

Finning reports Q3 2019 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning” or the “Company”) reported third quarter 2019 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

Q3 2019 HIGHLIGHTS

All comparisons are to Q3 2018 results unless indicated otherwise.

- EPS⁽²⁾ of \$0.46 included the negative tax impact due to the devaluation of the Argentine peso of \$0.02 per share as well as severance and restructuring costs in Argentina of \$0.01 per share. Adjusted EPS⁽³⁾⁽⁴⁾ of \$0.49 per share was up 10% driven primarily by improved profitability in South America.
- Free cash flow⁽³⁾ was \$165 million, reflecting the company-wide focus on inventory management. Inventory was reduced by over \$150 million from Q2 2019.
- In South America, product support revenues increased by 15% (in US dollars) and profitability improved despite a challenging economic environment in Argentina.
- Canada delivered a solid quarter driven by cost discipline and improvements in operating efficiencies.

“Our cost discipline, operational improvements, and prudent working capital⁽³⁾ management allowed us to deliver solid results in all regions. I am particularly pleased with improved profitability in Chile, where EBIT⁽²⁾ margin returned to pre-ERP⁽²⁾ system implementation levels,” said Scott Thomson, president and chief executive officer of Finning. “With the benefit of a lower cost base and efficiency improvements in our operations, we are well positioned to continue to generate consecutive increases in annual earnings in 2020, even in a low growth environment,” concluded Mr. Thomson.

Q3 2019 FINANCIAL SUMMARY

All comparisons are to Q3 2018 results unless indicated otherwise.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q3 2019	Q3 2018	% change
Revenue	1,959	1,755	12
Net revenue ⁽¹⁾	1,819	1,755	4
EBIT <i>EBIT as a percentage of net revenue⁽³⁾</i>	129 7.1%	93 5.3%	40
EBITDA ⁽²⁾⁽³⁾ <i>EBITDA as a percentage of net revenue⁽³⁾</i>	201 11.1%	142 8.1%	42
Net income	76	25	199
EPS	0.46	0.15	208
Free cash flow	165	(49)	n/m

n/m - % change not meaningful

Q3 2019 EBITDA and EBIT by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBITDA / EPS	125	62	22	(8)	201	0.46
Severance and restructuring costs in Argentina	-	3	-	-	3	0.01
Tax impact of devaluation of Argentine peso	-	-	-	-	-	0.02
Adjusted EBITDA ⁽³⁾⁽⁴⁾ / Adjusted EPS	125	65	22	(8)	204	0.49
Adjusted EBIT ⁽³⁾⁽⁴⁾	82	45	14	(9)	132	
<i>Adjusted EBITDA as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	<i>12.8%</i>	<i>11.2%</i>	<i>8.3%</i>	<i>-</i>	<i>11.2%</i>	
<i>Adjusted EBIT as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	<i>8.5%</i>	<i>7.8%</i>	<i>5.1%</i>	<i>-</i>	<i>7.3%</i>	

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

- Revenue was up 12% and net revenue was up 4%, driven by higher product support revenues and the contribution from 4Refuel (net revenue of \$31 million). New equipment sales declined by 3% due to lower sales in South America and the UK & Ireland which more than offset higher equipment deliveries in Canada. Product support revenues were up 6%, driven primarily by South America.
- Gross profit increased by 2%. Gross profit as a percentage of net revenue⁽³⁾ of 25.3% was comparable to Q3 2018.
- SG&A⁽²⁾ as a percentage of net revenue⁽³⁾ declined by 60 basis points to 18.3% demonstrating the Company's focus on cost management and operational improvements.
- Adjusted EBITDA increased by \$32 million, driven by higher earnings in South America, the contribution from 4Refuel, and the positive impact of the adoption of IFRS 16, Leases (\$20 million).
- Adjusted EPS of \$0.49 was up 10%, driven primarily by improved profitability in South America.
- Free cash flow was \$165 million compared to a use of cash of (\$49) million in Q3 2018, reflecting focus on inventory management in a slower demand environment in all regions.

Invested Capital⁽³⁾ and ROIC⁽²⁾⁽³⁾	Q3 2019	Q4 2018	Q3 2018
Invested capital (\$ millions)			
Consolidated	3,907	3,163	3,431
Canada	2,209	1,675	1,889
South America (U.S. dollars)	964	872	906
UK & Ireland (U.K. pound sterling)	256	193	239
Invested capital turnover⁽³⁾ (times)	1.99	2.12	2.14
Working capital to net revenue ratio⁽³⁾	26.9%	26.6%	26.7%
Inventory turns (dealership)⁽³⁾ (times)	2.49	2.68	2.58
Adjusted ROIC⁽³⁾⁽⁴⁾ (%)			
Consolidated	12.2	13.5	14.5
Canada	15.0	16.2	16.0
South America	9.0	12.2	16.4
UK & Ireland	14.1	14.2	14.0

- Invested capital increased by about \$475 million from Q3 2018, driven by the acquisition of 4Refuel (\$241 million purchase price), elevated parts inventories in South America following the delays in processing mining parts orders after the new ERP system was implemented in Q4 2018, and higher equipment inventories in Canada.
- The Company remains focused on prudent inventory management. Inventory was reduced by over \$150 million and inventory turns increased by 6% from Q2 2019.

Q3 2019 HIGHLIGHTS BY OPERATION

All comparisons are to Q3 2018 results unless indicated otherwise. All numbers are in functional currency: South America – US dollar; UK & Ireland – UK pound sterling (GBP).

Canada (includes 4Refuel)

- Net revenue increased by 7% driven by higher new equipment sales and additional net revenue from 4Refuel (\$31 million). New equipment revenues were up 12% mostly due to large mining equipment deliveries in the oil sands. Product support revenues were similar to Q3 2018. While product support activity in the oil sands remained strong, a slowdown in non-mining sectors in western Canada impacted customer demand for parts.
- EBITDA increased by \$21 million due to the contribution from 4Refuel and the benefit of the adoption of IFRS 16 (\$14 million). The Canadian operations are focused on reducing the cost to serve and positioning the business for success in a competitive market environment. SG&A as a percentage of net revenue declined by 100 basis points from Q3 2018. Cost discipline and operational improvements enabled the Canadian operations to maintain profitability (EBIT as a percentage of net revenue was 8.5%) despite a lower proportion of product support in the revenue mix.

South America

- Net revenue was up 2%, driven by a 15% increase in product support revenue, primarily in Chilean mining. New equipment sales were down by 16% due to significant deliveries of large mining equipment and power systems projects in Q3 2018 in Chile.
- In response to challenging economic conditions in Argentina, exacerbated by restrictive monetary policies implemented by the Argentina government in September, the Company took additional measures in Q3 2019 to right-size its cost structure and capital exposure in Argentina. These actions resulted in severance and

restructuring costs of approximately CAD\$3 million. Excluding these costs, Argentina was modestly profitable in Q3 2019.

- Adjusted EBITDA increased by CAD\$13 million mostly due to improved operating performance. Adjusted EBITDA as a percentage of net revenue increased by 190 basis points to 11.2%. EBIT as a percentage of net revenue in Chile returned to pre-ERP system implementation levels.

United Kingdom & Ireland

- Net revenue decreased by 4% as lower new equipment sales were partly offset by a 12% increase in product support revenues. A 12% reduction in new equipment sales was driven by lower sales in power systems due to the timing of project deliveries to the electricity capacity market, which was particularly strong in Q3 2018. Construction sales were comparable to Q3 2018, reflecting ongoing market uncertainty related to Brexit.
- EBITDA was similar to Q3 2018 and included the favourable impact of the adoption of IFRS 16. EBITDA as a percentage of net revenue increased to 8.3% from 7.7% in Q3 2018, due to the positive impact of IFRS 16 and a higher proportion of product support in the revenue mix.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.205 per share, payable on December 5, 2019 to shareholders of record on November 21, 2019. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Finning Canada Employees in Alberta and the Northwest Territories Ratify New Collective Agreement

On October 8, 2019, Finning Canada's hourly employees represented by International Association of Machinists and Aerospace Workers Union ("IAMAW") Local 99, voted in support of a new collective agreement. IAMAW Local 99 represents approximately 1,600 hourly employees in Alberta and the Northwest Territories. The new three-year collective agreement will expire on April 30, 2022.

Finning Appoints Andrés Kuhlmann to the Board of Directors

Finning is pleased to announce the appointment of Andrés Kuhlmann as an independent director to the company's Board of Directors effective immediately. Mr. Kuhlmann is a seasoned senior leader with exceptional knowledge of the global business operating environment. Currently, Mr. Kuhlmann is CEO of Transelec, the largest power transmission company in Chile. Prior to this role, he held positions as CEO of Siemens and Electroandina in Chile. Mr. Kuhlmann also serves on several boards, including Clinica Alemana de Santiago, one of Chile's largest health corporations.

Finning Announces Leadership Transition in South America

Finning announced today that Marcello Marchese, President of Finning South America, will retire at the end of 2019 after nearly two decades of service to the company. He will continue to support Finning's business in a new role as Chair of the Finning South America Advisory Council. This council will consist of senior business leaders in Chile and Argentina and will provide guidance and insights to the company on geopolitical, economic, social and industry context in South America, including to the CEO and Board of Finning International.

"I want to thank Marcello for his commitment to Finning South America, as he led with integrity, passion and dedication in his role as President during the past seven years, embracing innovation, challenging the status quo and courageously guiding our growth in the face of dynamic economic and political conditions. I am pleased he will continue in an advisory capacity as we continue to advance our business," said Scott Thomson, president and CEO of Finning International.

Stepping into the role of President of South America will be Juan Pablo Amar, who has provided leadership as Finning's Senior Vice President of Operations for Chile and Bolivia since 2017. Prior to his most recent role in operations, Mr. Amar held progressively more senior positions in human resources and finance since he joined Finning in 1992, including his role as vice president, finance. "Juan Pablo's deep operational knowledge and understanding of the business and how it needs to evolve to continue to capture market share in South America will help provide ongoing stability moving forward," added Thomson. "He will work closely with Marcello between now and the end of the year to ensure a seamless leadership transition."

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended Sep 30			Nine months ended Sep 30		
	2019	2018	% change fav (unfav)	2019	2018	% change fav (unfav)
New equipment	689	711	(3)	2,127	1,918	11
Used equipment	75	78	(4)	262	252	4
Equipment rental	71	68	4	191	175	9
Product support	952	894	6	2,871	2,798	3
Net revenue from 4Refuel	31	-		78	-	
Other revenue	1	4		4	11	
Net revenue	1,819	1,755	4	5,533	5,154	7
Gross profit	459	449	2	1,371	1,355	1
<i>Gross profit as a percentage of net revenue</i>	25.3%	25.6%		24.8%	26.3%	
SG&A	(333)	(330)	(1)	(1,026)	(1,003)	(2)
<i>SG&A as a percentage of net revenue</i>	(18.3)%	(18.9)%		(18.5)%	(19.5)%	
Equity earnings of joint ventures & associate	3	4		12	10	
Other expenses	-	(30)		(29)	(30)	
EBIT	129	93	40	328	332	(1)
<i>EBIT as a percentage of net revenue</i>	7.1%	5.3%		5.9%	6.4%	
Adjusted EBIT	132	123	8	360	355	1
<i>Adjusted EBIT as a percentage of net revenue</i>	7.3%	7.0%		6.5%	6.9%	
Net income	76	25	199	192	177	9
Basic EPS	0.46	0.15	208	1.17	1.05	12
Adjusted EPS	0.49	0.45	10	1.34	1.32	2
EBITDA	201	142	42	548	470	17
<i>EBITDA as a percentage of net revenue</i>	11.1%	8.1%		9.9%	9.1%	
Adjusted EBITDA	204	172	19	580	493	18
<i>Adjusted EBITDA as a percentage of net revenue</i>	11.2%	9.7%		10.5%	9.5%	
Free cash flow	165	(49)	n/m	(344)	(340)	(1)
	Sep 30, 2019	Dec 31, 2018				
Invested capital	3,907	3,163				
Invested capital turnover (times)	1.99	2.12				
Net debt to Adjusted EBITDA ratio ⁽³⁾⁽⁴⁾	2.5	1.7				
ROIC	11.3%	12.8%				
Adjusted ROIC	12.2%	13.5%				

n/m - % change not meaningful

To access Finning's complete Q3 2019 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q3 2019 INVESTOR CALL

The Company will hold an investor call on November 5, 2019 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 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 over 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) Following the acquisition of 4Refuel, management views total revenue less cost of fuel (net revenue) as more representative in assessing the performance of the business as the cost of fuel is not in the Company's control and is fully passed through to the customer. The Company's results and non-GAAP financial measures, including key performance indicators and ratios, previously reported or calculated using total revenue or sales are now reported or calculated using net revenue. For 2018 results of all operations, net revenue is the same as total revenue. For 2019 results of the Company's South American and UK & Ireland operations net revenue is the same as total revenue.
- (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); Enterprise Resource Planning (ERP).
- (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 2019 management discussion and analysis (MD&A). Management believes that providing certain non-GAAP financial measures provides users of the Company's MD&A and 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 2019 and 2018 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 5, 12 and 31-32 of the 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: the Company's lower cost base and efficiency improvements positioning the Company to continue to generate consecutive increases in annual earnings in 2020, even in a low growth environment; Company's focus on cost management, operational improvements and inventory management; Canadian operations' focus on reducing the cost to serve and positioning the business for success in a competitive market environment and cost discipline and operational improvements to maintain profitability; challenging economic conditions and weakening market activity in Argentina and right-sizing of the Company's cost structure and capital exposure in Argentina; and the Canadian income tax treatment of the quarterly dividend. 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 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 a number of 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 and economic and market conditions in the regions in which Finning operates; 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 sustainably reduce costs and 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 the Company will be able to maintain its lower cost base and efficiency improvements, maintain its cost management and discipline, operational improvements and inventory management, reduce its cost to serve and right-size its cost structure and capital exposure in Argentina; (ii) that general economic and market conditions will be maintained; (iii) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (iv) Finning's ability to successfully execute its plans and intentions; (v) Finning's ability to attract and retain skilled staff; (vi) market competition; (vii) the products and technology offered by the Company's competitors; and (viii) that our current good relationships with Caterpillar, our suppliers, service providers and other third parties will be maintained. 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.