

Finning reports record Q3 2022 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning”, the “Company”, “we”, “our” or “us”) reported third quarter 2022 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

All comparisons are to Q3 2021 results unless indicated otherwise.

- Q3 2022 EPS ⁽¹⁾ was \$0.97, up 59% from Q3 2021, driven by higher revenues and improved operating leverage in all regions. Over the last four quarters, we have generated record EPS of \$3.01.
- Q3 2022 revenue of \$2.4 billion and net revenue ⁽²⁾ of \$2.1 billion were up 25% and 20%, respectively, from Q3 2021, with higher revenues in all lines of business.
- Product support revenue increased 30% from Q3 2021, driven by strong demand and successful execution of our product support growth strategy.
- SG&A ⁽¹⁾ as a percentage of net revenue ⁽²⁾ was 16.7%, down 110 basis points from Q3 2021.
- We delivered record EBIT ⁽¹⁾ performance in Q3 2022, with EBIT up 50% from Q3 2021 to \$224 million, and EBIT as a percentage of net revenue ⁽²⁾ up 210 basis points from Q3 2021 to 10.7%.
- Canada achieved 11.7% EBIT as a percentage of net revenue, a record on an adjusted basis.
- South America delivered record EBIT as a percentage of net revenue of 12.3% and record ROIC ⁽¹⁾⁽²⁾ of 22.7%.
- ROIC of 18.3% was up 360 basis points from Adjusted ROIC ⁽²⁾⁽⁴⁾ in Q3 2021, driven by improved profitability.
- Consolidated equipment backlog ⁽²⁾ was a record \$2.5 billion at September 30, 2022, up 16% from June 30, 2022, and up 56% from September 30, 2021, with an increased proportion of mining orders, including trucks for 2023 delivery to BHP Escondida and to Canadian mining customers.
- As previously announced, Kevin Parkes, currently EVP and COO, will succeed Scott Thomson as president and CEO on November 16, 2022.

“We continued our strong execution and demonstration of significantly expanded earnings capacity in the third quarter. This resulted in EPS of \$3.01 and return on invested capital of 18.3%, including a 22.7% return on invested capital in our South American business, over the last four quarters. The long-term improvements we have made to our business provide Finning with a solid foundation to successfully navigate a dynamic global business environment and elevate performance through all stages of the economic cycle. Our strong performance is a testament to the talented and capable global teams working at Finning, and I have great confidence in the future success of this organization under Kevin’s leadership,” said Scott Thomson, outgoing president and CEO of Finning.

“I am honoured and proud to take on the leadership of Finning. I look forward to working with our outstanding employees and partnering with Caterpillar to support our customers and delivering results for our shareholders. Our strong execution and supply chain management enabled us to capitalize on continued momentum in our end markets in the third quarter and meet growing demand from our customers. While demand conditions remain constructive, we are closely monitoring leading indicators and customer activity levels and continue to operate with a mid-cycle approach to our cost structure and capital investments. Looking ahead, our strong equipment backlog, product support growth strategy, and disciplined operational execution give us confidence that we will finish the year strongly and continue that momentum into 2023,” said Kevin Parkes, incoming president and CEO.

Q3 2022 FINANCIAL SUMMARY

Quarterly Overview (\$ millions, except per share amounts)	Q3 2022	Q3 2021	% change fav (unfav) ⁽¹⁾
Revenue	2,384	1,904	25%
Net revenue	2,107	1,748	20%
EBIT	224	150	50%
<i>EBIT as a percentage of net revenue</i>	10.7%	8.6%	
EBITDA ⁽¹⁾⁽²⁾	308	230	34%
<i>EBITDA as a percentage of net revenue ⁽²⁾</i>	14.6%	13.2%	
Net income attributable to shareholders of Finning	149	99	52%
EPS	0.97	0.61	59%
Free cash flow ⁽³⁾	(57)	176	n/m ⁽¹⁾

Q3 2022 EBIT and EBITDA by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	125	85	21	(7)	224	0.97
<i>EBIT as a percentage of net revenue</i>	11.7%	12.3%	6.2%	<i>n/m</i>	10.7%	
EBITDA	172	110	32	(6)	308	
<i>EBITDA as a percentage of net revenue</i>	16.1%	15.9%	9.1%	<i>n/m</i>	14.6%	

Q3 2021 EBIT and EBITDA by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	84	58	17	(9)	150	0.61
<i>EBIT as a percentage of net revenue</i>	10.4%	9.2%	5.6%	<i>n/m</i>	8.6%	
EBITDA	132	80	27	(9)	230	
<i>EBITDA as a percentage of net revenue</i>	16.5%	12.5%	9.0%	<i>n/m</i>	13.2%	

Q3 2022 INVESTED CAPITAL AND ROIC SUMMARY

All comparisons are to Q4 2021 results unless indicated otherwise.

Invested capital ⁽²⁾ increased by \$1,032 million from Q4 2021, driven primarily by higher inventory to support the delivery of our significant equipment backlog as well as strong product support growth rates. As a result, Q3 2022 free cash flow was a use of cash of \$57 million compared to free cash flow generation of \$176 million in Q3 2021.

Consolidated ROIC of 18.3% was up 190 basis points from Adjusted ROIC in Q4 2021, driven by improved profitability in all regions. ROIC increased to 18.2% in Canada, 22.7% in South America, and 16.6% in the UK & Ireland.

Key Performance Measures (\$ millions, unless otherwise stated)	Q3 2022	Q4 2021
Invested capital		
Consolidated	4,358	3,326
Canada	2,450	1,876
South America	1,438	1,026
UK & Ireland	400	381
<i>South America (US dollars)</i>	1,049	809
<i>UK & Ireland (UK pound sterling)</i>	265	222
Adjusted ROIC		
Consolidated	18.3%	16.4%
Canada	18.2%	16.9%
South America	22.7%	20.3%
UK & Ireland	16.6%	14.8%
Invested capital turnover ⁽²⁾ (<i>times</i>)	1.96	2.04
Inventory	2,526	1,687
Inventory turns (dealership) ⁽²⁾ (<i>times</i>)	2.52	3.09
Working capital to net revenue ⁽²⁾ ratio	27.1%	22.9%
Net debt to Adjusted EBITDA ratio ⁽²⁾⁽⁴⁾ (<i>times</i>)	1.8	1.1

Q3 2022 HIGHLIGHTS BY OPERATION

All comparisons are to Q3 2021 results unless indicated otherwise. All numbers, except ROIC, are in functional currency: Canada – Canadian dollar; South America – USD; UK & Ireland – UK pound sterling (GBP). These variances and ratios for South America and UK & Ireland exclude the foreign currency translation impact from the CAD relative to the USD and GBP, respectively, and are therefore, considered to be specified financial measures. We believe the variances and ratios in functional currency provide meaningful information about operational performance of the reporting segment.

Canada Operations

- Net revenue increased by 33% from Q3 2021, with higher revenues across all sectors and lines of business driven by strong market conditions in Western Canada.
- Product support revenue was up 32%, reflecting increased spending by mining customers and strong demand in construction combined with successful execution of our product support growth strategy.
- New equipment sales were up 52%, driven primarily by mining deliveries in the oil sands.
- Canada achieved 11.7% EBIT as a percentage of net revenue, up 130 basis points from Q3 2021, driven by improved operating leverage from productivity initiatives. SG&A as a percentage of net revenue was down 290 basis points from Q3 2021.
- Canada's equipment backlog increased by approximately 25% from June 30, 2022, reflecting a broad-based strength in order intake. The backlog includes two significant mining orders for 2023 delivery.

South America Operations

- Net revenue increased by 5% from Q3 2021 as growth in product support was partly offset by lower new equipment sales.
- Product support revenue was up 24%, largely driven by strong demand for component exchanges, equipment overhauls, and fleet maintenance in Chilean mining. Following slow growth in product support revenue in Q2 2022 due to supply constraints, we were able to catch up on the delays during Q3 2022 and meet growing demand for product support from our mining customers.
- New equipment sales were down 23% from Q3 2021 due to lower sales in the construction and mining sectors in Chile. Construction activity has slowed, impacted by higher equipment prices, a weakening CLP, and increased interest rates, prompting some customers to postpone purchasing decisions. Lower mining equipment sales compared to Q3 2021 were due to supply constraints impacting the timing of backlog deliveries and significant deliveries to Chilean mining customers in Q3 2021.
- EBIT as a percentage of net revenue was 12.3%, up 310 basis points from Q3 2021, driven by the shift in revenue mix to product support, our improved cost structure, and the favourable impact of CLP devaluation.
- South America's equipment backlog increased by approximately 25% from June 30, 2022, driven by strong order intake in mining, including trucks for 2023 delivery to BHP Escondida. The backlog also includes our first order for a new large-scale data centre project in Chile with a long-term global customer.

UK & Ireland Operations

- Net revenue increased by 27% from Q3 2021. New equipment sales were up 19%, driven by HS2 deliveries and strong demand in the construction sector. Product support revenue was up 38%, reflecting robust construction machine utilization, as well as the contribution from Hydraquip, which we acquired in March 2022.
- EBIT as a percentage of net revenue was 6.2%, up 60 basis points from Q3 2021, reflecting structural profitability improvements, including the addition of Hydraquip.

Corporate and Other Developments

The Board of Directors has approved a quarterly dividend of \$0.236 per share, payable on December 8, 2022, to shareholders of record on November 24, 2022. This dividend will be considered an eligible dividend for Canadian income tax purposes.

MARKET UPDATE AND BUSINESS OUTLOOK

The discussion of our expectations relating to the market and business outlook in this section is forward-looking information that is based upon the assumptions and subject to the material risks discussed under the heading "Forward-Looking Information Caution" at the end of this news release. Actual outcomes and results may vary significantly.

Canada Operations

We expect market activity across Western Canada to remain healthy.

We expect commodity prices to remain constructive and improved capital budgets to drive investment in renewal of aging fleets and product support opportunities in the oil sands and other mining. We expect growing demand for component remanufacturing and equipment rebuilds as mining customers are looking to extend the life of their assets, as well as continued focus on productivity improvements through data integration and autonomy implementation.

In the construction sector, federal and provincial governments' infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and various power projects are expected to continue driving demand for construction equipment and product support, heavy rentals, and prime and standby electric power generation.

South America Operations

Following the rejection of the constitutional proposal by Chilean voters on September 4, 2022, the Chilean government has committed to building a new constitution together with a broader stakeholder group. We continue to monitor the constitutional reform process closely. We are also actively monitoring the process for approval of the proposal for a revised mining royalty framework, and we are encouraged by the moderation that was recently announced by the Chilean government. We expect the timing of investment decisions related to greenfield and new expansion projects will remain uncertain until the new royalty proposal is approved. Longer term, we expect Chile will remain an attractive place to invest as electrification trends drive increasing global demand for copper.

We expect significant mining deliveries in Chile going forward, driven by our recent wins with BHP and Codelco, as well as committed medium-term investment in fleet replacements across our mining customer base. We also expect to see continued strong demand for mining product support and technology solutions, including autonomy.

Construction activity in Chile is expected to remain soft, impacted by higher equipment prices, rising interest rates, and the weakening CLP.

We expect further opportunities for our power systems business in the data centre market in Chile, following the receipt of our first order for a new large-scale data centre project in Chile, mentioned above.

In Argentina, activity in construction, oil and gas, and mining is expected to remain stable, however, there is a high risk of significant ARS devaluation. We continue to manage through the challenging fiscal, regulatory, and currency environments in Argentina.

UK & Ireland Operations

Demand for construction equipment is expected to moderate going forward due to softening macro-economic conditions in the UK. High machine utilization hours and the addition of Hydraquip are expected to continue driving strong product support activity.

We expect demand for our power systems business in the UK & Ireland to remain robust, including in the data centre market. We have a solid backlog of power systems projects for delivery into 2023, and we are well positioned to capture further opportunities.

Well Positioned to Navigate a Dynamic Business Environment

Our strong execution and supply chain management enabled us to capitalize on continued momentum in our end markets in the third quarter and meet growing demand from our customers. As a result, we now expect our H2 2022 EPS to grow at a significantly higher rate compared to H2 2021 than our previously projected growth rate of above mid-teens.

In Q4 2022, we expect strong mining new equipment deliveries in Chile and Canada.

We generated significant free cash flow in September and expect strong free cash flow in Q4 2022. However, due to potential shifts in supply and delivery schedules, free cash flow may not be positive for the full year.

We continue to closely monitor leading indicators and the impact of inflation and interest rate increases on market conditions and customer activity levels. We are operating with a mid-cycle approach to our cost structure and capital investments, actively managing risks, and capturing growth opportunities in a disciplined manner. We have made sustainable improvements to our business to increase our earnings capacity through all stages of the economic cycle, which gives us confidence in our ability to successfully navigate a dynamic global business environment. Underpinned by our strong equipment backlog, product support growth strategy, and disciplined operational execution, we expect to finish the year strongly and continue that momentum into 2023.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(\$ millions, except per share amounts)	Three months ended September 30		
	2022	2021	% change fav (unfav)
New equipment	679	631	8%
Used equipment	96	83	15%
Equipment rental	79	68	15%
Product support	1,209	932	30%
Net fuel and other	44	34	28%
Net revenue	2,107	1,748	20%
Gross profit	577	461	25%
Gross profit as a percentage of net revenue ⁽²⁾	27.4%	26.3%	
SG&A	(353)	(311)	(13)%
SG&A as a percentage of net revenue	(16.7)%	(17.8)%	
EBIT	224	150	50%
EBIT as a percentage of net revenue	10.7%	8.6%	
Net income attributable to shareholders of Finning	149	99	52%
EPS	0.97	0.61	59%
EBITDA	308	230	34%
EBITDA as a percentage of net revenue	14.6%	13.2%	
Free cash flow	(57)	176	n/m

To access Finning's complete Q3 2022 results, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q3 2022 INVESTOR CALL

The Company will hold an investor call on November 8, 2022 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 dealer, delivering unrivalled service to customers for nearly 90 years. Headquartered in Surrey, British Columbia, we provide Caterpillar equipment, parts, services, and performance solutions in Western Canada, Chile, Argentina, Bolivia, the United Kingdom, and Ireland.

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Description of Specified Financial Measures and Reconciliations

Specified Financial Measures

We believe that certain specified financial measures, including non-GAAP financial measures, provide users of our Earnings Release with important information regarding the operational performance and related trends of our business. The specified financial measures we use do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. Accordingly, specified financial measures should not be considered as a substitute or alternative for financial measures determined in accordance with GAAP (GAAP financial measures). By considering these specified financial measures in combination with the comparable GAAP financial measures (where available) we believe that users are provided a better overall understanding of our business and financial performance during the relevant period than if they simply considered the GAAP financial measures alone.

We use KPIs to consistently measure performance against our priorities across the organization. Some of our KPIs are specified financial measures.

There may be significant items that we do not consider indicative of our operational and financial trends, either by nature or amount. We exclude these items when evaluating our operating financial performance. These items may not be non-recurring, but we believe that excluding these significant items from GAAP financial measures provides a better understanding of our financial performance when considered in conjunction with the GAAP financial measures. Financial measures that have been adjusted to take these significant items into account are referred to as "Adjusted measures". Adjusted measures are specified financial measures and are intended to provide additional information to readers of the Earnings Release.

Descriptions and components of the specified financial measures we use in this Earnings Release are set out below. Where applicable, quantitative reconciliations from certain specified financial measures to their most directly comparable GAAP financial measures (specified, defined, or determined under GAAP and used in our consolidated financial statements) are also set out below.

EBITDA, Adjusted EBITDA, and Adjusted EBIT

EBITDA is defined as earnings before finance costs, income taxes, depreciation, and amortization. We use EBITDA to assess and evaluate the financial performance of our reportable segments. We believe that EBITDA improves comparability between periods by eliminating the impact of finance costs, income taxes, depreciation, and amortization.

Adjusted EBIT and Adjusted EBITDA exclude items that we do not consider to be indicative of operational and financial trends, either by nature or amount, to provide a better overall understanding of our underlying business performance.

EBITDA is calculated by adding depreciation and amortization to EBIT. Adjusted EBITDA is calculated by adding depreciation and amortization to Adjusted EBIT.

The most directly comparable GAAP financial measure to EBITDA, Adjusted EBITDA, and Adjusted EBIT is EBIT.

A reconciliation from EBIT to EBITDA, Adjusted EBIT, and Adjusted EBITDA for our consolidated operations is as follows:

3 months ended (\$ millions)	2022				2021			2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
EBIT	224	190	140	157	150	137	108	108
Depreciation and amortization	84	81	81	84	80	78	77	77
EBITDA	308	271	221	241	230	215	185	185
EBIT	224	190	140	157	150	137	108	108
Significant items:								
CEWS support	—	—	—	—	—	—	(10)	(14)
Return on our investment in Energyst	—	—	—	—	—	—	(5)	—
Adjusted EBIT ⁽³⁾⁽⁴⁾	224	190	140	157	150	137	93	94
Depreciation and amortization	84	81	81	84	80	78	77	77
Adjusted EBITDA ⁽³⁾⁽⁴⁾	308	271	221	241	230	215	170	171

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our Canadian operations is as follows:

3 months ended (\$ millions)	2022				2021			2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
EBIT	125	102	80	92	84	82	69	72
Significant item:								
CEWS support	—	—	—	—	—	—	(10)	(13)
Adjusted EBIT	125	102	80	92	84	82	59	59
Depreciation and amortization	47	47	47	50	48	47	46	47
Adjusted EBITDA	172	149	127	142	132	129	105	106

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our South American operations is as follows:

3 months ended (\$ millions)	2022				2021			2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Reported and Adjusted EBIT	85	64	65	59	58	51	41	41
Depreciation and amortization	25	23	23	22	22	20	20	20
Adjusted EBITDA	110	87	88	81	80	71	61	61

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our UK & Ireland operations is as follows:

3 months ended (\$ millions)	2022				2021			2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Reported and Adjusted EBIT	21	23	14	12	17	17	7	11
Depreciation and amortization	11	10	10	11	10	10	10	9
Adjusted EBITDA	32	33	24	23	27	27	17	20

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our Other operations is as follows:

3 months ended (\$ millions)	2022				2021				2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
EBIT	(7)	1	(19)	(6)	(9)	(13)	(9)	(16)	
Significant items:									
CEWS support	—	—	—	—	—	—	—	(1)	
Return on our investment in Energyst	—	—	—	—	—	—	(5)	—	
Adjusted EBIT	(7)	1	(19)	(6)	(9)	(13)	(14)	(17)	
Depreciation and amortization	1	1	1	1	—	1	1	1	
Adjusted EBITDA	(6)	2	(18)	(5)	(9)	(12)	(13)	(16)	

Equipment Backlog

Equipment backlog is defined as the retail value of new equipment units ordered by customers for future deliveries. We use equipment backlog as a measure of projecting future new equipment deliveries. There is no directly comparable GAAP financial measure for equipment backlog.

Free Cash Flow

Free cash flow is defined as cash flow provided by or used in operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in our financial statements. We use free cash flow to assess cash operating performance, including working capital efficiency. Consistent positive free cash flow generation enables us to re-invest capital to grow our business and return capital to shareholders. A reconciliation from cash flow used in or provided by operating activities to free cash flow is as follows:

3 months ended (\$ millions)	2022	2021
	Sep 30	Sep 30
Cash flow (used in) provided by operating activities	(24)	212
Additions to property, plant, and equipment and intangible assets	(33)	(38)
Proceeds on disposal of property, plant, and equipment	—	2
Free cash flow	(57)	176

Inventory Turns (Dealership)

Inventory turns (dealership) is the number of times our dealership inventory is sold and replaced over a period. We use inventory turns (dealership) to measure asset utilization. Inventory turns (dealership) is calculated as annualized cost of sales (excluding cost of sales related to the mobile refuelling operations) for the last six months divided by average inventory (excluding fuel inventory), based on an average of the last two quarters. Cost of sales related to the dealership and inventory related to the dealership are calculated as follows:

3 months ended (\$ millions)	2022		2021	
	Sep 30	Jun 30	Sep 30	Jun 30
Cost of sales	1,807	1,761	1,443	1,396
Cost of sales related to mobile refuelling operations	(293)	(300)	(170)	(153)
Cost of sales related to the dealership ⁽³⁾	1,514	1,461	1,273	1,243

(\$ millions)	2022		2021	
	Sep 30	Jun 30	Sep 30	Jun 30
Inventory	2,526	2,228	1,627	1,643
Fuel inventory	(12)	(13)	(6)	(3)
Inventory related to the dealership ⁽³⁾	2,514	2,215	1,621	1,640

Invested Capital

Invested capital is calculated as net debt plus total equity. Invested capital is also calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term and long-term debt, net of cash and cash equivalents. We use invested capital as a measure of the total cash investment made in Finning and each reportable segment. Invested capital is used in a number of different measurements (ROIC, Adjusted ROIC, invested capital turnover) to assess financial performance against other companies and between reportable segments. Invested capital is calculated as follows:

(\$ millions)	2022				2021			2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Cash and cash equivalents	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)
Short-term debt	1,087	992	804	374	419	114	103	92
Current portion of long-term debt	106	110	63	190	191	386	326	201
Non-current portion of long-term debt	836	807	909	921	923	903	973	1,107
Net debt ⁽³⁾	1,909	1,739	1,481	983	1,015	1,025	933	861
Total equity	2,449	2,337	2,296	2,343	2,320	2,252	2,244	2,206
Invested capital	4,358	4,076	3,777	3,326	3,335	3,277	3,177	3,067

Invested Capital Turnover

We use invested capital turnover to measure capital efficiency. Invested capital turnover is calculated as net revenue for the last twelve months divided by average invested capital of the last four quarters.

Net Debt to Adjusted EBITDA Ratio

This ratio is calculated as net debt divided by Adjusted EBITDA for the last twelve months. We use this ratio to assess operating leverage and ability to repay debt. This ratio approximates the length of time, in years, that it would take us to repay debt, with net debt and Adjusted EBITDA held constant.

Net Revenue, Gross Profit as a % of Net Revenue, SG&A as a % of Net Revenue, EBITDA as a % of Net Revenue, and EBIT as a % of Net Revenue

Net revenue is defined as total revenue less the cost of fuel related to the mobile refuelling operations in our Canadian operations. As these fuel costs are pass-through in nature for this business, we view net revenue as more representative than revenue in assessing the performance of the business because the rack price for the cost of fuel is fully passed through to the customer and is not in our control. For our South American and UK & Ireland operations, net revenue is the same as total revenue.

We use these specified financial measures to assess and evaluate the financial performance or profitability of our reportable segments. We may also calculate these financial measures using Adjusted EBITDA and Adjusted EBIT to exclude significant items we do not consider to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of our underlying business performance.

The most directly comparable GAAP financial measure to net revenue is total revenue. The ratios are calculated, respectively, as gross profit divided by net revenue, SG&A divided by net revenue, EBITDA divided by net revenue, and EBIT divided by net revenue. Net revenue is calculated as follows:

3 months ended (\$ millions)	2022				2021			2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Total revenue	2,384	2,289	1,953	1,949	1,904	1,845	1,596	1,666
Cost of fuel	(277)	(285)	(217)	(175)	(156)	(140)	(127)	(115)
Net revenue	2,107	2,004	1,736	1,774	1,748	1,705	1,469	1,551

ROIC and Adjusted ROIC

ROIC is defined as EBIT for the last twelve months divided by average invested capital of the last four quarters, expressed as a percentage.

We view ROIC as a useful measure for capital allocation decisions that drive profitable growth and attractive returns to shareholders. We also calculate Adjusted ROIC using Adjusted EBIT to exclude significant items that we do not consider to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of our underlying business performance.

Working Capital & Working Capital to Net Revenue Ratio

Working capital is defined as total current assets (excluding cash and cash equivalents) less total current liabilities (excluding short-term debt and current portion of long-term debt). We view working capital as a measure for assessing overall liquidity.

The working capital to net revenue ratio is calculated as average working capital of the last four quarters, divided by net revenue for the last twelve months. We use this KPI to assess the efficiency in our use of working capital to generate net revenue.

Working capital is calculated as follows:

(\$ millions)	2022				2021			2020
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Total current assets	4,652	4,098	4,030	3,619	3,620	3,416	3,319	3,214
Cash and cash equivalents	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)
Total current assets in working capital	4,532	3,928	3,735	3,117	3,102	3,038	2,850	2,675
Total current liabilities	3,196	2,789	2,647	2,155	2,156	1,942	1,817	1,623
Short-term debt	(1,087)	(992)	(804)	(374)	(419)	(114)	(103)	(92)
Current portion of long-term debt	(106)	(110)	(63)	(190)	(191)	(386)	(326)	(201)
Total current liabilities in working capital	2,003	1,687	1,780	1,591	1,546	1,442	1,388	1,330
Working capital ⁽³⁾	2,529	2,241	1,955	1,526	1,556	1,596	1,462	1,345

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); favourable (fav); unfavourable (unfav); not meaningful (n/m).
- (2) See “Description of Specified Financial Measures and Reconciliations” on page 7 of this Earnings Release.
- (3) These are non-GAAP financial measures. See “Description of Specified Financial Measures and Reconciliations” on page 7 of this Earnings Release.
- (4) Certain financial measures 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 starting on page 8 of this Earnings Release. The financial measures that have been adjusted to take these items into account are referred to as “Adjusted measures”.

Forward-Looking Information Disclaimer

This news release contains information that is forward-looking. Information is forward-looking when we use what we know and expect today to give information about the future. All forward-looking information in this news release is subject to this disclaimer including the assumptions and material risk factors referred to below. Forward-looking information in this news release includes, but is not limited to, the following: our belief that we will continue to successfully navigate the dynamic global business environment; our expectation to generate strong free cash flow in Q4 2022 (assumes continued strong growth in the business and our ability to deliver our backlog) and that free cash flow may not be positive for the full year due to potential shifts in supply and delivery schedules; our expectation that we will finish the year strongly and continue that momentum into 2023, and our projection for our H2 2022 EPS to grow at a significantly higher rate compared to H2 2021 than our previously projected growth rate of above mid-teens (assumes continued strong momentum in our end markets, commodity prices, public and private investment, customer demand, disciplined operational execution, successful product support growth strategy and supply chain management, delivery of our backlog, economic forecasts, and that we and our customers can successfully navigate supply chain, labour, inflation, and interest rate challenges); our expectation for strong mining new equipment deliveries in Chile and Canada in Q4 2022 (assumes no delays in our ability to deliver on our backlog); all information in the section entitled "Market Update and Business Outlook" regarding our expectations for our Canada operations (based on assumptions of supportive commodity prices, strong project backlogs, improvements in customer capital budgets, government infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and power projects, a continued focus on productivity improvements, component remanufacturing and rebuilds, and a continued demand for construction equipment and product support, heavy rentals, and prime and standby electric power generation), our expectations for our South America operations (based on assumptions related to Chile of electrification trends driving increased global demand for copper in the longer term, significant mining deliveries and committed medium-term investments in fleet replacements, continued strong demand for mining product support and technology solutions, including autonomy, and our ability to capture opportunities in the data centre market; and assumptions related to Argentina of activity in construction, oil and gas, and mining remaining stable and our ability to manage fiscal, regulatory, and currency environments), our expectations for our UK & Ireland operations (based on assumptions of continued high machine utilization hours on the HS2 project and the addition of Hydraquip to our business, projections for continued demand in the data centre market and our ability to capture opportunities in that market, and economic forecasts); and the Canadian income tax treatment of the quarterly dividend. All such forward-looking information is provided 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 of 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, customers and suppliers in response; general economic and market conditions, including increasing inflationary cost pressure, and economic and market conditions in the regions where we operate; the outcome of Chile's constitutional reform process and proposed tax reform bill, including the proposal for a revised mining royalty framework; 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; our ability to effectively integrate and realize expected synergies from businesses that we acquire; 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 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 maintain a safe and healthy work environment across all regions; 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; 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; our ability to protect our business from cybersecurity threats or incidents; the actual impact of the COVID-19 pandemic; and, with respect to our normal course issuer bid, our share price from time to time and our decisions about use of capital. Forward-looking information is provided in this news release to give information about our current expectations and plans and allow 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 provided 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: the specific assumptions stated above; that we will be able to successfully manage our business through the current challenging times involving the effects of the COVID-19 response, stretched supply chains, competitive talent markets, inflationary pressures and changing commodity prices, and successfully implement our COVID-19 risk management plans; an undisrupted market recovery, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest; the successful execution of our profitability drivers; that our cost actions to drive earnings capacity in a recovery can be sustained; that commodity prices will remain at constructive levels; that our customers will not curtail their activities; that general economic and market conditions will continue to be strong; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; that present supply chain and inflationary challenges will not materially impact large project deliveries in our backlog; our ability to successfully execute our plans and intentions; our ability to attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; that identified opportunities for growth will result in revenue; that we have sufficient liquidity to meet operational needs; consistent and stable legislation in the various countries in which we operate; no disruptive changes in the technology environment and that our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained; sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments; quoting activity for requests for proposals for equipment and product support is reflective of opportunities; and strong recoveries in our regions, particularly in Chile and the UK. Some of the assumptions, risks, and other factors, which could cause results to differ materially from those expressed in the forward-looking information contained in this news release, are discussed in our current AIF and in our annual and most recent quarterly MD&A for the financial risks, including for updated risks related to the COVID-19 pandemic.

We caution readers that the risks described in the annual and most recent quarterly MD&A and in the AIF are not the only ones that could impact us. 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 and other steps that may be taken by 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.

Except as otherwise indicated, forward-looking information does not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date of this news release. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.