

Finning reports Q3 2020 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning”, “the Company”, “we”, “our” or “us”) reported third quarter 2020 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

All comparisons are to Q3 2019 results unless indicated otherwise.

- Q3 2020 EPS⁽¹⁾ of \$0.54 represented a 17% increase from Q3 2019. Canada Emergency Wage Subsidy (“CEWS”) in Q3 2020 was \$0.17 per share. Q3 2020 Adjusted EPS⁽²⁾⁽³⁾ was \$0.37, representing a 25% decline from Q3 2019 and a \$0.31 increase from Q2 2020.
- Q3 2020 revenue of \$1.6 billion and net revenue⁽²⁾ of \$1.4 billion were down 21% from Q3 2019, reflecting reduced market activity in Canada and South America. Compared to Q2 2020, net revenue was up 8%, driven by a recovering market in the UK & Ireland and modest market improvements in Canada and South America.
- Q3 2020 gross profit was 15% lower than in Q3 2019. Gross profit as a percentage of net revenue of 27.0% in Q3 2020 was 170 basis points higher than Q3 2019, mainly due to a revenue mix shift to product support revenue.
- SG&A⁽¹⁾ costs decreased by 13%, or \$43 million, from Q3 2019 and by 5%, or \$16 million, from Q2 2020, reflecting successful execution of global productivity initiatives and tight cost control. We are on track to deliver more than \$100 million of annualized cost savings.
- Improved execution and cost actions in South America resulted in EBIT⁽¹⁾ as a percentage of net revenue⁽²⁾ of 8.2% in Q3 2020, the highest since Q2 2018.
- In Canada, a reduced cost structure drove improved profitability from Q2 2020 in a slow recovery environment.
- UK & Ireland achieved strong Q3 2020 results, underpinned by recovering product support and continued cost discipline.
- Strong EBITDA⁽¹⁾⁽²⁾ to free cash flow⁽²⁾ conversion⁽²⁾ resulted in free cash flow of \$316 million in Q3 2020, further strengthening our financial position. Finance costs of \$22 million in Q3 2020 decreased 16% from Q3 2019. As at September 30, 2020, net debt to Adjusted EBITDA⁽²⁾⁽³⁾ ratio⁽²⁾⁽³⁾ was 1.7, down from 2.5 at September 30, 2019.

“I am very proud of how our organization has operated safely, served our customers, and executed on our strategic priorities in a very dynamic operating environment. Our strong results in the third quarter are a reflection of how we have delivered on the commitments we set out at the beginning of the year to improve execution in South America, lower our cost base in Canada, position the UK for High Speed Rail 2 opportunities, and reduce our finance costs,” said Scott Thomson, president and CEO of Finning International.

“We saw some sequential end market improvements in Q3 2020, particularly in rental and product support activity as customers resumed work and machine utilization hours increased. We expect most of our markets to continue to improve in Q4 2020 and into 2021 as mining trucks have gone back to work, strengthened copper prices are supporting recovery and growth in activity, and government stimulus spending supports large infrastructure projects. Going forward, we are focused on growing product support revenue through the market recovery by strengthening relationships with customers and leveraging technology. Recovering volumes, combined with our productivity initiatives throughout the organization, support our mid-cycle target for SG&A as a percentage of net revenue⁽²⁾ of 17%. Our overall outlook for the balance of 2020 and into 2021 remains positive,” concluded Mr. Thomson.

Q3 2020 FINANCIAL SUMMARY

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q3 2020	Q3 2019	% change
Revenue	1,553	1,959	(21)
Net revenue	1,443	1,819	(21)
EBIT	138	129	6
<i>EBIT as a percentage of net revenue⁽²⁾</i>	9.6%	7.1%	
EBITDA	215	201	7
<i>EBITDA as a percentage of net revenue⁽²⁾</i>	14.9%	11.1%	
Net income	88	76	16
EPS	0.54	0.46	17
Free cash flow	316	165	91

Q3 2020 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	93	40	9	(4)	138	0.54
CEWS support	(35)	-	-	(2)	(37)	(0.17)
Adjusted EBIT ⁽²⁾⁽³⁾ / Adjusted EPS	58	40	9	(6)	101	0.37
<i>Adjusted EBIT as a percentage of net revenue⁽²⁾⁽³⁾</i>	8.1%	8.2%	4.1%	-	7.0%	
Adjusted EBITDA	106	59	18	(5)	178	
<i>Adjusted EBITDA as a percentage of net revenue⁽²⁾⁽³⁾</i>	14.6%	12.2%	7.9%	-	12.3%	

Q3 2019 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	82	42	14	(9)	129	0.46
Severance and restructuring costs in Argentina	-	3	-	-	3	0.01
Tax impact of devaluation of Argentine peso	-	-	-	-	-	0.02
Adjusted EBIT / Adjusted EPS	82	45	14	(9)	132	0.49
<i>Adjusted EBIT as a percentage of net revenue</i>	8.5%	7.8%	5.1%	-	7.3%	
Adjusted EBITDA	125	65	22	(8)	204	
<i>Adjusted EBITDA as a percentage of net revenue</i>	12.8%	11.2%	8.3%	-	11.2%	

Invested Capital⁽²⁾ and ROIC	Q3 2020	Q3 2019	Q4 2019
Invested capital (<i>\$ millions</i>)			
Consolidated	3,284	3,907	3,591
Canada	1,921	2,209	2,026
South America (US dollars)	776	964	918
UK & Ireland (UK pound sterling)	188	256	210
Invested capital turnover⁽²⁾ (<i>times</i>)	1.68	1.99	1.92
Working capital⁽²⁾ to net revenue ratio⁽²⁾	29.2%	26.9%	27.8%
Inventory	1,626	2,215	1,990
Inventory turns (dealership)⁽²⁾ (<i>times</i>)	2.30	2.49	2.53
Adjusted ROIC⁽²⁾⁽³⁾ (%)			
Consolidated	9.3	12.2	12.0
Canada	10.8	15.0	14.4
South America	11.3	9.0	10.5
UK & Ireland	3.9	14.1	12.1

Q3 2020 HIGHLIGHTS BY OPERATION

All comparisons are to Q3 2019 results unless indicated otherwise. All numbers are in functional currency: Canada – Canadian dollar; South America – US dollar; UK & Ireland – UK pound sterling (GBP).

Canada

- Net revenue decreased by 26% with lower revenue across all sectors and lines of business, reflecting challenging market conditions related to COVID-19 and the lower price of oil.
 - New equipment sales were down 51% as customers reduced activity, restricted capital spending, and implemented cost containment measures. By contrast, Q3 2019 benefitted from deliveries of large mining equipment packages.
 - Product support revenue declined by 11% from Q3 2019, however, it increased by 4% compared to Q2 2020. Oil sands producers' truck fleet utilization returned to pre-COVID-19 levels at the end of September, approximately one month later than expected due to certain operational challenges at customer sites. In the construction sector, equipment utilization hours increased, driving improved demand for parts and service compared to Q2 2020.
 - Although rental revenue was down 24% from Q3 2019, a rebound in rental activity and utilization led to a 40% increase in rental revenue from Q2 2020.
- Gross profit in Q3 2020 was lower than Q3 2019, mostly driven by lower volumes across all our lines of business. Gross profit as a percentage of net revenue increased in Q3 2020 compared to Q3 2019 due to a revenue mix shift to product support, less large mining equipment in the sales mix, and improved operating efficiencies.
- Due to a significant reduction in revenues in our Canadian operations year over year, we continued to qualify for CEWS and recognized \$35 million of this wage subsidy in Q3 2020, which is included in other income and excluded from our adjusted earnings. We estimate that we were able to preserve approximately 500 full-time jobs, including key technical capabilities and talent, as a result of the CEWS program. In addition, during Q3 2020 we recalled approximately 50 technicians to support increasing service volumes.
- SG&A costs were reduced by 9% from Q3 2019 and by 4% from Q2 2020, reflecting the actions we have taken to improve employee and facility productivity and our continued tight cost control.
- A reduced cost structure drove improved profitability from Q2 2020 in a slow recovery environment. Q3 2020 Adjusted EBIT as a percentage of net revenue was 8.1%, up 410 basis points compared to Q2 2020, while net revenue increased by 3%. Q3 2019 EBIT as a percentage of net revenue was 8.5%.

South America

- Revenue decreased by 18% from Q3 2019, reflecting difficult market conditions primarily as a result of COVID-19 impacts.
 - New equipment sales were down 29% due to lower mining deliveries in Chile and reduced construction activity in Argentina.
 - Product support revenue declined by 16%, impacted by lower demand from Chilean mining. As the pandemic peaked in the third quarter, copper production in the country decreased by about 6% year-over-year in July and August, and operating restrictions in Chilean copper mines led to a deferral of component exchange and major maintenance work. Compared to Q2 2020, product support revenue was relatively flat.
- SG&A costs were down 21% from Q3 2019, driven by improvements in employee and facility productivity as we are leveraging one common technology system. We have reduced managerial and administrative workforce, and consolidated our branch network in South America. SG&A also benefited from the devaluation of the CLP relative to the USD. EBIT as a percentage of net revenue improved to 8.2% compared to Adjusted EBIT as a percentage of net revenue of 7.8% in Q3 2019, reflecting the benefit of a reduced cost base.

United Kingdom & Ireland

- Revenue decreased by 15% from Q3 2019 primarily due to an 18% decline in new equipment sales. The construction sector continued to be impacted by slower market activity following COVID-19 lockdowns and restrictions. Power systems revenue was slightly below Q3 2019 reflecting the timing of project deliveries in the data centre and electricity capacity markets. Product support revenue was down 5% year over year.
- Compared to Q2 2020, revenue was up 46%, underpinned by a recovery in construction activity following the easing of lockdown measures and the resumption of large power systems project deliveries. Machine utilization hours and product support run-rates were approaching pre-pandemic levels by the end of Q3 2020. Product support revenue was up 27% compared to Q2 2020.
- The UK & Ireland team demonstrated great resiliency through the crisis and achieved a strong Q3 2020 EBIT as a percentage of net revenue of 4.1% (Q3 2019 EBIT as a percentage of net revenue was 5.1%). SG&A costs decreased by 10% from Q3 2019, reflecting savings from cost actions and lower variable costs. Approximately 20% of UK & Ireland employees were on furlough during Q3 2020 compared to nearly 50% in Q2 2020.

Q3 2020 MARKET UPDATE AND BUSINESS OUTLOOK

Canada

In the oil sands, production has recovered and is expected to increase in 2021 compared to 2020. Oil sands producers' truck fleet utilization returned to pre-COVID-19 levels at the end of September, and contractor fleets have begun to increase utilization and should ramp up further in Q4 2020 and into 2021. We expect product support activity in the oil sands to improve in Q4 2020 and into 2021, driven by catch up on major rebuild and maintenance work and an increase in oil production and non-production mining activities.

The outlook for copper and precious and other metals has improved, however, coal prices are expected to remain soft. While restricted capital spending and ongoing cost containment are impacting demand for new mining equipment, we expect mining product support activity to improve as customers increase production output and resume full-scope maintenance activities.

Our mining customers in Western Canada operate approximately 620 large and ultra-class Caterpillar off-highway trucks, of which 6% are autonomous. The average age of this Caterpillar truck population in Western Canada is about 11 years. This large and aging fleet is expected to drive opportunities for future fleet renewals, rebuilds and autonomy conversions, as well as continued demand for product support.

We are also seeing a notable resumption in request for proposal activity from Canadian mining customers.

In construction, continued recovery in machine utilization hours and rental utilization are expected to drive improved demand for product support and rentals. Large infrastructure programs are planned in Alberta, British Columbia, and Saskatchewan. Additional infrastructure stimulus spending announced by the federal and provincial governments is expected to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021.

While we have seen an increase in order intake⁽²⁾ for construction equipment, we expect the pricing environment to remain highly competitive in the near term due to a surplus of competitive equipment inventories in Western Canada.

We expect improved profitability in Canada in 2021 even in a modest revenue recovery environment.

South America

In Chilean mining, COVID-19-related operating restrictions are easing, and customers are beginning to catch up on component exchange and major maintenance work. We expect mining product support revenue to recover significantly as we exit 2020 and begin 2021. We are optimistic about mining recovery in Chile in 2021, driven by a strengthened copper price and expected increase in copper production. Over 570 large and ultra-class Caterpillar off-highway trucks with an average age of 11 years are currently operating in Chile's copper mines and will continue to drive demand for product support. We are also encouraged by the resumption of Teck's QB2 project - the first deployment of autonomous trucks in

Chile - and have started to deliver equipment to QB2 in Q4 2020. We have also seen a notable increase in request for proposal activity from mining customers in Chile.

Activity and order intake in construction and power systems markets in Chile have improved. However, the overall economic uncertainty related to the government's social reform agenda is expected to continue to impact customer confidence and the pace of economic recovery in Chile.

In Argentina, market activity is expected to remain at low levels due to a challenging economic environment following the restructuring of the country's debt and a slow re-opening of the economy after COVID-19 lockdowns. To the extent possible, we are managing our ARS currency exposure and maintaining a minimal level of investment in our operations. Our focus is on delivering product support to customers and ensuring our operations in Argentina remain profitable. The government's restrictive monetary policies, combined with capital and import controls, are expected to limit our growth opportunities in Argentina for the foreseeable future.

We are well positioned to deliver higher year over year profitability in Q4 2020 and 2021 in South America.

UK & Ireland

Construction activity in the UK & Ireland rebounded following the easing of lockdown measures, and machine utilization hours and product support run-rates were approaching pre-pandemic levels by the end of Q3 2020. While there have been some delays and the construction work is now expected to ramp up slower than initially planned, the HS2 project is expected to begin to drive improved activity in the general construction equipment markets starting in 2021. This multi-year mega-project is expected to require approximately 1,100 units of heavy equipment representing a total industry-wide direct sales opportunity of approximately £390 million. We are well positioned to capture new equipment and product support opportunities, while leveraging our technology solutions related to earthmoving work for HS2.

In power systems, we expect to continue benefitting from strong demand in the electric power capacity, combined heat and power, and data centre markets. A large backlog of high-quality power systems projects is expected to drive the UK operation's revenue in Q4 2020 and into 2021.

Overall economic activity in the UK & Ireland has been significantly impacted by COVID-19 mitigation measures, which resulted in declining GDP and high unemployment rates. Although a second wave of COVID-19 is impacting economic activity in the UK, and the UK government has just announced a four-week lockdown, we do not expect to see the same extent of lockdown measures implemented in the sectors we serve as were implemented in the second quarter. Brexit, which is scheduled for December 31, 2020, continues to provide a degree of risk and uncertainty for economic activity and supply chain logistics in the UK & Ireland. We have developed an action plan with Caterpillar to minimize the potential impact on the supply chain during the Brexit transition.

Cost Actions to Drive Earnings Capacity in a Recovery

We have accelerated our strategic plans to drive employee and facility productivity improvements, while maximizing flexibility and competitiveness to serve customers.

- In Canada, we have taken significant cost actions to address oil price dislocation and move customer work to locations with lower operating costs.
- In South America, our previous investment in technology has enabled us to reduce cost to serve, address labour inflation, and improve operational execution going forward.
- In the UK & Ireland, we are tightly managing costs through the recovery period, while building the right technology skill set to support us in capturing future market opportunities.

The execution of global initiatives announced in Q2 2020 is on track to deliver more than \$100 million of annualized cost savings. We expect approximately one-third of our workforce to return when market activity fully recovers. These will be mostly revenue generating employees in lower cost locations. Our goal is to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle.

Our overall outlook for the balance of 2020 and into 2021 remains positive. We expect to generate higher earnings on a modestly lower revenue base in Q4 2020 compared to Q4 2019. Given economic uncertainties in all our regions, we expect 2021 revenue to be below 2019.

We expect to achieve an EBITDA to FCF conversion of approximately 100% in 2020. While we continue to expect positive free cash flow in Q4 2020, we are planning for revenue recovery and are increasing inventory purchasing in Q4 2020.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.205 per share, payable on December 3, 2020 to shareholders of record on November 19, 2020. 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 September 30			Nine months ended September 30		
	2020	2019	% change fav (unfav)	2020	2019	% change fav (unfav)
New equipment	435	689	(37)	1,171	2,127	(45)
Used equipment	83	75	10	215	262	(18)
Equipment rental	53	71	(26)	147	191	(23)
Product support	842	952	(12)	2,596	2,871	(10)
Net fuel and other	30	32		88	82	
Net revenue	1,443	1,819	(21)	4,217	5,533	(24)
Gross profit	390	459	(15)	1,152	1,371	(16)
<i>Gross profit as a percentage of net revenue⁽²⁾</i>	27.0%	25.3%		27.3%	24.8%	
SG&A	(290)	(333)	13	(921)	(1,026)	10
<i>SG&A as a percentage of net revenue</i>	(20.1)%	(18.3)%		(21.8)%	(18.5)%	
Equity earnings of joint ventures	1	3		3	12	
Other income	37	-		101	-	
Other expenses	-	-		(51)	(29)	
EBIT	138	129	6	284	328	(14)
<i>EBIT as a percentage of net revenue</i>	9.6%	7.1%		6.7%	5.9%	
Adjusted EBIT	101	132	(24)	234	360	(35)
<i>Adjusted EBIT as a percentage of net revenue</i>	7.0%	7.3%		5.6%	6.5%	
Net income	88	76	16	160	192	(17)
Basic EPS	0.54	0.46	17	0.99	1.17	(16)
Adjusted EPS	0.37	0.49	(25)	0.76	1.34	(43)
EBITDA	215	201	7	515	548	(6)
<i>EBITDA as a percentage of net revenue</i>	14.9%	11.1%		12.2%	9.9%	
Adjusted EBITDA	178	204	(13)	465	580	(20)
<i>Adjusted EBITDA as a percentage of net revenue</i>	12.3%	11.2%		11.0%	10.5%	
Free cash flow	316	165	91	578	(344)	n/m
	Sept 30, 2020	Dec 31, 2019				
Invested capital	3,284	3,591				
Invested capital turnover (times)	1.68	1.92				
Net debt to Adjusted EBITDA ratio	1.7	2.0				
ROIC	10.7%	11.2%				
Adjusted ROIC	9.3%	12.0%				

n/m – not meaningful

To access Finning's complete Q3 2020 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q3 2020 INVESTOR CALL

The Company will hold an investor call on November 4, 2020 at 10:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The investor call will be webcast live and archived for three months. The webcast and accompanying presentation can be accessed 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 87 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) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).
- (2) These financial metrics, referred to as “non-GAAP financial measures”, do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” in the Company’s Q2 2020 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 financial measures (where available) 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 financial measures alone.
- (3) Certain 2020 and 2019 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, 11 and 33-34 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 INFORMATION CAUTION

This news release contains information about our business outlook, objectives, plans, strategic priorities and other information that is not historical fact. Information we provide is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information 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 information in this news release includes, but is not limited to, the following: we are on track to deliver more than \$100 million of annualized cost savings; the position of the UK business for High Speed Rail 2 opportunities; most of our markets will continue to improve in Q4 2020 and into 2021; our focus on growing product support revenue through the market recovery by strengthening relationships with customers and leveraging technology; our mid-cycle target for SG&A as a percentage of net revenue of 17%; our positive overall outlook for the balance of 2020 and into 2021; regarding our outlook for our Canadian operations: oil sands production is expected to increase in 2021 compared to 2020, oil sands contractors are expected to ramp up machine utilization further in Q4 2020 and into 2021 and product support activity in the oil sands is expected to improve in Q4 2020 and into 2021 driven by catch up on major rebuild and maintenance work and an increase in oil production and non-production mining activities; the improved outlook for copper and precious and other metals; coal prices will remain soft; expected improvement in mining product support activity as customers increase production output and resume full-scope maintenance activities; the large and aging large and ultra-class Caterpillar off-highway truck population in Western Canada is expected to drive opportunities for future fleet renewals, rebuilds and autonomy conversions, as well as continued demand for product support; resumption in request for proposal activity from Canadian mining customers; in construction, expected continued recovery in machine utilization hours and rental utilization is expected to drive improved demand for product support and rentals, large infrastructure programs are planned in Alberta, British Columbia and Saskatchewan, infrastructure stimulus spending announced by the federal and provincial governments is expected to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021 and the pricing environment is expected to remain highly competitive in the near term due to a surplus of competitive equipment inventories in Western Canada; and our expectation of improved profitability in Canada in 2021 even in a modest revenue recovery environment; regarding our outlook for our South American operations: we expect mining product support revenue in Chile to recover significantly as we exit 2020 and begin 2021 and are optimistic about mining recovery in Chile in 2021, driven by a strengthened copper price and expected increase in copper production; the large and aging large and ultra-class Caterpillar off-highway truck population operating in Chile's copper mines will continue to drive demand for product support; an increase in mining and mining contractor request for proposal activity in Chile; overall economic uncertainty related to the government's social reform agenda is expected to continue to impact customer confidence and the pace of economic recovery in Chile; in Argentina, market activity is expected to remain at low levels due to a challenging economic environment; management of our ARS currency exposure to the extent possible; maintenance of a minimal level of investment in our operations; our focus on delivering product support and ensuring our operations in Argentina remain profitable; and expected limited growth opportunities in Argentina for the foreseeable future due to the government's restrictive monetary policies and capital and import controls; and that we are well positioned to deliver year over year profitability in Q4 2020 and 2021 in South America; regarding our outlook for our UK and Ireland operations: HS2 is expected to ramp up slower than initially planned and begin to drive improved activity in the general construction equipment markets starting in 2021 and, over the life of this multi-year mega-project, require approximately 1,100 units of heavy equipment representing a total industry-wide direct sales opportunity of approximately £390 million and we are well-positioned to capture new equipment and products support opportunities while leveraging our technology solutions related to earthmoving work for HS2; we expect to continue benefitting from strong demand in the electric power capacity, combined heat and power, and data centre markets and a large backlog of high-quality power systems projects is expected to drive the UK operation's revenue in Q4 2020 and into 2021; in a second wave of COVID-19, we do not expect to see the same extent of lockdown measures implemented in the sectors we serve in the UK and Ireland as were implemented in the second quarter; and the continuing degree of risk and uncertainty from Brexit for economic activity and supply chain logistics in the UK and Ireland and our action plan with Caterpillar to minimize the potential impact on the supply chain during the Brexit transition; and our outlook related to our cost actions to drive earnings capacity in a recovery: that while we are on track to deliver more than \$100 million of annualized cost savings, we expect that approximately one-third of our workforce will return when market activity fully recovers, which will be mostly revenue generating employees in lower cost locations; our goal to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle; our expectation to generate higher earnings on a modestly lower revenue base in Q4 2020 compared to Q4 2019; our expectation that, given economic uncertainties in all our regions, our 2021 revenue will be below 2019; our expectation to achieve an EBITDA to FCF conversion of approximately 100% in 2020; while we expect positive free cash flow in Q4 2020, we are planning for revenue recovery and increasing inventory purchasing in Q4 2020; 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 we indicate otherwise, forward-looking information in this news release reflects our expectations at the date in this news release. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events, or otherwise.

Forward-looking information, by its very nature, is subject to numerous risks and uncertainties and is based on a number of assumptions. This gives rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking information and that our business outlook, objectives, plans, strategic priorities and other information that is not historical fact may not be achieved. As a result, we cannot guarantee that any forward-looking information will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by this forward-looking information include: the impact and duration of the COVID-19 pandemic and measures taken by governments and businesses in response; general economic and market conditions and economic and market conditions in the regions where we operate; foreign exchange rates; commodity prices; the impact of changes in the UK's trade relationship with the European Union as a result of Brexit; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our ability to maintain our relationship with Caterpillar; our dependence on the continued market acceptance of our products, including Caterpillar products, and the timely supply of parts and equipment; our ability to continue to sustainably reduce costs and improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenue occurs; our 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; our ability to manage our growth strategy effectively; our ability to effectively price and manage long-term product support contracts with our customers; our ability to reduce costs in response to slowing activity levels; our ability to drive continuous cost efficiency in a recovering market; our ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; our ability to negotiate and renew collective bargaining agreements with satisfactory terms for our employees and us; the intensity of competitive activity; our ability to raise the capital needed to implement our business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments in the regions where we carry on business; our ability to respond to climate change-related risks; the occurrence of natural disasters, pandemic outbreaks, geo-political events, acts of terrorism, social unrest or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable rates and whether the amount of insurance coverage will be adequate to cover all liability or loss that we incur; the potential of warranty claims being greater than we anticipate; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; and our ability to protect our business from cybersecurity threats or incidents. Forward-looking information is provided in this news release for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of our operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

Forward-looking information made in this news release is based on a number of assumptions that we believed were reasonable on the day the information was given, including but not limited to (i) that we will be able to successfully manage our business through the current challenging times involving the effects of the COVID-19 response and volatile commodity prices; (ii) that our cost actions to drive earnings capacity in a recovery, including the lower cost base in Canada, improved operational execution in South America, and tight management of costs in the UK and Ireland, can be sustained, including that we will be able to manage the return of our workforce in lower cost jurisdictions/regions as planned; (iii) that our action plan to minimize the impact of Brexit will be successful; (iv) that general economic and market conditions will improve; (v) that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; (vi) our ability to successfully execute our plans and intentions; (vii) our ability to attract and retain skilled staff; (viii) market competition will remain at similar levels; (ix) the products and technology offered by our competitors will be as expected; and (x) that our current good relationships with Caterpillar, our customers and 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 news release are discussed in Section 4 of our current AIF, in the annual MD&A for the financial risks, and in the most recent quarterly MD&A for updated risks related to the COVID-19 pandemic.

We caution readers that the risks described in the AIF and in the annual and most recent quarterly MD&A are not the only ones that could impact the Company. We cannot accurately predict the full impact that COVID-19 will have on our business, results of operations, financial condition or the demand for our services, due in part to the uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, the steps our customers and suppliers may take in current circumstances, including slowing or halting operations, the duration of travel and quarantine restrictions imposed by governments of affected countries and other steps that may be taken by such governments to respond to the pandemic. Additional risks and uncertainties not currently known to us or that are currently deemed to be immaterial may also have a material adverse effect on our business, financial condition, or results of operation.