

## Finning reports Q2 2019 results

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

### Q2 2019 HIGHLIGHTS

All comparisons are to Q2 2018 results unless indicated otherwise.

- EPS<sup>(2)</sup> of \$0.54 per share was up 14%, driven by strong results in Canada.
- Canada’s net revenue<sup>(1)(3)</sup> was up 18% while SG&A<sup>(2)</sup> increased by only 5%, reflecting the Company’s focus on reducing the cost to serve and improving operating efficiencies.
- In South America, product support revenues returned to normal run rates and were higher than in Q2 2018.
- UK and Ireland delivered a solid quarter, with ROIC<sup>(2)(3)</sup> up 130 basis points from Q2 2018 to 14.5%.

“We are pleased with strong equipment sales in all our regions. While we have not seen the benefit of large infrastructure projects or mining investment yet, we are capturing share in competitive markets. We expect continued growth in product support as product support revenues in Chile are back to normal run rates and demand in Canada remains healthy,” said Scott Thomson, president and chief executive officer of Finning. “Our strong second quarter results reflect continued focus on managing our cost base, improving the velocity of our supply chain, and leveraging digital technologies to support our customers with their productivity goals. Our priorities are to continue to improve South America’s profitability through the second half of 2019, and generate higher returns on invested capital in all our regions,” concluded Mr. Thomson.

### Q2 2019 FINANCIAL SUMMARY

All comparisons are to Q2 2018 results unless indicated otherwise.

<b>Quarterly Overview</b> <i>\$ millions, except per share amounts</i>	<b>Q2 2019</b>	Q2 2018	% change
Revenue	<b>2,137</b>	1,729	24
Net revenue	<b>1,995</b>	1,729	15
EBIT <sup>(2)</sup> <i>EBIT as a percentage of net revenue<sup>(3)</sup></i>	<b>137</b> <b>6.9%</b>	126 7.3%	9
EBITDA <sup>(2)(3)</sup> <i>EBITDA as a percentage of net revenue<sup>(3)</sup></i>	<b>213</b> <b>10.7%</b>	171 9.9%	25
Net income	<b>88</b>	81	11
EPS	<b>0.54</b>	0.48	14
Free cash flow <sup>(3)</sup>	<b>(162)</b>	(28)	n/m

<b>Q2 2019 EBITDA and EBIT by Operation</b> <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBITDA / EPS	138	62	23	(10)	213	0.54
EBIT	92	41	14	(10)	137	
<i>EBITDA as a percentage of net revenue</i>	12.9%	9.8%	7.7%	-	10.7%	
<i>EBIT as a percentage of net revenue</i>	8.5%	6.5%	4.8%	-	6.9%	

<b>Q2 2018 EBITDA and EBIT by Operation</b> <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBITDA / EPS	99	62	21	(11)	171	0.48
EBIT	77	47	14	(12)	126	
<i>EBITDA as a percentage of net revenue</i>	11.0%	11.2%	7.9%	-	9.9%	
<i>EBIT as a percentage of net revenue</i>	8.5%	8.5%	5.3%	-	7.3%	

- Revenue was up 24% and net revenue was up 15%, driven by higher revenues in all regions and lines of business and by the contribution from 4Refuel (net revenue of \$28 million). New equipment sales increased by 24%, with strong growth in all operations. Product support revenues were up 6%, driven by Canada.
- Gross profit increased by 3%. Gross profit as a percentage of net revenue<sup>(3)</sup> decreased by 280 basis points to 24.1%, primarily due to a shift in revenue mix to new equipment sales and competitive market pressures.
- SG&A as a percentage of net revenue<sup>(3)</sup> declined by 240 basis points to 17.5%, reflecting restructuring initiatives in Canada and South America to reduce the cost to serve and improve operating efficiencies.
- EBITDA increased by \$42 million or 25%, driven by higher earnings in Canada, the contribution from 4Refuel, and the positive impact of the adoption of IFRS 16, *Leases* (\$20 million).
- EPS of \$0.54 was up 14%, driven primarily by stronger performance in Canada.
- Free cash flow was a use of cash of \$162 million compared to a use of cash of \$28 million in Q2 2018, mostly as a result of higher inventory levels and higher receivable balances due to timing.

<b>Invested Capital<sup>(3)</sup> and ROIC</b>	<b>Q2 2019</b>	<b>Q4 2018</b>	<b>Q2 2018</b>
<b>Invested capital</b> (\$ millions)			
Consolidated	<b>3,964</b>	3,163	3,362
Canada	<b>2,285</b>	1,675	1,840
South America (U.S. dollars)	<b>983</b>	872	890
UK & Ireland (U.K. pound sterling)	<b>235</b>	193	214
<b>Invested capital turnover<sup>(3)</sup> (times)</b>	<b>2.04</b>	2.12	2.13
<b>Working capital to net revenue ratio<sup>(3)</sup></b>	<b>26.7%</b>	26.6%	26.9%
<b>Inventory turns (dealership)<sup>(3)</sup> (times)</b>	<b>2.36</b>	2.68	2.57
<b>Adjusted ROIC<sup>(3)(4)</sup> (%)</b>			
Consolidated	<b>12.3</b>	13.5	14.2
Canada	<b>15.4</b>	16.2	15.1
South America	<b>8.5</b>	12.2	17.7
UK & Ireland	<b>14.5</b>	14.2	13.2

- Invested capital increased by about \$600 million from Q2 2018, driven by the acquisition of 4Refuel (\$241 million purchase price), higher equipment inventories in Canada to support upcoming deliveries, and elevated parts inventories in South America as a result of the delays in processing mining parts orders following the new ERP<sup>(2)</sup> system implementation in late 2018.

## Q2 2019 HIGHLIGHTS BY OPERATION

All comparisons are to Q2 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 18%, driven by higher new equipment sales and additional net revenue from 4Refuel (\$28 million). New equipment revenues were up 24% mostly due to large mining equipment deliveries in the oil sands and higher sales in construction, particularly in Alberta. Product support revenues increased by 7%, driven by strong demand for parts, component change-outs, and rebuilds in mining. Rental revenues increased by 21%, driven by power systems projects, and used equipment sales were up 36% mostly due to strong sales in the mining sector.
- EBITDA increased by \$39 million or 39% primarily due to improved operating performance, the contribution from 4Refuel as well as the benefit of the adoption of IFRS 16 (\$14 million). The Company has restructured its Canadian operations to continue to reduce the cost to serve, increase market competitiveness, and position the business for success through the cycle. As a result, SG&A as a percentage of net revenue declined by 220 basis points from Q2 2018, which helped offset a lower gross profit margin from a shift in revenue mix to new equipment sales and competitive market pressures.

### South America

- Net revenue was up 10%, driven by a 32% increase in new equipment sales, primarily from higher mining equipment deliveries in Chile. Product support revenues in South America were 1% above Q2 2018, and were up 35% sequentially (from Q1 2019) as product support revenues in Chile returned to a normal run rate following the ERP system implementation.
- In Argentina, market activity remained weak mostly due to political uncertainty. While revenues were below Q2 2018 levels, profitability improved with the restructuring measures implemented by the end of 2018.

- EBITDA as a percentage of net revenue of 9.8% improved sequentially from Adjusted EBITDA as a percentage of net revenue of 6.7% in Q1 2019. The South American operations are expected to achieve EBIT as a percentage of net revenue of 8.5% to 9.0% by the end of 2019.

#### ***United Kingdom & Ireland***

- Net revenue was up 11%, with a 16% increase in new equipment sales, driven by deliveries to electric power projects and robust activity in industrial power systems markets. Construction sales also increased from Q2 2018. Product support revenues were similar to Q2 2018.
- The increase in EBITDA reflected the favourable impact of the adoption of IFRS 16. EBITDA as a percentage of net revenue of 7.7% was below 7.9% in Q2 2018, mostly due to a shift in revenue mix to new equipment sales.

### **CORPORATE AND BUSINESS DEVELOPMENTS**

#### **Dividend**

The Board of Directors has approved a quarterly dividend of \$0.205 per share, payable on September 5, 2019 to shareholders of record on August 22, 2019. 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		
	2019	2018	% change fav (unfav)	2019	2018	% change fav (unfav)
New equipment	774	623	24	1,438	1,207	19
Used equipment	106	78	35	187	174	7
Equipment rental	62	57	9	120	107	12
Product support	1,023	968	6	1,919	1,904	1
Net revenue from 4Refuel	28	-		47	-	
Other revenue	2	3		3	7	
Net revenue	1,995	1,729	15	3,714	3,399	9
Gross profit	482	466	3	912	906	1
<i>Gross profit as a percentage of net revenue</i>	24.1%	26.9%		24.6%	26.6%	
SG&A	(350)	(345)	(2)	(693)	(673)	(3)
<i>SG&amp;A as a percentage of net revenue</i>	(17.5)%	(19.9)%		(18.7)%	(19.8)%	
Equity earnings of joint ventures & associate	5	5		9	6	
Other expenses	-	-		(29)	-	
EBIT	137	126	9	199	239	(17)
<i>EBIT as a percentage of net revenue</i>	6.9%	7.3%		5.4%	7.0%	
Adjusted EBIT <sup>(3)(4)</sup>	137	126	9	228	232	(2)
<i>Adjusted EBIT as a percentage of net revenue<sup>(3)(4)</sup></i>	6.9%	7.3%		6.1%	6.8%	
Net income	88	81	11	116	152	(23)
Basic EPS	0.54	0.48	14	0.71	0.90	(21)
Adjusted EPS <sup>(3)(4)</sup>	0.54	0.48	14	0.85	0.87	(3)
EBITDA	213	171	25	347	328	6
<i>EBITDA as a percentage of net revenue</i>	10.7%	9.9%		9.3%	9.7%	
Adjusted EBITDA <sup>(3)(4)</sup>	213	171	25	376	321	17
<i>Adjusted EBITDA as a percentage of net revenue<sup>(3)(4)</sup></i>	10.7%	9.9%		10.1%	9.4%	
Free cash flow	(162)	(28)	n/m	(509)	(291)	(75)
	<b>June 30, 2019</b>	<b>Dec 31, 2018</b>				
Invested capital	3,964	3,163				
Invested capital turnover (times)	2.04	2.12				
Net debt to Adjusted EBITDA ratio <sup>(3)(4)</sup>	2.8	1.7				
ROIC	10.7%	12.8%				
Adjusted ROIC	12.3%	13.5%				

n/m - % change not meaningful

To access Finning's complete Q2 2019 results in PDF, please visit our website at [https://www.finning.com/en\\_CA/company/investors.html](https://www.finning.com/en_CA/company/investors.html)

## **Q2 2019 INVESTOR CALL**

The Company will hold an investor call on August 7, 2019 at 8:00 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](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.

## **CONTACT INFORMATION**

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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 Q2 2019 management discussion and analysis (the 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 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: continued growth in product support; continued healthy demand in Canada; the Company's continued focus on managing its cost base, improving its supply chain velocity and leveraging digital technologies to support customers' productivity goals; improving the profitability of the Company's South American operations to achieve 8.5% to 9.0% EBIT as a percentage of net revenue by the end of 2019; the generation of higher returns on invested capital in all of the Company's regions; restructuring initiatives in the Company's Canadian and South American operations and the Company's expectation these will reduce the cost to serve and improve efficiencies and, in the Canadian operations, also increase market competitiveness and position the business for success through the cycle; 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) the Company will be able to manage its cost base, improve its supply chain velocity and leverage digital technologies to support its customers' productivity goals; (ii) the Company will be able to leverage its new ERP system to improve efficiencies and velocity, increase workforce productivity and reduce the cost to serve and will be able to achieve EBIT as a percentage of net revenue of 8.5% to 9.0% in its South American operations by the end of 2019; (iii) that general economic and market conditions will be maintained; (iv) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (v) Finning's ability to successfully execute its plans and intentions; (vi) Finning's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company's competitors; and (ix) 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.