

Finning reports Q2 2020 results

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

HIGHLIGHTS

All comparisons are to Q2 2019 results unless indicated otherwise.

- Q2 2020 net revenue⁽¹⁾⁽³⁾ of \$1.3 billion was down 33%, including a 24% reduction in Canada’s product support revenue, as many customers parked equipment fleets and temporarily shut operations in response to low commodity prices and COVID-19 restrictions.
- SG&A⁽²⁾ decreased by 12%, down in all operations, driven by effective cost management and lower variable costs.
- The Canada Emergency Wage Subsidy (“CEWS”) program allowed the Company to preserve a significant number of jobs and technical capabilities through a unique period of uncertainty. As a result, the Company recognized \$64 million of wage subsidy in Q2 2020 as other income. Without the benefit of this wage subsidy, the Canadian operations would have taken available alternative actions, which would have reduced SG&A by \$15 to 20 million in Q2 2020, an equivalent of approximately \$0.08 per share.
- Strong free cash flow⁽³⁾ conversion in Q2 2020 resulted in free cash flow of \$312 million, bringing year-to-date free cash flow to \$262 million and further strengthening the Company’s financial and liquidity position. As at June 30, 2020, net debt to Adjusted EBITDA ratio⁽²⁾⁽³⁾⁽⁴⁾ was 2.1, down from 2.8 at June 30, 2019.
- The Company has accelerated existing strategic plans to drive productivity gains in Canada and South America, while maximizing flexibility and competitiveness to serve customers. As a result, the Company expects to reduce the global workforce by 8% by the end of 2020 from the end of 2019.
- Q2 2020 EPS⁽²⁾ of \$0.12 included the benefit of the CEWS program of \$0.30 per share and global severance and restructuring costs of \$0.24 per share.

“I am pleased with how our global teams have been navigating through various stages of lockdowns and re-openings across our regions, with a focus on safely servicing our customers and controlling what we can – costs and capital. In these challenging times, our Total Injury Frequency rate decreased by over 40%, and our customer loyalty scores increased by 20% in Q2 2020 compared to Q2 2019. In Q2 2020, our SG&A⁽²⁾ was down 12% year over year, and our net capital expenditures were minimized to \$7 million. This performance speaks to the resiliency of our business model and adaptability and engagement of our people,” said Scott Thomson, president and CEO of Finning International.

“COVID-19 disruptions have significantly impacted our people, customers, and operations. Our challenges in the second quarter included postponed equipment orders and deliveries, an unprecedented slowdown in product support activity in most sectors, and reduced productivity and labour utilization at our branches. Where we have qualified, the use of government programs has helped us to preserve a significant number of jobs and technical capabilities through a unique period of significant uncertainty, and has provided an effective bridge to enable us to ramp up faster as the economy recovers.”

“While Q2 was difficult and the pace of economic recovery in our regions remains uncertain, we have seen signs of our markets recovering since May, with notable increases in rental activity, machine utilization hours, and product support revenue run rates. With the recent recovery in oil prices, most oil sands producers have put their truck fleets back to work and are expected to be operating at pre-COVID-19 levels by the end of August. The price of copper has also improved, providing continued support and stability for copper mining in Chile. However, increased cases of COVID-19 infections in South America have presented a significant challenge for our customers and our operations in the region, and we have deployed necessary resources and efforts to maintain operations and keep our employees safe. In the UK and Ireland, construction and power systems projects have resumed, and earthmoving work on the High Speed Rail 2 mega-project, which represents a significant opportunity for Finning, is expected to begin later this year.”

“Despite the unique times and numerous challenges we have faced, I am pleased with how our teams have stayed focused on what we set out to do at the beginning of the year, namely improving execution in South America, lowering the cost base in Canada, positioning to capture HS2 opportunities in the UK, and reducing our finance costs. Looking ahead, we are accelerating our strategic plans to position our business to achieve improved productivity, profitability, and ROIC⁽²⁾⁽³⁾ in each region. I am confident that our continued vigilance on costs, improved productivity, and tight management of invested capital will ensure we maintain our financial strength and are well positioned to succeed in the upcoming recovery phase,” concluded Mr. Thomson.

Q2 2020 FINANCIAL SUMMARY

All comparisons are to Q2 2019 results unless indicated otherwise.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q2 2020	Q2 2019	% change
Revenue	1,419	2,137	(34)
Net revenue	1,335	1,995	(33)
EBIT ⁽²⁾ <i>EBIT as a percentage of net revenue⁽³⁾</i>	52 3.9%	137 6.9%	(62)
EBITDA ⁽³⁾ <i>EBITDA as a percentage of net revenue⁽³⁾</i>	130 9.7%	213 10.7%	(39)
Net income	18	88	(79)
EPS	0.12	0.54	(78)
Free cash flow	312	(162)	292

Q2 2020 EBITDA and EBIT by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBITDA / EPS	110	24	4	(8)	130	0.12
CEWS support	(60)	-	-	(4)	(64)	(0.30)
Severance costs	20	17	4	1	42	0.20
Facilities restructuring costs and impairment losses	5	4	-	-	9	0.04
Adjusted EBITDA ⁽³⁾⁽⁴⁾ / Adjusted EPS ⁽³⁾⁽⁴⁾	75	45	8	(11)	117	0.06
Adjusted EBIT ⁽³⁾⁽⁴⁾	28	23	(1)	(11)	39	
<i>Adjusted EBITDA as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	<i>10.6%</i>	<i>9.8%</i>	<i>4.9%</i>	<i>-</i>	<i>8.8%</i>	
<i>Adjusted EBIT as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	<i>4.0%</i>	<i>5.1%</i>	<i>(1.0%)</i>	<i>-</i>	<i>2.9%</i>	

Q2 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	138	62	23	(10)	213	0.54
EBIT	92	41	14	(10)	137	
<i>EBITDA as a percentage of net revenue</i>	<i>12.9%</i>	<i>9.8%</i>	<i>7.7%</i>	<i>-</i>	<i>10.7%</i>	
<i>EBIT as a percentage of net revenue</i>	<i>8.5%</i>	<i>6.5%</i>	<i>4.8%</i>	<i>-</i>	<i>6.9%</i>	

Invested Capital⁽³⁾ and ROIC⁽²⁾⁽³⁾	Q2 2020	Q2 2019	Q4 2019
Invested capital (\$ millions)			
Consolidated	3,495	3,964	3,591
Canada	2,037	2,285	2,026
South America (US dollars)	812	983	918
UK & Ireland (UK pound sterling)	207	235	210
Invested capital turnover⁽³⁾ (times)	1.71	2.04	1.92
Working capital⁽³⁾ to net revenue ratio⁽³⁾	29.9%	26.7%	27.8%
Inventory turns (dealership)⁽³⁾ (times)	1.97	2.36	2.53
Adjusted ROIC⁽³⁾⁽⁴⁾ (%)			
Consolidated	9.7	12.3	12.0
Canada	11.6	15.4	14.4
South America	11.2	8.5	10.5
UK & Ireland	4.6	14.5	12.1

- Excluding the impact of foreign exchange, invested capital decreased by approximately \$517 million from Q2 2019 mostly due to inventory reduction in all regions. Inventory decreased by \$473 million compared to Q2 2019.

Q2 2020 HIGHLIGHTS BY OPERATION

All comparisons are to Q2 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 34% with lower revenue across all sectors and lines of business reflecting challenging market conditions from COVID-19 and volatility in commodity prices. New equipment sales were down 49% due to significantly reduced customer activity, particularly in Alberta. Product support revenue declined by 24% as customers in the oil sands and other mining operations parked a portion of their fleets during Q2 2020 and postponed major rebuilds and non-essential maintenance. In the construction sector, product support volumes were impacted by parked fleets, lower equipment utilization hours, temporary shutdowns of customer operations, and deferral of some customer projects due to COVID-19. Used equipment sales improved sequentially from Q1 2020. Rental revenue was down 35% from Q2 of last year on lower rental utilization.
- Due to a significant reduction in revenues year over year, the Company's Canadian operations qualified for CEWS and, as a result, recognized \$60 million of this wage subsidy in Q2 2020. The Company estimates that approximately 500 full-time jobs, including technical capabilities and talent, have been preserved in Canada as a result of this program.
- SG&A was reduced by 11% compared to Q2 2019, a lower decrease compared to other regions due in part to the preservation of employment as a result of the above-noted government support program. Without the benefit of the wage subsidy, the Company would have taken available alternative actions in Canada, which would have reduced SG&A by a further \$15 to 20 million in Q2 2020, and SG&A would have been approximately 20% lower than Q2 2019.
- The Canadian operations are taking methodical and strategic actions to continue improving employee and facility productivity. These actions include re-shaping the facilities network and workforce reductions. As a result, the Company's Canadian operations recorded severance and facility restructuring costs totaling \$25 million in Q2 2020. The Canadian workforce is expected to be reduced by 11% by the end of 2020 from the end of 2019.
- The Canadian operations benefitted from the strong performance of 4Refuel in Q2 2020. 4Refuel achieved 5% growth in Adjusted EBITDA on a 4% decline in net revenue compared to Q2 2019 and contributed \$13 million of positive free cash flow in Q2 2020. 4Refuel contributed \$33 million of positive free cash flow since the acquisition

date of February 1, 2019. In July 2020, 4Refuel secured a fueling agreement with AECON for a portion of the Coastal GasLink Project in Northern British Columbia.

South America

- Net revenue decreased by 28% reflecting challenging market conditions across all countries and sectors, primarily as a result of COVID-19 impacts. New equipment sales were down 48% due to lower mining and construction deliveries in Chile, and a slowdown in customer activity in Argentina. Product support revenue declined by 17% as a result of lower product support volumes in Chilean mining operations and very weak market conditions in Argentina compared to Q2 2019.
- Adjusted EBITDA as a percentage of net revenue was similar to Q2 2019. A shift in revenue mix to product support resulted in a higher gross profit margin relative to Q2 2019. The Company is successfully leveraging one common ERP⁽²⁾ system to improve operating efficiencies and reduce cost to serve. SG&A costs decreased by 17% from Q2 2019 driven by improved execution in Chilean mining operations, benefits of one common ERP system, and cost savings from restructuring measures. The Company recorded severance and restructuring costs totaling US\$15 million in South America in Q2 2020. Improved profitability in Chile from Q2 2019 was offset by a loss in Argentina due to a shutdown of the economy to stop the spread of COVID-19.

United Kingdom & Ireland

- Net revenue decreased by 45%, driven by 58% lower new equipment sales. Product support revenue decreased by 21%. Customer activity in construction and power systems markets slowed down significantly in compliance with COVID-19 lockdowns and restrictions. In power systems, the timing of project deliveries in the data centre and electricity capacity markets impacted revenue in Q2 2020. The Company has resumed execution of delayed projects, and expects to deliver additional large power systems projects currently in the backlog during the second half of 2020.
- UK & Ireland's SG&A costs were down by 24% from Q2 2019 reflecting cost reduction measures and a £4 million benefit from the UK government program to offset approximately 80% of furloughed employee salary costs. The Company did not realize any service benefits from employees who were furloughed. Nearly half of UK & Ireland employees were on furlough during Q2 2020.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.205 per share, payable on September 3, 2020 to shareholders of record on August 20, 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 June 30			Six months ended June 30		
	2020	2019	% change fav (unfav)	2020	2019	% change fav (unfav)
New equipment	382	774	(51)	736	1,438	(49)
Used equipment	64	106	(39)	132	187	(29)
Equipment rental	41	62	(34)	94	120	(22)
Product support	820	1,023	(20)	1,754	1,919	(9)
Net fuel and other	28	30		58	50	
Net revenue	1,335	1,995	(33)	2,774	3,714	(25)
Gross profit	344	482	(29)	762	912	(16)
<i>Gross profit as a percentage of net revenue</i>	25.7%	24.1%		27.5%	24.6%	
SG&A	(306)	(350)	12	(631)	(693)	9
<i>SG&A as a percentage of net revenue</i>	(22.9)%	(17.5)%		(22.8)%	(18.7)%	
Equity earnings of joint ventures	1	5		2	9	
Other income	64	-		64	-	
Other expenses	(51)	-		(51)	(29)	
EBIT	52	137	(62)	146	199	(27)
<i>EBIT as a percentage of net revenue</i>	3.9%	6.9%		5.3%	5.4%	
Adjusted EBIT	39	137	(72)	133	228	(41)
<i>Adjusted EBIT as a percentage of net revenue</i>	2.9%	6.9%		4.8%	6.1%	
Net income	18	88	(79)	72	116	(38)
Basic EPS	0.12	0.54	(78)	0.45	0.71	(37)
Adjusted EPS	0.06	0.54	(89)	0.39	0.85	(54)
EBITDA	130	213	(39)	300	347	(14)
<i>EBITDA as a percentage of net revenue</i>	9.7%	10.7%		10.8%	9.3%	
Adjusted EBITDA	117	213	(45)	287	376	(24)
<i>Adjusted EBITDA as a percentage of net revenue</i>	8.8%	10.7%		10.4%	10.1%	
Free cash flow	312	(162)	292	262	(509)	151
	June 30, 2020	Dec 31, 2019				
Invested capital	3,495	3,591				
Invested capital turnover (times)	1.71	1.92				
Net debt to Adjusted EBITDA ratio	2.1	2.0				
ROIC	10.0%	11.2%				
Adjusted ROIC	9.7%	12.0%				

To access Finning's complete Q2 2020 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q2 2020 INVESTOR CALL

The Company will hold an investor call on August 5, 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 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 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.

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 fully passed through to the customer and is not in the Company's control. 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 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 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.
- (4) 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 and 36-37 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 STATEMENTS CAUTION

This news release contains statements about our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement we make is forward-looking when it uses what we know and expect 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 news release include, but are not limited to, statements: that the Company expects to reduce the global workforce by 8% by the end of 2020 from the end of 2019; about our ability to ramp up faster as the economy recovers; about signs of our markets recovering, with notable increases in rental activity, machine utilization hours and product support run rates; that most oil sands producers are expected to be operating at pre-COVID levels by the end of August; that the improved copper price will provide continued support and stability for copper mining in Chile; that earthmoving work on the High Speed Rail 2 mega-project in the UK represents a significant opportunity for Finning and is expected to be later this year; that we are accelerating our strategic plans to position our business to achieve improved productivity, profitability, and ROIC in each region; about our continued vigilance on costs, improved productivity, and tight management of invested capital, and that those measures will ensure we maintain financial strength and are well positioned to succeed in the upcoming recovery phase; and about 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 statements in this news release reflect 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 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. This gives rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, we 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: 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 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 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; 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 incurred by us; 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 ourselves from cybersecurity threats or incidents. Forward-looking statements are 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 statements for any other purpose.

Forward-looking statements made in this news release are based on a number of assumptions that we believed were reasonable on the day they were made, 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 we will maintain improved execution in South America and a lower cost base in Canada; (iii) that general economic and market conditions will improve; (iv) that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; (v) our ability to successfully execute our plans and intentions; (vi) our ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered

by our competitors; and (viii) that our current good relationships with Caterpillar, our suppliers, service providers and other third parties will be maintained. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this news release are discussed in Section 4 of the 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.