage and improved return on invested capital we delivered this quarter. We expect positive market momentum to continue in our key regions. Significant infrastructure projects in Western Canada and the mining recovery in Chile are expected to provide further upside in 2019. Our focus remains on growing our business in a profitable and capital-efficient manner,” said Mr. Scott Thomson, president and CEO of Finning International.

Q2 2018 FINANCIAL SUMMARY

All comparisons are to restated Q2 2017 results⁽¹⁾ unless indicated otherwise. There were no significant items in Q2 2018 and Q2 2017.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q2 2018	Q2 2017 Restated ⁽¹⁾	% change
Revenue	1,729	1,584	9
EBIT	126	97	30
<i>EBIT margin</i>	7.3%	6.1%	
EBITDA ⁽²⁾⁽³⁾	171	145	18
<i>EBITDA margin⁽³⁾</i>	9.9%	9.1%	
Net income	81	55	44
EPS	0.48	0.33	44
Free cash flow ⁽³⁾	(28)	(131)	79

Q2 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	77	47	14	(12)	126	0.48
<i>EBIT margin</i>	8.5%	8.5%	5.3%	-	7.3%	
EBITDA	99	62	21	(11)	171	
<i>EBITDA margin</i>	11.0%	11.2%	7.9%	-	9.9%	

Q2 2017 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts; restated⁽¹⁾</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	55	42	13	(13)	97	0.33
<i>EBIT margin</i>	7.0%	8.1%	4.6%	-	6.1%	
EBITDA	81	57	20	(13)	145	
<i>EBITDA margin</i>	10.3%	11.0%	7.0%	-	9.1%	

- Revenue was up 9%, with higher revenues in all lines of business except used equipment. New equipment sales increased by 12%, driven mostly by higher sales in construction and mining in Canada. Product support revenues grew by 11% as a result of improved customer activity in the Canadian construction and South American mining industries. Used equipment sales were down 19% (lower in all regions), reflecting a tighter supply environment. Rental revenues increased by 6%.
- Gross profit increased by 10%. Gross profit margin of 26.9% was slightly ahead of 26.6% in Q2 2017 on improved margins in rental, service, and new equipment.
- SG&A⁽²⁾ costs as a percentage of revenue declined by 100 basis points from Q2 2017 to 19.9%, mostly due to lower SG&A as a percentage of revenue in Canada. EBIT was up 30% to \$126 million and EBIT margin increased by 120 basis points to 7.3%, driven largely by improved profitability in Canada.
- EPS of \$0.48 per share was up 44% from \$0.33 per share in Q2 2017, reflecting higher EBIT from increased revenues in Canada and South America and improved profitability in all operations.
- Q2 2018 free cash flow was (\$28) million use of cash compared to (\$131) million use of cash in Q2 2017 as a result of higher EBITDA and improved collections.

Invested Capital⁽³⁾ and ROIC⁽²⁾⁽³⁾	Q2 2018	Q4 2017 restated⁽¹⁾	Q2 2017 restated⁽¹⁾
Invested capital (<i>\$ millions</i>)			
Consolidated	3,362	2,830	3,108
Canada	1,840	1,621	1,764
South America (U.S. dollars)	890	784	807
UK & Ireland (U.K. pound sterling)	214	147	182
Invested capital turnover (<i>times</i>)	2.13	2.09	1.97
Working capital to sales ratio	26.9%	27.4%	29.1%
Inventory turns⁽³⁾ (<i>times</i>)	2.57	2.82	2.52
Adjusted ROIC (%)			
Consolidated	14.2	13.1	11.1
Canada	15.1	13.2	11.0
South America	17.7	18.1	16.0
UK & Ireland	13.2	12.8	13.9

- Excluding the impact of foreign exchange, invested capital was up 17% from Q4 2017, primarily due to higher inventory requirements to meet stronger demand across most markets. A decrease in accounts payable balances in South America due to timing and investment in rental equipment in Canada also contributed to higher invested capital levels compared to Q4 2017.
- Invested capital turnover and working capital to sales ratio improved from Q4 2017, driven mostly by higher sales.
- Adjusted ROIC increased by 110 basis points from Q4 2017, driven mostly by Canada, and was the highest Adjusted ROIC since Q2 2015.

Q2 2018 HIGHLIGHTS BY OPERATION

All comparisons are to restated Q2 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 were up 15%, reflecting strong market activity. New equipment sales increased by 29% with higher deliveries to construction and mining customers, while used equipment sales were 16% lower due to constrained supply of used equipment. Product support revenues were up 13%, driven primarily by stronger demand for parts in the construction sectors.
- SG&A as a percentage of revenue declined by 210 basis points, reflecting leverage of incremental revenues on fixed costs and cost discipline. As a result, EBIT of \$77 million increased by 39% and EBIT margin of 8.5% improved by 150 basis points from Q2 2017.

South America

- Revenues were up 11%, reflecting strong growth in Chile - up 24%. Product support revenues increased by 14%, driven by Chilean mining. New equipment sales were up 9%. Higher sales in all sectors in Chile were partly offset by lower construction sales in Argentina due to economic uncertainty and reduced government infrastructure spending.
- EBIT increased by 16%; EBIT margin was 8.5%, up from 8.1% in Q2 2017.

United Kingdom & Ireland

- Revenues declined by 5% largely due to delayed new equipment deliveries to certain construction customers. Product support revenues were up 2%, driven by higher parts sales, particularly in power systems.
- EBIT was up 10% and EBIT margin increased by 70 basis points to 5.3% due to improved margins in most lines of business, a higher proportion of product support in the revenue mix, and more parts sales through lower-cost e-commerce channels.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.20 per share, payable on September 6, 2018 to shareholders of record on August 23, 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 June 30			Six months ended June 30		
	2018	2017 restated ⁽¹⁾	% change fav (unfav)	2018	2017 restated ⁽¹⁾	% change fav (unfav)
New equipment	623	556	12	1,207	981	23
Used equipment	78	96	(19)	174	169	3
Equipment rental	57	54	6	107	105	2
Product support	968	874	11	1,904	1,723	10
Other	3	4		7	7	
Total revenue	1,729	1,584	9	3,399	2,985	14
Gross profit	466	422	10	906	815	11
Gross profit margin	26.9%	26.6%		26.6%	27.3%	
SG&A	(345)	(331)	(4)	(673)	(638)	(5)
SG&A as a percentage of revenue	(19.9)%	(20.9)%		(19.8)%	(21.4)%	
Equity earnings of joint ventures & associate	5	5		6	4	
Other income	-	1		-	2	
EBIT	126	97	30	239	183	31
EBIT margin	7.3%	6.1%		7.0%	6.1%	
Adjusted EBIT ⁽³⁾⁽⁴⁾	126	97	30	232	183	27
Adjusted EBIT margin ⁽³⁾⁽⁴⁾	7.3%	6.1%		6.8%	6.1%	
Net income	81	55	44	152	102	48
Basic EPS	0.48	0.33	44	0.90	0.61	48
Adjusted EPS ⁽³⁾⁽⁴⁾	0.48	0.33	44	0.87	0.61	43
EBITDA	171	145	18	328	276	19
EBITDA margin	9.9%	9.1%		9.7%	9.2%	
Adjusted EBITDA ⁽³⁾⁽⁴⁾	171	145	18	321	276	16
Adjusted EBITDA margin ⁽³⁾⁽⁴⁾	9.9%	9.1%		9.4%	9.2%	
Free cash flow	(28)	(131)	79	(291)	(207)	(41)
	June 30, 2018	Dec 31, 2017 restated ⁽¹⁾				
Invested capital	3,362	2,830				
Invested capital turnover (times)	2.13	2.09				
Net debt to invested capital ⁽³⁾	37.0%	30.2%				
ROIC	14.3%	13.1%				
Adjusted ROIC	14.2%	13.1%				

Q2 2018 INVESTOR CALL

The Company will hold an investor call on August 8, 2018 at 11:00 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 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.

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FOOTNOTES

- (1) The 2017 comparative results described in this earnings 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 Q2 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 page 30-32 of the Interim MD&A. The financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

FORWARD-LOOKING DISCLAIMER

This news release 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 market momentum in the Company's key regions, further upside in 2019 from infrastructure projects in Western Canada and mining recovery in Chile; and the Company's continuing focus on growing its business in a profitable and capital-efficient manner. 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 news release and the Interim 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 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 news release and the Interim MD&A 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 the Interim 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 annual 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.