

Finning reports Q2 2022 results

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

HIGHLIGHTS

All comparisons are to Q2 2021 results unless indicated otherwise.

- Q2 2022 EPS ⁽¹⁾ was \$0.80 per share, up 43% from Q2 2021, driven primarily by higher revenues and earnings in all operations. Over the last four quarters, we have generated EPS of \$2.66 per share.
- Q2 2022 revenue of \$2.3 billion and net revenue ⁽²⁾ of \$2.0 billion were up 24% and 18%, respectively, from Q2 2021, reflecting strong market conditions in all regions, backlog deliveries, and continued execution of our product support growth strategy.
- Q2 2022 EBIT ⁽¹⁾ was up 39% from Q2 2021, driven primarily by higher revenues and improved operating leverage. SG&A ⁽¹⁾ as a percentage of net revenue ⁽²⁾ was 16.9%, down 140 basis points from Q2 2021.
- Q2 2022 EBIT as a percentage of net revenue ⁽²⁾ was 10.0% in Canada and 10.1% in South America. UK & Ireland’s EBIT as a percentage of net revenue was 6.4%, reflecting structural improvement in profitability, including the addition of Hydraquip.
- ROIC ⁽¹⁾⁽²⁾ of 17.5% was up 420 basis points from Adjusted ROIC ⁽²⁾⁽⁴⁾ in Q2 2021, with improvements in all regions driven by higher profitability.
- Consolidated equipment backlog ⁽²⁾ was \$2.1 billion at June 30, 2022, up 4% from March 31, 2022 and up 15% from December 31, 2021, with a growing proportion of mining orders.

"We are pleased with our strong execution and performance in the second quarter, which demonstrates our significantly improved earnings capacity. One year on from our June 2021 investor day, we are very proud to have exceeded targets we set out through focused execution of our simple plan to drive product support, reduce costs, and reinvest to compound our EPS. Over the last four quarters we have grown our product support business by 14% compared to the four quarters ended Q2 2021, delivered 17% SG&A this quarter, and reinvested \$341 million in strategic acquisitions and share repurchases resulting in EPS of \$2.66.

Following our strong EPS growth of 52% in the first half of 2022 compared to Adjusted EPS ⁽²⁾ in the first half of 2021, we expect demand conditions to remain favourable for the remainder of 2022. Underpinned by our large and diverse backlog, continued growth in product support, and disciplined operational execution, we are projecting above mid-teens EPS growth in the second half of 2022 compared to the second half of 2021. While activity levels remain robust, we are closely monitoring leading indicators and the impact of ongoing supply chain, labour, inflation, and interest rate challenges on our customer activity levels. We remain focused on actively managing these risks and are capturing growth opportunities in a very disciplined manner.

Our business model is robust and our strong performance in recent years is a huge credit to the efforts of our great people. From delivering approximately \$900 million of free cash flow ⁽³⁾ during a very challenging 2020 to delivering \$2.66 EPS over the last four quarters, the full-cycle resilience of our business model and step-change improvement in our execution have been on full display. Sustainable improvements in our operating model efficiency, inventory management practices, and proactive deployment of our digital capabilities make us confident that we will continue to successfully navigate a very dynamic global business environment going forward," said Scott Thomson, president and CEO of Finning International.

Q2 2022 FINANCIAL SUMMARY

Quarterly Overview (\$ millions, except per share amounts)	Q2 2022	Q2 2021	% change fav (unfav)
Revenue	2,289	1,845	24%
Net revenue	2,004	1,705	18%
EBIT	190	137	39%
<i>EBIT as a percentage of net revenue</i>	9.4%	8.0%	
EBITDA ⁽¹⁾⁽²⁾	271	215	27%
<i>EBITDA as a percentage of net revenue ⁽²⁾</i>	13.5%	12.6%	
Net income attributable to shareholders of Finning	126	91	37%
EPS	0.80	0.56	43%
Free cash flow	(142)	(4)	n/m ⁽¹⁾

Q2 2022 EBIT and EBITDA by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	102	64	23	1	190	0.80
<i>EBIT as a percentage of net revenue</i>	10.0%	10.1%	6.4%	<i>n/m</i>	9.4%	
EBITDA	149	87	33	2	271	
<i>EBITDA as a percentage of net revenue</i>	14.7%	13.7%	9.3%	<i>n/m</i>	13.5%	

Q2 2021 EBIT and EBITDA by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	82	51	17	(13)	137	0.56
<i>EBIT as a percentage of net revenue</i>	9.3%	9.8%	5.3%	<i>n/m</i>	8.0%	
EBITDA	129	71	27	(12)	215	
<i>EBITDA as a percentage of net revenue</i>	14.7%	13.7%	8.5%	<i>n/m</i>	12.6%	

Q2 2022 INVESTED CAPITAL AND ROIC SUMMARY

All comparisons are to Q4 2021 results unless indicated otherwise.

Invested capital ⁽²⁾ increased by \$750 million from Q4 2021, driven primarily by higher inventory levels.

Inventory increased by \$541 million from Q4 2021, reflecting increased parts inventory to support strong product support growth rates and customer service levels, as well as higher new equipment inventory to support the delivery of our large and diverse backlog. As a result, Q2 2022 free cash flow was a use of cash of \$142 million compared to a use of cash of \$4 million in Q2 2021.

Consolidated ROIC of 17.5% was up 110 basis points from Adjusted ROIC in Q4 2021, driven by improved profitability. ROIC increased to 17.4% in Canada, 22.3% in South America, and 16.2% in the UK & Ireland.

Key Performance Measures (\$ millions, unless otherwise stated)	Q2 2022	Q4 2021
Invested capital		
Consolidated	4,076	3,326
Canada	2,319	1,876
South America	1,203	1,026
UK & Ireland	458	381
<i>South America (US dollars)</i>	934	809
<i>UK & Ireland (UK pound sterling)</i>	292	222
Adjusted ROIC		
Consolidated	17.5%	16.4%
Canada	17.4%	16.9%
South America	22.3%	20.3%
UK & Ireland	16.2%	14.8%
Invested capital turnover ⁽²⁾ (<i>times</i>)	2.00	2.04
Inventory	2,228	1,687
Inventory turns (dealership) ⁽²⁾ (<i>times</i>)	2.50	3.09
Working capital to net revenue ⁽²⁾ ratio	25.1%	22.9%
Net debt to Adjusted EBITDA ratio ⁽²⁾⁽⁴⁾ (<i>times</i>)	1.8	1.1

Q2 2022 HIGHLIGHTS BY OPERATION

All comparisons are to Q2 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 15% from Q2 2021, driven by product support, as well as higher new equipment and rental revenues.
- Product support revenue was up 23% from Q2 2021, with increased spending by mining customers and strong volumes in construction reflecting high equipment utilization and successful execution of our strategy to grow construction product support market share.
- New equipment sales were up 3% from Q2 2021, driven by mining deliveries. Construction sales were below Q2 2021, impacted by supply constraints and delivery delays.
- Rental revenue was up 32% from Q2 2021, reflecting strong customer demand in all sectors and higher utilization rates.
- EBIT as a percentage of net revenue was 10.0%, up 70 basis points from Q2 2021, mostly due to a higher proportion of product support in the revenue mix.

South America Operations

- Net revenue increased by 20% from Q2 2021, driven by new equipment sales, which were up 66% due to mining deliveries in Chile. Product support growth was constrained by the challenging supply environment, with product support revenue increasing by 2% from Q2 2021.
- Despite the shift in revenue mix to new equipment sales, EBIT as a percentage of net revenue was up 30 basis points from Q2 2021 to 10.1%, driven by our improved cost structure, including the favourable impact of CLP devaluation.

UK & Ireland Operations

- Net revenue increased by 21% from Q2 2021. New equipment sales were up 23%, driven by the construction sector, including HS2 deliveries. Product support revenue was up 25% from Q2 2021, reflecting higher activity in the construction sector, as well as the contribution from Hydraquip, which was acquired at the end of March 2022.
- EBIT as a percentage of net revenue was 6.4%, up 110 basis points from Q2 2021, reflecting operating leverage on strong revenue growth and structural profitability improvements, including the addition of Hydraquip.

Corporate and Other Developments

- Corporate EBIT in Q2 2022 was \$1 million compared to an EBIT loss of \$13 million in Q2 2021, due to the benefit of LTIP recovery in Q2 2022 compared to LTIP expense in Q2 2021, as well as lower facility expenses in Q2 2022.
- The effective income tax rate in Q2 2022 was 26.3% compared to 22.9% in Q2 2021. The effective income tax rate in Q2 2021 was lower due to the benefit of the revaluation of our deferred tax balances in Argentina due to tax rate changes and a higher proportion of income from lower tax jurisdictions.
- The Board of Directors has approved a quarterly dividend of \$0.236 per share, payable on September 1, 2022, to shareholders of record on August 18, 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 elevated energy prices, project backlogs, healthy customer balance sheets and high machine utilization to continue supporting a strong demand environment across Western Canada.

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.

In the mining sector, customer balance sheet health and steady increases in capital budgets are expected to drive product support opportunities, renewals of aging fleets to sustain production levels, and greenfield project developments. We expect growing demand for component remanufacturing and equipment rebuilds as customers are looking to extend the life of their assets, as well as continued focus on productivity improvements through data integration and autonomy implementation.

South America Operations

We continue to closely monitor the constitutional reform process in Chile and the recently proposed tax reform bill, including the proposal for a revised mining royalty framework, which remains under discussion. Until this process is completed, the timing of investment decisions related to greenfield and new expansion projects will remain uncertain.

In the near term, we expect stable mining activity in Chile to continue driving demand for maintenance and replacement of maturing equipment fleets. Quoting activity for partial fleet replacement remains strong across our customer base. Delivery activity remains strong including for Teck's QB2 mine as they approach first production, as well as Codelco where we have won several truck and support equipment packages. Longer term, we expect Chile will remain an attractive place to invest as electrification trends drive increasing global demand for copper.

Our order intake for construction equipment in Chile has softened, impacted by higher equipment prices, elevated interest rates, and the weakening CLP. However, we expect construction machine utilization to remain strong supporting infrastructure projects.

In Argentina, activity in construction, oil and gas, and mining is expected to remain stable, however, the risk of significant ARS devaluation has increased. We are focused on managing through challenging fiscal, regulatory, and currency environments in Argentina.

UK & Ireland Operations

Deliveries to HS2 customers, investments in other infrastructure projects, and high machine utilization hours are expected to continue driving strong construction equipment sales and product support in the UK.

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 deliveries in the second half of 2022 and in 2023, and we are well positioned to capture further opportunities in the growing data centre market.

The addition of Hydraquip, which we acquired in March 2022, is expected to contribute to the structural improvement in the UK & Ireland's profitability going forward.

Well Positioned to Continue Navigating a Dynamic Business Environment

We expect demand conditions to remain favourable for the remainder of 2022. Underpinned by our large and diverse backlog, continued growth in product support, and disciplined operational execution, we are projecting above mid-teens EPS growth in the second half of 2022 compared to the second half of 2021.

While activity levels remain robust, we are closely monitoring leading indicators and the impact of ongoing supply chain, labour, inflation, and interest rate challenges on our customer activity levels. We remain focused on actively managing these risks and are capturing growth opportunities in a very disciplined manner.

As we deliver our large backlog, we expect to generate positive annual free cash flow in 2022, with the amount of free cash flow dependent on supply and delivery schedules.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(\$ millions, except per share amounts)	Three months ended June 30		
	2022	2021	% change fav (unfav)
New equipment	733	593	24%
Used equipment	86	99	(14)%
Equipment rental	70	54	30%
Product support	1,075	927	16%
Net fuel and other	40	32	22%
Net revenue	2,004	1,705	18%
Gross profit	528	449	18%
Gross profit as a percentage of net revenue ⁽²⁾	26.3%	26.3%	
SG&A	(338)	(313)	(8)%
SG&A as a percentage of net revenue	(16.9)%	(18.3)%	
Equity earnings of joint ventures	—	1	
EBIT	190	137	39%
EBIT as a percentage of net revenue	9.4%	8.0%	
Net income attributable to shareholders of Finning	126	91	37%
Basic EPS	0.80	0.56	43%
EBITDA	271	215	27%
EBITDA as a percentage of net revenue	13.5%	12.6%	
Free cash flow	(142)	(4)	n/m

To access Finning's complete Q2 2022 results, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q2 2022 INVESTOR CALL

The Company will hold an investor call on August 3, 2022 at 9:00 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.

Adjusted basic EPS

Adjusted basic EPS excludes the after-tax per share impact of 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. The tax impact of each significant item is calculated by applying the relevant applicable tax rate for the jurisdiction in which the significant item occurred. The after-tax per share impact of significant items is calculated by dividing the after-tax amount of significant items by the weighted average number of common shares outstanding during the period.

A reconciliation between basic EPS (the most directly comparable GAAP financial measure) and Adjusted basic EPS can be found on page 8 of this Earnings Release.

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	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	190	140	157	150	137	108	108	138
Depreciation and amortization	81	81	84	80	78	77	77	77
EBITDA	271	221	241	230	215	185	185	215
EBIT	190	140	157	150	137	108	108	138
Significant items:								
CEWS support	—	—	—	—	—	(10)	(14)	(37)
Return on our investment in Energyst	—	—	—	—	—	(5)	—	—
Adjusted EBIT ⁽³⁾⁽⁴⁾	190	140	157	150	137	93	94	101
Depreciation and amortization	81	81	84	80	78	77	77	77
Adjusted EBITDA ⁽³⁾⁽⁴⁾	271	221	241	230	215	170	171	178

A reconciliation from basic EPS to Adjusted basic EPS for our consolidated operations is as follows:

3 months ended (\$)	2022		2021	
	Jun 30	Mar 31	Jun 30	Mar 31
Basic EPS	0.80	0.59	0.56	0.43
Significant items:				
CEWS support	—	—	—	(0.05)
Return on our investment in Energyst	—	—	—	(0.03)
Adjusted basic EPS ^(a)	0.80	0.59	0.56	0.35

(a) The per share impact for each quarter has been calculated using the weighted average number of common shares outstanding during the respective quarters; therefore, quarterly amounts may not add to the annual or year-to-date total.

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

3 months ended (\$ millions)	2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	102	80	92	84	82	69	72	93
Significant item:								
CEWS support	—	—	—	—	—	(10)	(13)	(35)
Adjusted EBIT	102	80	92	84	82	59	59	58
Depreciation and amortization	47	47	50	48	47	46	47	48
Adjusted EBITDA	149	127	142	132	129	105	106	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	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Reported and Adjusted EBIT	64	65	59	58	51	41	41	40
Depreciation and amortization	23	23	22	22	20	20	20	19
Adjusted EBITDA	87	88	81	80	71	61	61	59

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	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Reported and Adjusted EBIT	23	14	12	17	17	7	11	9
Depreciation and amortization	10	10	11	10	10	10	9	9
Adjusted EBITDA	33	24	23	27	27	17	20	18

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

3 months ended (\$ millions)	2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	1	(19)	(6)	(9)	(13)	(9)	(16)	(4)
Significant items:								
CEWS support	—	—	—	—	—	—	(1)	(2)
Return on our investment in Energyst	—	—	—	—	—	(5)	—	—
Adjusted EBIT	1	(19)	(6)	(9)	(13)	(14)	(17)	(6)
Depreciation and amortization	1	1	1	—	1	1	1	1
Adjusted EBITDA	2	(18)	(5)	(9)	(12)	(13)	(16)	(5)

EBITDA to Free Cash Flow Conversion

EBITDA to free cash flow conversion is calculated as free cash flow divided by EBITDA. We use EBITDA to free cash flow conversion to assess our efficiency in turning EBITDA into cash.

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
	Jun 30	Jun 30
Cash flow (used in) provided by operating activities	(112)	8
Additions to property, plant, and equipment and intangible assets	(30)	(17)
Proceeds on disposal of property, plant, and equipment	—	5
Free cash flow	(142)	(4)

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	
	Jun 30	Mar 31	Jun 30	Mar 31
Cost of sales	1,761	1,463	1,396	1,189
Cost of sales related to mobile refuelling operations	(300)	(231)	(153)	(140)
Cost of sales related to the dealership	1,461	1,232	1,243	1,049

(\$ millions)	2022		2021	
	Jun 30	Mar 31	Jun 30	Mar 31
Inventory	2,228	2,101	1,643	1,593
Fuel inventory	(13)	(11)	(3)	(3)
Inventory related to the dealership	2,215	2,090	1,640	1,590

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	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Cash and cash equivalents	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)
Short-term debt	992	804	374	419	114	103	92	217
Current portion of long-term debt	110	63	190	191	386	326	201	200
Non-current portion of long-term debt	807	909	921	923	903	973	1,107	1,136
Net debt	1,739	1,481	983	1,015	1,025	933	861	1,100
Total equity	2,337	2,296	2,343	2,320	2,252	2,244	2,206	2,184
Invested capital	4,076	3,777	3,326	3,335	3,277	3,177	3,067	3,284

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	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Total revenue	2,289	1,953	1,949	1,904	1,845	1,596	1,666	1,553
Cost of fuel	(285)	(217)	(175)	(156)	(140)	(127)	(115)	(110)
Net revenue	2,004	1,736	1,774	1,748	1,705	1,469	1,551	1,443

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	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Total current assets	4,098	4,030	3,619	3,620	3,416	3,319	3,214	3,261
Cash and cash equivalents	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)
Total current assets in working capital	3,928	3,735	3,117	3,102	3,038	2,850	2,675	2,808
Total current liabilities	2,789	2,647	2,155	2,156	1,942	1,817	1,623	1,717
Short-term debt	(992)	(804)	(374)	(419)	(114)	(103)	(92)	(217)
Current portion of long-term debt	(110)	(63)	(190)	(191)	(386)	(326)	(201)	(200)
Total current liabilities in working capital	1,687	1,780	1,591	1,546	1,442	1,388	1,330	1,300
Working capital	2,241	1,955	1,526	1,556	1,596	1,462	1,345	1,508

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); 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 positive annual free cash flow in 2022 (assumes no disruptions to our ability to deliver our backlog); our expectation for demand conditions to remain favourable for the remainder of 2022; and our projections of above mid-teens EPS growth in the second half of 2022 compared to the second half of 2021 (assumes continued strong commodity prices, public and private sector investment, economic forecasts, delivery of our backlog, continued growth in product support, disciplined operational execution, inventory management and deployment of our digital capabilities, and that we and our customers can successfully navigate supply chain, labour, inflation, and interest rate challenges); all information in the section entitled “Market Update and Business Outlook” regarding our expectations for our Canada operations (based on assumptions of elevated energy prices, project backlogs, healthy customer balance sheets and increases in capital budgets, high machine utilization, government infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and power projects, and a continued focus on productivity improvements, component remanufacturing and rebuilds), our expectations for our South America operations (based on assumptions related to Chile of continued stable mining activity driving demand for maintenance and replacement of maturing equipment fleets, expectations that construction machine utilization will remain strong supporting infrastructure projects, and electrification trends driving increased global demand for copper in the longer term; 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 HS2 deliveries and investments in other infrastructure projects, projections of continued growth in the data centre market and our ability to capture opportunities in that market, and our ability to successfully integrate Hydraquip into our business and realize the expected synergies from the acquisition); 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.