

Finning reports Q1 2019 results and increases dividend

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

Q1 2019 HIGHLIGHTS

All comparisons are to Q1 2018 results unless indicated otherwise.

- EPS⁽²⁾ of \$0.17 included global severance and restructuring costs of \$0.11 per share and 4Refuel acquisition costs of \$0.02 per share. Adjusted EPS⁽³⁾⁽⁴⁾ of \$0.30 reflects improved performance in Canada and strong results in the UK & Ireland, offset by weakness in South America.
- Canada delivered improved operating performance in a low growth environment. Adjusted ROIC⁽²⁾⁽³⁾⁽⁴⁾ of 15.5% was up 150 basis points from Adjusted ROIC in Q1 2018.
- South America’s recovery is on track following challenges related to implementation of the new ERP⁽²⁾ system in late 2018. Parts flow velocity was restored by the end of Q1 2019, and the Company expects to return to a normal product support revenue run rate in Chile during Q2 2019.
- We are restructuring our Canadian and South American operations to continue to reduce the cost to serve, increase our market competitiveness, and position our business for success through the cycle. By the end of 2019, we expect the global workforce to be 5% lower than at the end 2018.
- UK and Ireland reported a strong quarter, driven by a 25% increase in new equipment sales in functional currency and improved operating margins. ROIC⁽³⁾ was 14.8%, the highest for UK & Ireland in the last four years.
- Annualized dividend was raised by 2.5% to \$0.82 per share, reflecting the Company’s expectation of improving profitability, driven by South America, and positive annual free cash flow⁽³⁾ through the cycle.

“We had a good start to the year in Canada and strong first quarter results in the UK & Ireland. Importantly, we have restored the flow of parts to our mining customers in Chile, and our product support revenues in South America are returning to a normal run rate during the second quarter. We remain on track to return South America to historical profitability levels in the second half of 2019. Our focus remains on generating higher returns on invested capital in all our regions in 2019,” said Scott Thomson, president and CEO of Finning International.

Q1 2019 FINANCIAL SUMMARY

All comparisons are to Q1 2018 results unless indicated otherwise.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q1 2019	Q1 2018	% change
Revenue	1,810	1,670	8
Net revenue ⁽¹⁾⁽³⁾	1,719	1,670	3
EBIT ⁽²⁾⁽³⁾	62	113	(46)
<i>EBIT as a percentage of net revenue⁽³⁾</i>	3.6%	6.8%	
EBITDA ⁽²⁾⁽³⁾	134	157	(15)
<i>EBITDA as a percentage of net revenue⁽³⁾</i>	7.8%	9.4%	
Net income	28	71	(61)
EPS	0.17	0.42	(60)
Free cash flow	(347)	(263)	(32)

Included in Q1 2019 and Q1 2018 results are certain 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 5 of the Company's management discussion and analysis dated May 7, 2019 (MD&A).

Q1 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	93	26	22	(7)	134	0.17
Severance and restructuring costs	17	8	-	-	25	0.11
4Refuel acquisition costs	-	-	-	4	4	0.02
Adjusted EBITDA ⁽³⁾⁽⁴⁾ / Adjusted EPS	110	34	22	(3)	163	0.30
Adjusted EBIT ⁽³⁾⁽⁴⁾	67	14	13	(3)	91	
<i>Adjusted EBITDA as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	12.1%	6.7%	7.3%	-	9.4%	
<i>Adjusted EBIT as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	7.4%	2.7%	4.4%	-	5.3%	

Q1 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	93	61	17	(14)	157	0.42
Insurance proceeds related to Alberta wildfires	(7)	-	-	-	(7)	(0.03)
Adjusted EBITDA / Adjusted EPS	86	61	17	(14)	150	0.39
Adjusted EBIT	64	46	10	(14)	106	
<i>Adjusted EBITDA as a percentage of net revenue</i>	10.1%	11.1%	6.3%	-	9.0%	
<i>Adjusted EBIT as a percentage of net revenue</i>	7.5%	8.4%	3.7%	-	6.4%	

- Revenue was up 8% and net revenue was up 3% due to higher new equipment sales and \$19 million of net revenue from 4Refuel. New equipment sales increased by 14%, driven by the UK and Chile. Product support revenues decreased by 4%, as higher revenues in Canada were offset by reduced product support volumes in South America.
- Gross profit declined by 2% and gross profit as a percentage of net revenue⁽³⁾ decreased by 130 basis points to 25.0%, primarily due to a shift in the revenue mix to new equipment sales.

- SG&A⁽²⁾ costs as a percentage of net revenue⁽³⁾ were 20.0%, similar to Q1 2018 (excluding insurance proceeds received in Q1 2018 related to Alberta wildfires). The Company is implementing initiatives in Canada and South America to further reduce the cost to serve and improve operating efficiencies.
- Adjusted EBITDA increased by \$13 million, reflecting the positive impact of the adoption of IFRS 16, *Leases*, (\$20 million), the contribution of 4Refuel, and higher earnings in Canada and the UK & Ireland. Partly offsetting these increases was lower Adjusted EBITDA in South America. Adjusted EBITDA as a percentage of net revenue was 9.4%.
- Adjusted EPS of \$0.30 was below Adjusted EPS of \$0.39 in Q1 2018 due to lower earnings from South America.
- Free cash flow was a use of cash of \$347 million compared to a use of cash of \$263 million in Q1 2018, mostly due to an increase in inventory levels.

Invested Capital⁽³⁾ and ROIC	Q1 2019	Q4 2018	Q1 2018
Invested capital (\$ millions)			
Consolidated	3,753	3,163	3,226
Canada	2,148	1,675	1,778
South America (U.S. dollars)	930	872	884
UK & Ireland (U.K. pound sterling)	207	193	178
Invested capital turnover⁽³⁾ (times)	2.06	2.12	2.13
Working capital to net revenue ratio⁽³⁾	26.7%	26.6%	27.1%
Inventory turns (dealership)⁽³⁾ (times)	2.46	2.68	2.80
Adjusted ROIC (%)			
Consolidated	12.5	13.5	13.5
Canada	15.5	16.2	14.0
South America	9.2	12.2	17.8
UK & Ireland	14.8	14.2	13.4

- Invested capital increased by \$527 million from Q1 2018, driven by the acquisition of 4Refuel (\$241 million purchase price), higher equipment inventories in Canada reflecting timing of mining deliveries and seasonality of construction demand, as well as higher parts inventories in South America in response to delays in processing mining parts orders.
- Adjusted ROIC in Canada was 150 basis points above Q1 2018 (excluding 4Refuel, Canada's Adjusted ROIC was 16.0%, a 200 basis points improvement from Q1 2018). Adjusted ROIC in the UK & Ireland was 140 basis points higher compared to Q1 2018, driven primarily by improved profitability. These increases were offset by weaker Adjusted ROIC in South America.

Q1 2019 HIGHLIGHTS BY OPERATION

All comparisons are to Q1 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 revenues increased by 7%, driven by higher product support revenues and additional net revenues from 4Refuel (\$19 million). Excluding the contribution from 4Refuel, net revenues in Canada were up 4%. New equipment sales were up 2% on higher volumes in construction. Product support revenues increased by 6%, driven by strong demand for component rebuilds in mining and higher parts volumes in construction. Rental revenues increased by 32%, driven by new projects in power systems.

- During Q1 2019, the Canadian business began to implement initiatives to continue to reduce the cost to serve and improve efficiencies, including a reduction of its non-revenue generating workforce and optimization of its facilities footprint. As a result, the Company incurred severance costs of \$10 million and restructuring costs of \$7 million in Canada in Q1 2019.
- Adjusted EBITDA increased by \$24 million to \$110 million due to the benefit of the adoption of IFRS 16 (\$15 million), two months of contribution from 4Refuel, and improved operating performance. Adjusted EBITDA as a percentage of net revenue was 12.1%.

South America

- Following the ERP system implementation in Q4 2018 in Chile, the speed of processing mining parts and components slowed. As a result, Q1 2019 product support revenues in South America were below the quarterly run rate. The velocity of parts flow increased throughout Q1 2019 and was fully restored by the end of March. The Company expects to return to normal product support revenue run rates in Chile in Q2 2019.
- Going forward, the South American operations are focused on leveraging the new ERP system to improve efficiencies and velocity, increase workforce productivity, and reduce the cost to serve. The workforce reductions related to these initiatives resulted in CAD\$8 million of severance costs in Q1 2019. The Company expects South America's EBIT as a percentage of net revenue to be in the 8.5% to 9.0% range in the second half of the year.
- In Q1 2019, South America's net revenues declined by 13% due to reduced product support revenues in Chile, as explained above, and lower new equipment sales in Argentina.
- In Chile, new equipment sales almost doubled, driven by higher mining deliveries and improved activity in construction.
- In Argentina, the economic environment has stabilized, however, market activity was soft causing revenues to decline. Argentina was profitable in Q1 2019 following the cost reduction measures undertaken during Q4 2018.
- Adjusted EBITDA as a percentage of net revenue was 6.7%.

United Kingdom & Ireland

- Net revenues were up 18%, driven by a 25% increase in new equipment sales. The power systems business benefited from strong activity in electric power and industrial markets. Construction volumes were also higher compared to Q1 2018. Product support revenues were up 3%.
- EBITDA increased by GBP 3 million or 36% and EBITDA as a percentage of net revenue was up 100 basis points to 7.3%, reflecting the favourable impact of the adoption of IFRS 16 (GBP 2 million) and leverage of higher revenues on fixed costs.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a 2.5% increase in the quarterly dividend to \$0.205 per share from \$0.20 per share, payable on June 6, 2019 to shareholders of record on May 23, 2019. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Renewal of Share Repurchase Program

The Company received approval from the Toronto Stock Exchange ("TSX") to renew its normal course issuer bid ("NCIB") to purchase for cancellation up to 6,000,000 of its common shares, representing approximately 3.7% of the total common shares issued and outstanding of 163,309,494 common shares as at April 23, 2019.

The NCIB, which will begin on May 11, 2019 and end no later than May 10, 2020, will be conducted through the facilities of the TSX or other Canadian marketplaces or alternative trading systems, if eligible, and will conform to their rules and regulations.

The Board of Directors of Finning believe that, from time to time, the purchase by Finning of its common shares represents a desirable use of its available cash to increase shareholder value.

The average daily trading volume of Finning's common shares over the six month period ending April 30, 2019, as calculated in accordance with TSX rules, was 505,372 common shares. Consequently, under TSX rules, Finning will be allowed to purchase daily, through the facilities of the TSX, a maximum of 126,343 common shares representing 25% of such average daily trading volume, subject to certain exceptions for block purchases. All shares purchased pursuant to the normal course issuer bid will be cancelled.

Purchases under the normal course issuer bid will be made by means of open market transactions or such other means as the TSX may permit.

The price to be paid by Finning for any common share will be the market price at the time of acquisition, plus brokerage fees, or such other price as the TSX may permit.

Under the current NCIB, which will expire on May 10, 2019, Finning obtained approval to purchase up to 5,300,000 common shares. Finning purchased 5,201,407 common shares under the current NCIB on the open market through the facilities of the TSX and other Canadian exchanges at a weighted average price paid of \$26.05 per common share (excluding commissions).

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended Mar 31		
	2019	2018	% change fav (unfav)
New equipment	664	584	14
Used equipment	81	96	(15)
Equipment rental	58	50	16
Product support	896	936	(4)
Net revenue from 4Refuel	19	-	
Other revenue	1	4	
Total net revenue	1,719	1,670	3
Gross profit	430	440	(2)
<i>Gross profit as a percentage of net revenue</i>	25.0%	26.3%	
SG&A	(343)	(328)	(5)
<i>SG&A as a percentage of net revenue</i>	(20.0)%	(19.6)%	
Equity earnings of joint ventures & associate	4	1	
Other expenses	(29)	-	
EBIT	62	113	(46)
<i>EBIT as a percentage of net revenue</i>	3.6%	6.8%	
Adjusted EBIT	91	106	(15)
<i>Adjusted EBIT as a percentage of net revenue</i>	5.3%	6.4%	
Net income	28	71	(61)
Basic EPS	0.17	0.42	(60)
Adjusted EPS	0.30	0.39	(23)
EBITDA	134	157	(15)
<i>EBITDA as a percentage of net revenue</i>	7.8%	9.4%	
Adjusted EBITDA	163	150	8
<i>Adjusted EBITDA as a percentage of net revenue</i>	9.4%	9.0%	
Free cash flow	(347)	(263)	(32)
	Mar 31, 2019	Dec 31, 2018	
Invested capital	3,753	3,163	
Invested capital turnover (times)	2.06	2.12	
Net debt to Adjusted EBITDA ratio ⁽³⁾⁽⁴⁾	2.6	1.7	
ROIC	10.8%	12.8%	
Adjusted ROIC	12.5%	13.5%	

To access Finning's complete Q1 2019 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q1 2019 INVESTOR CALL

The Company will hold an investor call on May 8, 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 KPIs 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 Q1 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 5 and 25-26 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: restructuring initiatives in the Company's Canadian and South American operations, including a global workforce reduction of 5% by year end, and facilities footprint optimization, and the Company's expectation these will continue to reduce the cost to serve, increase its market competitiveness and improve efficiencies and profitability; the recovery of the South American operations and expected return to normal product support revenue run rates in Chile in Q2 2019; the Company's expectations of improving profitability and that improving profitability will be driven by its South American operations; that the Company will generate positive annual free cash flow through the cycle; that the South American operations will return to historical profitability levels in the second half of 2019; that South America's EBIT as a percentage of net revenue is expected to be in the 8.5% to 9.0% range in the second half of the year; that the Company will generate higher return on invested capital in all regions in 2019; implementation of initiatives in South America, including leveraging the new ERP system and workforce reductions, to further reduce the cost to serve, improve efficiencies and velocity, and increase workforce productivity; the Canadian income tax treatment of the quarterly dividend; and statements with respect to: the purchase of up to 6,000,000 of Finning's common shares pursuant to an NCIB, the facilities and terms under which the NCIB will be operated and Finning's belief that, from time to time, the purchase of its common shares represents a desirable use of its available cash to increase shareholder value. 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 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 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 adapt its new ERP system in order to improve the speed and velocity of processing parts orders

and deliveries in Chile to fully restore parts flow by the end of Q1 2019 and achieve normal parts run rates in Chile by Q2 2019; (ii) that the Company's rights-sizing of its costs and capital in Argentina is appropriate to align with reduced activity levels; (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.