

## Finning reports Q4 and annual 2018 results

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

### Q4 AND ANNUAL 2018 HIGHLIGHTS

All comparisons are to restated Q4 and annual 2017 results<sup>(1)</sup> unless indicated otherwise.

- Q4 2018 EPS<sup>(2)</sup> was \$0.33, with strength in the Company’s Canadian and UK and Ireland operations offset by weakness in the South American operations. A reduction in product support revenue in Chile as transactional velocity for parts was affected by the new ERP<sup>(2)</sup> system and a low demand environment in Argentina reduced profitability in South America. Operationally, Argentina achieved break-even profitability in the latter part of Q4 2018 with significant cost reductions.
- Canadian operations posted a strong finish to the year with record quarterly revenue of \$1 billion. 2018 Adjusted ROIC<sup>(2)(3)(4)</sup> of 16.2% was up 300 basis points from 2017, driven by improved profitability and capital efficiencies. 2018 EBIT margin was 8.1%. 2018 Adjusted EBIT margin<sup>(2)(3)(4)</sup> increased by 60 basis points over 2017 to 7.9% and invested capital turnover<sup>(3)</sup> improved by 13% to 2.05 times.
- UK and Ireland operations delivered a solid quarter and strong 2018 results, marked by higher revenues and improved operating margins. 2018 EBIT margin was up 80 basis points to 4.4%, driving a 140 basis point improvement in ROIC to 14.2%.
- Q4 2018 free cash flow<sup>(3)</sup> was \$418 million, which brought annual free cash flow to \$78 million. This represents the sixth consecutive year of positive free cash flow generation. The Company repurchased \$109 million worth of shares in 2018 under its normal course issuer bid.

“We finished the year with mixed results in a strong demand environment. I am pleased with our operating performance in Canada and the UK & Ireland, highlighted by continued improvement in return on invested capital, and the efforts to get Argentina back to break-even profitability by the end of the year. In addition, for the 6<sup>th</sup> consecutive year, we delivered positive free cash flow despite top-line revenue growth of 12%. In South America, the new ERP system implementation reduced our speed of processing customer parts orders. Parts velocity will be increasing throughout Q1 2019, and we expect to return to normal revenue run rates in Q2 2019,” said Scott Thomson, president and CEO of Finning International.

“While demand for our products and services remains strong, we are cognizant of the potential impact of international trade tensions, Brexit, and reduced capital spending in Western Canada. We will focus on controlling what we can with a focus on costs, inventory, and capital spending. Despite the uncertainty, we expect 2019 to show low revenue growth relative to 2018, with continued improvement in return on invested capital across all regions,” concluded Mr. Thomson.

## Q4 2018 FINANCIAL SUMMARY

All comparisons are to restated Q4 2017 results<sup>(1)</sup> unless indicated otherwise.

<b>Quarterly Overview</b> <i>\$ millions, except per share amounts</i>	<b>Q4 2018</b>	<b>Q4 2017</b> Restated <sup>(1)</sup>	<b>% change</b>
Revenue	<b>1,842</b>	1,733	6
EBIT	<b>91</b>	109	(17)
<i>EBIT margin</i>	<b>4.9%</b>	6.3%	
EBITDA <sup>(2)(3)</sup>	<b>140</b>	154	(9)
<i>EBITDA margin<sup>(3)</sup></i>	<b>7.6%</b>	8.9%	
Net income	<b>55</b>	64	(13)
EPS	<b>0.33</b>	0.38	(13)
Free cash flow	<b>418</b>	350	19

<b>Q4 2018 EBIT and EBITDA by Operation</b> <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	71	12	12	(4)	91	0.33
<i>EBIT margin</i>	7.1%	2.5%	3.7%	-	4.9%	
EBITDA	97	29	18	(4)	140	
<i>EBITDA margin</i>	9.7%	5.8%	5.7%	-	7.6%	

Included in Q4 2017 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 21 of the Company's management discussion and analysis dated February 21, 2019 (MD&A).

<b>Q4 2017 EBIT and EBITDA by Operation</b> <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	67	50	8	(16)	109	0.38
Severance costs	3	2	-	-	5	0.03
Insurance proceeds related to Alberta wildfires	(4)	-	-	-	(4)	(0.02)
Adjusted EBIT <sup>(3)</sup> / Adjusted EPS <sup>(3)</sup>	66	52	8	(16)	110	0.39
Adjusted EBITDA <sup>(3)</sup>	90	67	14	(16)	155	
<i>EBIT margin</i>	7.8%	8.6%	3.0%	-	6.3%	
<i>Adjusted EBIT margin</i>	7.6%	9.1%	3.0%	-	6.4%	
<i>Adjusted EBITDA margin<sup>(3)</sup></i>	10.5%	11.4%	5.2%	-	9.0%	

- Revenues were up 6%, driven by higher new equipment sales in all regions. New equipment sales increased by 24%, reflecting significant mining deliveries in Canada and Chile, strong construction activity in Canada, and higher power systems volumes in the UK & Ireland. Product support revenues decreased by 7%, as higher revenues in Canada and the UK & Ireland were offset by lower product support revenues in South America due to business process velocity challenges with the new ERP system go-live. Rental revenues were up 7%, driven by Canada; and used equipment sales were up 8%, driven by the UK & Ireland.
- Gross profit declined by 5% and gross profit margin decreased by 270 basis points to 22.4%, primarily due to a significant shift in the revenue mix to new equipment sales.

- SG&A<sup>(2)</sup> costs as a percentage of revenue declined by 120 basis points to 17.6%. Reduced SG&A as a percentage of revenue in Canada and the UK & Ireland was partly offset by higher SG&A relative to revenue in South America due to lower revenues as well as severance and restructuring costs in Argentina.
- Adjusted EBITDA and EBITDA margin decreased from Q4 2017. Higher EBITDA in Canada and the UK & Ireland was more than offset by lower EBITDA in South America due to the reduced product support revenues in Chile as explained above, and challenging economic conditions in Argentina.
- EPS of \$0.33 was down 14% from Adjusted EPS of \$0.39 in Q4 2017 due to lower EBIT.
- Free cash flow was \$418 million compared to \$350 million in Q4 2017, driven by significant equipment inventory deliveries and a focus on cash collections, particularly in Canada.

<b>Invested Capital<sup>(3)</sup> and ROIC</b>	<b>Q4 2018</b>	<b>Q4 2017 restated<sup>(1)</sup></b>	<b>Q3 2018</b>
<b>Invested capital</b> ( <i>\$ millions</i> )			
Consolidated	<b>3,163</b>	2,830	3,431
Canada	<b>1,675</b>	1,621	1,889
South America (U.S. dollars)	<b>872</b>	784	906
UK & Ireland (U.K. pound sterling)	<b>193</b>	147	239
<b>Invested capital turnover</b> ( <i>times</i> )	<b>2.12</b>	2.09	2.14
<b>Working capital to sales ratio<sup>(3)</sup></b>	<b>26.6%</b>	27.4%	26.7%
<b>Inventory turns<sup>(3)</sup></b> ( <i>times</i> )	<b>2.68</b>	2.82	2.58
<b>Adjusted ROIC</b> (%)			
Consolidated	<b>13.5</b>	13.1	14.5
Canada	<b>16.2</b>	13.2	16.0
South America	<b>12.2</b>	18.1	16.4
UK & Ireland	<b>14.2</b>	12.8	14.0

- Excluding the impact of foreign exchange, invested capital was up 8% from Q4 2017 primarily due to higher equipment inventories in all operations reflecting stronger overall market demand, as well as higher parts inventories, mostly in South America due to delays in processing mining parts orders following the new ERP system implementation.
- Significant improvements in invested capital turnover and working capital to sales ratio in Canada drove slightly better capital efficiency metrics on a consolidated basis compared to Q4 2017.
- An increase in Adjusted ROIC in Canada and the UK & Ireland of 300 basis points and 140 basis points, respectively, was partly offset by lower Adjusted ROIC in South America due to the impacts discussed above.

#### **Q4 2018 HIGHLIGHTS BY OPERATION**

All comparisons are to restated Q4 2017 results<sup>(1)</sup> unless indicated otherwise. All numbers are in functional currency: South America – U.S. dollar; UK & Ireland – U.K. pound sterling.

##### **Canada**

- Revenues were up 17%, driven by a 44% increase in new equipment sales from strong mining deliveries and higher market activity in construction, primarily in British Columbia. Product support revenues increased by 6%, reflecting strong demand for equipment rebuilds in mining and robust market activity in construction and oil & gas. Rental revenues increased by 11%.

- Gross profit margin was lower compared to Q4 2017, primarily due to a shift in revenue mix to a higher proportion of new equipment sales. SG&A as a percentage of revenue declined by 210 basis points, reflecting leverage of incremental revenues on fixed costs. EBITDA and EBIT were both up 9% from Adjusted results in Q4 2017. EBITDA margin of 9.7% and EBIT margin of 7.1% were below Adjusted EBITDA margin of 10.5% and Adjusted EBIT margin of 7.6% in Q4 2017 due to significantly higher new equipment deliveries in Q4 2018.

### **South America**

- Revenues declined by 17%, impacted by an estimated US\$50 million shortfall in mining product support revenues due to lower transactional velocity with the implementation of the new ERP system in Chile, as well as significantly lower revenues in Argentina due to a weak economic environment and reduced market activity.
- In Chile, new equipment sales increased by 60% from Q4 2017, reflecting stronger demand from mining and improved activity in construction and power systems. In 2018, new equipment sales in Chile were up almost 70% from the prior year. Product support revenues in Q4 2018 were below the quarterly run rate due to the ERP implementation which slowed the processing of mining parts and components for delivery to our customers.
- Argentina's revenues were down across all sectors and lines of business due to continued challenging economic conditions which resulted in significantly reduced activity levels, particularly in the construction sector. The Company has right-sized its costs and capital in Argentina to align with reduced activity levels. Operationally, Argentina achieved break-even profitability in the latter part of Q4 2018.
- EBITDA and EBIT decreased due to the shortfall in mining product support revenues in Chile, lower revenues in Argentina, and severance and restructuring costs incurred in Argentina in Q4 2018. EBITDA margin was 5.8% and EBIT margin was 2.5%.

### **United Kingdom & Ireland**

- Revenues increased by 13%, with higher revenues in all lines of business. New equipment sales were up 7%, driven by increased activity in power systems, and product support revenues were up 14%.
- EBITDA and EBIT were up 25% and 42%, respectively. EBITDA margin increased by 50 basis points to 5.7% and EBIT margin increased by 70 basis points to 3.7%, driven by leverage of incremental revenues on fixed costs.

## **CORPORATE AND BUSINESS DEVELOPMENTS**

### **Dividend**

The Board of Directors has approved a quarterly dividend of \$0.20 per share, payable on March 22, 2019 to shareholders of record on March 8, 2019. This dividend will be considered an eligible dividend for Canadian income tax purposes.

### **Amendment to Share Repurchase Program**

Finning has received approval from the Toronto Stock Exchange ("TSX") for an amendment to its existing normal course issuer bid ("NCIB") to increase the number of common shares available for purchase for cancellation from 5,300,000 to 7,600,000. The 7,600,000 common shares represents approximately 4.5% of the 168,402,412 common shares that were issued and outstanding as at April 23, 2018 (just prior to the launch of the NCIB). All other terms of the existing NCIB remain the same. The amendment will take effect February 26, 2019.

The NCIB, which began on May 11, 2018 and will end no later than May 10, 2019, is being 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 average daily trading volume of Finning's common shares over the six month period ending prior to the initial launch of the NCIB, as calculated in accordance with TSX rules, was 404,331 common shares. Consequently, under TSX rules, Finning will be allowed to purchase daily, through the facilities of the TSX, a maximum of 101,082 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.

Under the NCIB as of February 19, 2019, Finning has repurchased a total of 4,714,073 common shares at a weighted average price of \$26.22.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

<i>\$ millions, except per share amounts</i>	Three months ended Dec 31			Twelve months ended Dec 31		
	2018	2017 restated <sup>(1)</sup>	% change fav (unfav)	2018	2017 restated <sup>(1)</sup>	% change fav (unfav)
New equipment	822	664	24	2,740	2,175	26
Used equipment	119	110	8	371	359	4
Equipment rental	64	60	7	239	228	5
Product support	834	896	(7)	3,632	3,481	4
Other	3	3		14	13	
Total revenue	1,842	1,733	6	6,996	6,256	12
Gross profit	413	434	(5)	1,768	1,654	7
Gross profit margin	22.4%	25.1%		25.3%	26.4%	
SG&A	(324)	(326)	1	(1,327)	(1,271)	(4)
SG&A as a percentage of revenue	(17.6)%	(18.8)%		(19.0)%	(20.3)%	
Equity earnings of joint ventures & associate	2	1		12	7	
Other (expenses) income	-	-		(30)	2	
EBIT	91	109	(17)	423	392	8
EBIT margin	4.9%	6.3%		6.0%	6.3%	
Adjusted EBIT	91	110	(18)	446	393	13
Adjusted EBIT margin	4.9%	6.4%		6.4%	6.3%	
Net income	55	64	(13)	232	216	8
Basic EPS	0.33	0.38	(13)	1.38	1.28	8
Adjusted EPS	0.33	0.39	(14)	1.65	1.33	24
EBITDA	140	154	(9)	610	576	6
EBITDA margin	7.6%	8.9%		8.7%	9.2%	
Adjusted EBITDA	140	155	(10)	633	577	9
Adjusted EBITDA margin	7.6%	9.0%		9.0%	9.2%	
Free cash flow	418	350	19	78	165	(53)
	Dec 31, 2018	Dec 31, 2017 restated <sup>(1)</sup>				
Invested capital	3,163	2,830				
Invested capital turnover (times)	2.12	2.09				
Net debt to EBITDA ratio <sup>(3)</sup>	1.7	1.5				
ROIC	12.8%	13.1%				
Adjusted ROIC	13.5%	13.1%				

To access Finning's complete Q4 and annual 2018 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)

## **Q4 2018 INVESTOR CALL**

The Company will hold an investor call on February 21, 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](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) The 2017 comparative results described in this news 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 2 of the Company's annual 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); Enterprise Resource Planning (ERP) system.
- (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 2018 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 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 pages 7-8 and 42-45 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: increasing parts velocity throughout Q1 2019; expected return to normal parts revenue run rates in Chile in Q2 2019; the Company's focus on controlling costs, inventory and capital spending; expectations for low revenue growth in 2019 relative to 2018 and continued improvement in return on invested capital across the regions in 2019; the Company's right-sizing of its costs and capital in Argentina to align with reduced activity levels; 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 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 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.