

Finning reports Q4 and annual 2017 results

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

Q4 2017 HIGHLIGHTS

- Q4 2017 EPS⁽¹⁾ of \$0.39 per share included severance costs of \$0.03 mostly offset by insurance proceeds related to Alberta wildfires of \$0.02. Q4 2017 Adjusted EPS⁽²⁾⁽³⁾ was \$0.40, a 43% increase from Q4 2016 on 16% higher revenues.
- Canada achieved an EBIT⁽¹⁾ margin of 7.7% in Q4 2017. Excluding significant items that management does not consider indicative of operational and financial trends in both years⁽²⁾⁽³⁾, Canada's Adjusted EBIT⁽²⁾⁽³⁾ increased by 45% on 19% higher revenue and Adjusted EBIT margin⁽²⁾⁽³⁾ was up 140 basis points from Q4 2016.
- South America reported the highest quarterly product support revenues over the last two years, up 14% in functional currency from Q4 2016.
- Inventory turns improved by 9% from Q3 2017 to 2.83 times, the highest level over the last five years.
- Equipment backlog⁽²⁾ increased to \$1.3 billion in Q4 2017 to the highest level since Q1 2014, reflecting improved order intake⁽²⁾ in all regions.

2017 ANNUAL HIGHLIGHTS

- Basic EPS was \$1.31 in 2017 compared to \$0.38 in 2016. Excluding significant items that management does not consider indicative of operational and financial trends in both years⁽²⁾⁽³⁾, Adjusted EPS rose by 55% from 2016 on an 11% increase in revenue.
- The Company demonstrated cost discipline while growing revenue. Excluding the impact in SG&A of the significant items detailed on pages 4 and 5 of the Company's Management's Discussion and Analysis (“MD&A”), 2017 SG&A costs increased by only 4% while revenue grew by 11% from 2016, and SG&A as a percentage of revenue decreased by 140 basis points from 2016.
- Higher earnings and improved capital efficiency drove a significant increase in ROIC⁽¹⁾⁽²⁾ in all regions compared to 2016.
- Working capital to sales ratio⁽²⁾ improved by 330 basis points and inventory turns⁽²⁾ were up 14% from 2016, despite higher inventory levels to meet stronger demand.
- Annual free cash flow⁽²⁾ was \$165 million.

“In 2017, we delivered significantly improved financial performance, driven by strong operating leverage and capital discipline. I am pleased with our ability to control costs and improve working capital efficiencies as we continue to capitalize on strengthening market activity and support our customers in a highly competitive environment. The operational improvements implemented across the organization combined with the strong execution of our strategic priorities have enabled us to generate significantly higher return on invested capital and solid free cash flow in 2017,” said Scott Thomson, President and CEO of Finning.

“Looking ahead, we expect current momentum in market activity to continue into 2018. We are focused on generating earnings leverage while investing in growth opportunities and long-term strategic initiatives to enhance our customer's experience. Continued progress on optimizing our global supply chain is expected to drive further working capital efficiencies and support positive annual free cash flow in 2018. We remain committed to improving our return on invested capital.” concluded Mr. Thomson.

Q4 2017 FINANCIAL SUMMARY

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q4 2017	Q4 2016	% change
Revenue	1,735	1,491	16
EBIT	112	18	495
<i>EBIT margin</i>	6.4%	1.3%	
EBITDA ⁽¹⁾⁽²⁾	157	65	143
<i>EBITDA margin⁽²⁾</i>	9.0%	4.3%	
Net income	66	9	687
EPS	0.39	0.05	686
Free cash flow	350	113	208

Included in Q4 2017 and Q4 2016 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 19 of the Company's MD&A.

Q4 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	66	50	12	(16)	112	0.39
Severance costs	3	2	-	-	5	0.03
Insurance proceeds related to Alberta wildfires	(4)	-	-	-	(4)	(0.02)
Adjusted EBIT / Adjusted EPS	65	52	12	(16)	113	0.40
Adjusted EBITDA ⁽²⁾⁽³⁾	89	67	18	(16)	158	
<i>EBIT margin</i>	7.7%	8.6%	4.0%	-	6.4%	
<i>Adjusted EBIT margin</i>	7.6%	9.0%	4.0%	-	6.5%	
<i>Adjusted EBITDA margin⁽²⁾⁽³⁾</i>	10.4%	11.4%	6.1%	-	9.1%	

Q4 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	(3)	27	8	(14)	18	0.05
Severance costs	15	-	-	-	15	0.06
Facility closures and restructuring costs	32	-	-	-	32	0.15
Estimated loss on alleged fraud by a customer	-	10	-	-	10	0.04
Gain on investment	-	-	-	(5)	(5)	(0.02)
Adjusted EBIT / Adjusted EPS	44	37	8	(19)	70	0.28
Adjusted EBITDA	68	53	15	(19)	117	
<i>EBIT margin</i>	(0.3)%	5.0%	3.3%	-	1.3%	
<i>Adjusted EBIT margin</i>	6.2%	7.0%	3.3%	-	4.8%	
<i>Adjusted EBITDA margin</i>	9.5%	9.9%	6.1%	-	7.9%	

- Revenue in Q4 2017 was up 16% from Q4 2016, with increases in all regions, lines of business, and key market segments. New equipment sales increased by 27%, driven primarily by improved activity in the construction and power systems markets. Product support revenue grew by 10%, and was higher in all regions and market segments.
- Gross profit rose by 15% over Q4 2016. Gross profit margin of 25.1% was slightly below gross profit margin of 25.4% in Q4 2016 due to a shift in revenue mix to new equipment sales.

- Adjusted EBIT was up 58% from Q4 2016 to \$113 million on a 16% increase in revenue, reflecting leverage of incremental revenues on fixed costs. Excluding significant items summarized on page 2, SG&A⁽¹⁾ as a percentage of revenue declined by 190 basis points from Q4 2016. Adjusted EBIT margin improved to 6.5% from 4.8% in Q4 2016.
- Adjusted EPS was \$0.40 per share, up 43% from \$0.28 per share in Q4 2016. Severance costs in Canada and South America of \$0.03 per share were partly offset by insurance proceeds of \$0.02 per share related to the business interruption impact of the 2016 Alberta wildfires.
- Q4 2017 free cash flow was \$350 million compared to \$113 million in Q4 2016, driven by an increase in earnings, higher collections, and higher supplier payables associated with improved market conditions.

Invested Capital⁽²⁾ and ROIC⁽¹⁾	Q4 2017	Q4 2016	Q3 2017
Invested capital (\$ millions)			
Consolidated	2,819	2,797	3,083
Canada	1,620	1,595	1,746
South America (U.S. dollars)	779	741	852
UK & Ireland (U.K. pound sterling)	145	130	182
Invested capital turnover⁽²⁾ (times)	2.10	1.90	2.02
Working capital to sales ratio	27.1%	30.4%	28.3%
Inventory turns (times)	2.83	2.49	2.60
Adjusted ROIC⁽²⁾⁽³⁾ (%)			
Consolidated	13.4	9.3	12.0
Canada	13.5	9.3	12.3
South America	18.0	15.0	16.4
UK & Ireland	14.7	5.9	13.7

- Excluding the impact of foreign exchange, invested capital was up by \$85 million from Q4 2016 mostly due to an increase in accounts receivable associated with higher sales, and higher parts inventory to meet stronger demand.
- Capital efficiency metrics showed substantial improvement from Q4 2016 on higher sales, increased supply chain efficiencies, and capital discipline.
- Q4 2017 Adjusted ROIC increased significantly in all regions compared to Q4 2016 Adjusted ROIC, driven by higher profitability and improved invested capital turnover.

Q4 2017 HIGHLIGHTS BY OPERATION

All comparisons are to Q4 2016 unless otherwise stated.

Canada

- Revenues increased by 19%, with higher revenues in all lines of business. New equipment sales were up 32%, driven by improved activity in the construction and power systems markets. Product support revenues grew by 12%, with stronger parts volumes in the construction sectors and increased component rebuild activity in mining. Used and rental equipment revenues were up 31% and 14%, respectively, reflecting stronger activity in the general construction markets and the integrated go-to-market offerings of new, used, and rental equipment.
- Adjusted EBIT increased by 45% to \$65 million, driven by strong leverage of incremental revenues on fixed costs. Excluding significant items, SG&A as a percentage of revenue declined by 310 basis points from Q4 2016. As a result, Adjusted EBIT margin of 7.6% was up from 6.2% in Q4 2016, despite a shift in revenue mix to new equipment sales and a highly competitive pricing environment.

South America

- Revenues were up 10% (up 15% in functional currency, U.S. dollar), representing the highest quarterly revenues over the last two years. New equipment sales grew by 21% in functional currency, driven by improvements in the construction and mining markets. Product support revenues rose by 14% in functional currency, reflecting improved demand from the Chilean mining customers.
- Adjusted EBIT increased by 41% to \$52 million on stronger revenues and tight cost control. Adjusted EBIT margin was 9.0%, up from 7.0% in Q4 2016.

United Kingdom & Ireland

- Revenues increased by 22% (up 20% in functional currency, U.K. pound sterling). A new equipment sales increase of 31% in functional currency was driven by robust activity in general construction and electric power generation markets. Product support revenues increased by 6% in functional currency, on higher parts sales in construction, marine, and electric power segments.
- EBIT was \$12 million and EBIT margin was 4.0%, up from Q4 2016 EBIT of \$8 million and EBIT margin of 3.3%, due to higher gross profit margin and cost control.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.19 per share, payable on March 8, 2018 to shareholders of record on February 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 Dec 31			Twelve months ended Dec 31		
	2017	2016	% change	2017	2016	% change
New equipment	661	519	27	2,169	1,838	18
Used equipment	110	96	15	359	367	(2)
Equipment rental	60	56	7	228	226	1
Product support	901	816	10	3,496	3,182	10
Other	3	4		13	15	
Total revenue	1,735	1,491	16	6,265	5,628	11
Gross profit	436	380	15	1,657	1,473	13
Gross profit margin	25.1%	25.4%		26.4%	26.2%	
SG&A	(325)	(333)	2	(1,267)	(1,280)	1
SG&A as a percentage of revenue	(18.7)%	(22.3)%		(20.2)%	(22.7)%	
Equity earnings (loss) of joint ventures & associate	1	(1)		7	5	
Other income (expenses)	-	(28)		2	(33)	
EBIT	112	18	495	399	165	141
EBIT margin	6.4%	1.3%		6.4%	2.9%	
Adjusted EBIT	113	70	58	400	273	46
Adjusted EBIT margin	6.5%	4.8%		6.4%	4.9%	
Net income	66	9	687	221	65	242
Basic EPS	0.39	0.05	686	1.31	0.38	242
Adjusted EPS	0.40	0.28	43	1.36	0.88	55
EBITDA	157	65	143	583	357	63
EBITDA margin	9.0%	4.3%		9.3%	6.3%	
Adjusted EBITDA	158	117	35	584	465	26
Adjusted EBITDA margin	9.1%	7.9%		9.3%	8.3%	
Free cash flow	350	113	208	165	370	(56)
	Dec 31, 2017	Dec 31, 2016				
Invested capital	2,819	2,797				
Invested capital turnover (times)	2.10	1.90				
Net debt to invested capital ⁽²⁾	30.4%	32.0%				
ROIC	13.4%	5.6%				
Adjusted ROIC	13.4%	9.3%				

Q4 2017 INVESTOR CALL

The Company will hold an investor call on February 6 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) 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 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 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 40 to 43 of the Company's 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 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 future market activity and the continued support of Finning's customers; generating earnings leverage while investing in growth opportunities and long-term strategic initiatives; progress on optimizing Finning's global supply chain and the expected working capital cash flow results; and Finning's committed to improving its return on invested capital. 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. 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.