

Finning reports Q1 2018 results and increases dividend

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

Q1 2018 HIGHLIGHTS

All comparisons are to restated Q1 2017 results⁽¹⁾ unless indicated otherwise.

- EPS⁽²⁾ of \$0.42 per share included insurance proceeds related to Alberta wildfires of \$0.03 per share. Adjusted EPS⁽³⁾⁽⁴⁾ of \$0.39 per share was up 42% on a 19% increase in revenues.
- Canada achieved improved operating leverage. Excluding insurance proceeds received in the quarter related to the 2016 Alberta wildfires, Canada’s SG&A⁽²⁾ as a percentage of revenue declined by 380 basis points and EBIT margin improved by 80 basis points to 7.5%.
- South America reported a 13% increase in product support revenues in functional currency, driven by stronger demand from the Chilean mining sector, and an EBIT margin of 8.4%.
- Working capital to sales ratio improved by 340 basis points to 27.1% - the lowest level over the last two years - on higher sales and supply chain efficiencies.
- Adjusted return on invested capital⁽³⁾⁽⁴⁾ of 13.5% was the highest in the last two years.
- Equipment backlog⁽³⁾ increased by over \$300 million from Q4 2017 to \$1.6 billion, driven by strong order intake⁽³⁾ across all regions and market segments. The current backlog more than doubled from Q1 2017 and is at the highest level since Q2 2012.
- Annualized dividend was raised by 5.3% to \$0.80 per share, reflecting the expectation of improved market conditions and sustainable earnings growth.

“I am encouraged by the continued positive market momentum and growing backlog at the start of 2018. We achieved strong revenue growth and improved profitability in the first quarter as we continue to benefit from leverage of additional revenues on fixed costs. I am particularly pleased with the progress we are making on our digital and supply chain initiatives, which enable us to reduce our cost to serve while transforming our customer experience. Looking ahead, we remain focused on capturing profitable growth opportunities in our markets, generating improved returns on invested capital, and advancing our long-term strategic priorities,” said Scott Thomson, President and CEO of Finning.

Q1 2018 FINANCIAL SUMMARY

All comparisons are to restated Q1 2017 results⁽¹⁾ unless indicated otherwise.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q1 2018	Q1 2017 Restated ⁽¹⁾	% change
Revenue	1,670	1,401	19
EBIT	113	86	32
<i>EBIT margin</i>	6.8%	6.1%	
EBITDA ⁽²⁾⁽³⁾	157	131	20
<i>EBITDA margin⁽³⁾</i>	9.4%	9.3%	
Net income	71	47	53
EPS	0.42	0.28	53
Free cash flow	(263)	(76)	(244)

Included in Q1 2018 results is the following significant item that management does not consider indicative of operational and financial trends either by nature or amount. This significant item is summarized below and described in more detail on page 3 of the Company's management discussion and analysis dated May 10, 2018 (MD&A). There were no significant items in Q1 2017.

Q1 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	71	46	10	(14)	113	0.42
Insurance proceeds related to Alberta wildfires	(7)	-	-	-	(7)	(0.03)
Adjusted EBIT / Adjusted EPS	64	46	10	(14)	106	0.39
Adjusted EBITDA ⁽³⁾⁽⁴⁾	86	61	17	(14)	150	
<i>EBIT margin</i>	8.4%	8.4%	3.7%	-	6.8%	
<i>Adjusted EBIT margin</i>	7.5%	8.4%	3.7%	-	6.4%	
<i>Adjusted EBITDA margin⁽³⁾⁽⁴⁾</i>	10.1%	11.1%	6.3%	-	9.0%	

Q1 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	46	44	7	(11)	86	0.28
<i>EBIT margin</i>	6.7%	8.8%	3.3%	-	6.1%	
EBITDA	70	59	13	(11)	131	
<i>EBITDA margin</i>	10.1%	11.8%	6.5%	-	9.3%	

- Revenue was up 19% driven by improved customer activity in key industries across all regions. New equipment sales increased by 37%, reflecting stronger demand in mining, construction, and power systems markets, particularly in Canada. Product support revenue grew by 10%, with all regions reporting higher parts and service revenues in mining and construction segments.
- Gross profit increased by 12%. Gross profit margin of 26.3% was below gross profit margin of 28.0% in Q1 2017 primarily due to a shift in revenue mix to new equipment sales. New equipment sales comprised 35% of total revenue compared to 30% in Q1 2017.
- Excluding insurance proceeds received in the quarter related to the 2016 Alberta wildfires, SG&A as a percentage of revenue declined by 180 basis points from Q1 2017 to 20.1%, reflecting leverage of additional revenues on fixed costs. Adjusted EBIT was up 24% to \$106 million and Adjusted EBIT margin increased by 30 basis points to 6.4%, driven mostly by improved operating leverage in Canada.
- Adjusted EPS was \$0.39 per share, up 42% from \$0.28 per share in Q1 2017, primarily due to higher Adjusted EBIT.
- Q1 2018 free cash flow was (\$263) million use of cash compared to (\$76) million use of cash in Q1 2017 due to higher working capital requirements to meet stronger customer demand.

Invested Capital⁽³⁾ and ROIC⁽²⁾	Q1 2018	Q4 2017 restated⁽¹⁾	Q1 2017 restated⁽¹⁾
Invested capital (<i>\$ millions</i>)			
Consolidated	3,226	2,830	2,940
Canada	1,778	1,621	1,630
South America (U.S. dollars)	884	784	773
UK & Ireland (U.K. pound sterling)	178	147	172
Invested capital turnover⁽³⁾ (<i>times</i>)	2.13	2.09	1.89
Working capital to sales ratio	27.1%	27.4%	30.5%
Inventory turns (<i>times</i>)	2.80	2.82	2.61
Adjusted ROIC (%)			
Consolidated	13.5	13.1	10.0
Canada	14.0	13.2	10.2
South America	17.8	18.1	15.6
UK & Ireland	13.4	12.8	7.7

- Excluding the impact of foreign exchange, invested capital was up by 12% from Q4 2017 mostly due to an increase in new equipment inventory in all regions to meet stronger demand, and higher parts inventory in Canada in line with growing product support volumes. Lower accounts payable balances in South America due to timing, and an increase in unbilled work-in-progress in all operations due to stronger market activity also contributed to higher invested capital levels compared to Q4 2017.
- Invested capital turnover and working capital to sales ratio continued to improve and were the best in the last two years, reflecting higher sales and supply chain efficiencies.
- Adjusted ROIC increased by 40 basis points from Q4 2017, driven mostly by higher Adjusted ROIC in Canada, and was the highest Adjusted ROIC in two years.

Q1 2018 HIGHLIGHTS BY OPERATION

All comparisons are to restated Q1 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 23%, driven by a 62% increase in new equipment sales spanning mining, construction, and power systems markets. Product support revenues rose by 11%, reflecting stronger demand for parts and service in the construction sectors and higher component rebuild activity in mining.
- Adjusted EBIT of \$64 million increased by 40% and Adjusted EBIT margin of 7.5% improved by 80 basis points from Q1 2017, reflecting leverage of additional revenues on fixed costs. Excluding insurance proceeds received in the quarter related to the 2016 Alberta wildfires, SG&A as a percentage of revenue declined by 380 basis points from Q1 2017.

South America

- Revenues were up 15%. Product support revenues were up 13%, on higher demand from Chilean mining customers. Improved activity in construction and power systems markets drove a 12% increase in new equipment sales.
- EBIT increased by 9% and EBIT margin was 8.4%, which was in line with management's expectations.

United Kingdom & Ireland

- Revenues increased 19%, with higher revenues in all lines of business. New equipment sales were up 29%, driven by active construction and power systems markets, including industrial, marine, and electric power. Product support revenues increased by 6%, driven mostly by higher parts sales.
- EBIT was up by £1.3 million to £5.5 million and EBIT margin improved by 40 basis points to 3.7% from Q1 2017 as a result of leverage of higher revenue on fixed costs. SG&A as a percentage of revenue decreased by 140 basis points from Q1 2017.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a 5.3% increase in the quarterly dividend to \$0.20 per share from \$0.19 per share, payable on June 8, 2018 to shareholders of record on May 25, 2018. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Investor Meeting – May 10, 2018

Finning will host an Investor Meeting on May 10, 2018 from 10:00 AM to 1:30 PM Pacific Time at the Sutton Place Hotel - Versailles Ballroom, 845 Burrard Street, Vancouver, British Columbia. The event will focus on Finning's strategic plan to improve customer experience through the use of technology and to achieve profitable and capital efficient growth. The presentations will include more information about the Company's digital strategy, the economic outlook, opportunities and priorities in each of the regions, global supply chain initiatives, and financial performance objectives. Following prepared remarks, there will be a Q&A with Finning's leadership team. The Investor Meeting's video webcast and supporting presentation will be available livestream and archived following the event at:

https://www.finning.com/en_CA/company/investors/events-presentations/2018-events-presentations.html

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended March 31		
	2018	2017 restated ⁽¹⁾	% change
New equipment	584	425	37
Used equipment	96	73	31
Equipment rental	50	51	(3)
Product support	936	849	10
Other	4	3	
Total revenue	1,670	1,401	19
Gross profit	440	393	12
Gross profit margin	26.3%	28.0%	
SG&A	(328)	(307)	(7)
SG&A as a percentage of revenue	(19.6)%	(21.9)%	
Equity earnings (loss) of joint ventures & associate	1	(1)	
Other income	-	1	
EBIT	113	86	32
EBIT margin	6.8%	6.1%	
Adjusted EBIT	106	86	24
Adjusted EBIT margin	6.4%	6.1%	
Net income	71	47	53
Basic EPS	0.42	0.28	53
Adjusted EPS	0.39	0.28	42
EBITDA	157	131	20
EBITDA margin	9.4%	9.3%	
Adjusted EBITDA	150	131	15
Adjusted EBITDA margin	9.0%	9.3%	
Free cash flow	(263)	(76)	(244)
	Mar 31, 2018	Dec 31, 2017	
Invested capital	3,226	2,830	
Invested capital turnover (times)	2.13	2.09	
Net debt to invested capital ⁽²⁾	36.1%	30.2%	
ROIC	13.7%	13.1%	
Adjusted ROIC	13.5%	13.1%	

Q1 2018 INVESTOR CALL

The Company will hold an investor call on May 10, 2018 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 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 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 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 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 3 of the 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 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 the economy, markets and activities and the associated impact on the Company's financial results; expectations that the continued progress on the global supply chain will drive further working capital efficiencies and supply annual free cash flow in 2018; in Canada, recovery of commodity prices, activity levels from mining producers and contractors, expected deliveries of new equipment, demand for parts and services, upcoming infrastructure and pipeline projects, demand for construction equipment and power systems products, activity in the oil and gas sector, and competitive market conditions; the rate of recovery being dependent on commodity markets and timing of significant infrastructure projects; in South America, expected demand for mining equipment and product support as a result of copper production levels and fleet utilization, expectations of increased investment in infrastructure by the new Chilean government and resultant activity in the construction sector, expectations regarding the acceleration of oil and gas development in Argentina and the growing construction market, and Finning's continued investment in a new ERP system expected to go live in 2018 and the impact on EBIT margin; in the UK & Ireland, activity levels in the quarry, general construction, and plant hire sectors and the resultant demand for new equipment and product support, demand in the power systems sector, competitive pricing pressure in the equipment market, and the impact of Brexit; expected impact of and volatility in foreign exchange markets; Finning's belief that it continues to have sufficient liquidity to meet operational needs and planned growth and development; expected range of the Company's effective tax rate; the Company's focus on generating earnings leverage while investing in growth opportunities and long-term strategic initiatives; expected progress on optimizing the global supply chain and its expected results; expected results from cost reductions and sustainability improvements; the Company's commitment to grow return on invested capital; and expected results from execution of the Company's strategy framework. 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 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.