

Finning reports Q1 2022 results

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

HIGHLIGHTS

All comparisons are to Q1 2021 results unless indicated otherwise.

- Q1 2022 EPS ⁽¹⁾ was \$0.59 per share, representing a 68% increase from Q1 2021 Adjusted EPS ⁽²⁾⁽⁴⁾ of \$0.35 per share, and a 37% increase from Q1 2021 Basic EPS of \$0.43 per share. Over the last four quarters, we generated EPS of \$2.42 per share.
- Q1 2022 revenue of \$2.0 billion and net revenue ⁽²⁾ of \$1.7 billion were up 22% and 18%, respectively, from Q1 2021, driven by increased market activity in all operations and strong execution of our product support growth strategy.
- All regions demonstrated improved operating leverage compared to Q1 2021. Consolidated EBIT ⁽¹⁾ was up 51% and EBIT as a percentage of net revenue ⁽²⁾ was up 180 basis points compared to Adjusted EBIT ⁽³⁾⁽⁴⁾ results in Q1 2021.
- Adjusted ROIC ⁽¹⁾⁽²⁾⁽⁴⁾ of 17.0% was up 700 basis points from Q1 2021 and up 60 basis points from Q4 2021, with increases in all regions driven by higher profitability.
- Consolidated equipment backlog ⁽²⁾ was \$2.1 billion at March 31, 2022, up from \$1.9 billion at December 31, 2021 driven by upcycle demand conditions.
- Quarterly dividend was raised by 5% to \$0.236 per share, which marks 21 years of consecutive dividend growth.

“We are pleased with the strong start to 2022 as our global teams remain focused on capturing market opportunities in a disciplined manner and executing on our plan to grow product support, reduce costs, and reinvest free cash flow to compound our earnings. Our Q1 2022 product support revenue was up significantly across all our regions and market sectors compared to Q1 2021. We continued to build a healthy inventory position to support backlog delivery, grow our rebuild business, and provide used and rental options to meet our customers’ needs as equipment availability remained constrained. We are actively managing inflationary pressures through our continued focus on productivity gains, resulting in improved operating leverage in all regions compared to Q1 2021.

The market outlook remains positive in all our regions, supported by strong commodity prices, public and private sector investment, and economic growth forecasts. With a very strong equipment backlog, increasing arrival of inventory, and growing demand for product support, we are ramping up for increased activity for the remainder of the year and targeting above mid-teens EPS growth in 2022,” said Scott Thomson, president and CEO of Finning International.

Q1 2022 FINANCIAL SUMMARY

Quarterly Overview (\$ millions, except per share amounts)	Q1 2022	Q1 2021	% change fav (unfav)
Revenue	1,953	1,596	22%
Net revenue	1,736	1,469	18%
EBIT	140	108	29%
<i>EBIT as a percentage of net revenue</i>	8.1%	7.4%	
EBITDA ⁽¹⁾⁽²⁾	221	185	19%
<i>EBITDA as a percentage of net revenue ⁽²⁾</i>	12.7%	12.6%	
Net income attributable to shareholders of Finning	92	70	33%
EPS	0.59	0.43	37%
Free cash flow ⁽³⁾	(303)	(20)	n/m ⁽¹⁾

Q1 2022 EBIT and EBITDA by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	80	65	14	(19)	140	0.59
<i>EBIT as a percentage of net revenue</i>	9.1%	11.4%	5.0%	n/m	8.1%	
EBITDA	127	88	24	(18)	221	
<i>EBITDA as a percentage of net revenue</i>	14.3%	15.4%	8.7%	n/m	12.7%	

Q1 2021 EBIT and EBITDA by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	69	41	7	(9)	108	0.43
CEWS support	(10)	—	—	—	(10)	(0.05)
Return on Energyst	—	—	—	(5)	(5)	(0.03)
Adjusted EBIT / Adjusted EPS	59	41	7	(14)	93	0.35
<i>Adjusted EBIT as a percentage of net revenue ⁽²⁾⁽⁴⁾</i>	7.7%	8.6%	3.2%	n/m	6.3%	
Adjusted EBITDA ⁽³⁾⁽⁴⁾	105	61	17	(13)	170	
<i>Adjusted EBITDA as a percentage of net revenue ⁽²⁾⁽⁴⁾</i>	13.6%	12.8%	7.9%	n/m	11.6%	

Q1 INVESTED CAPITAL AND ROIC SUMMARY

All comparisons are to Q1 2021 results unless indicated otherwise.

Invested capital ⁽²⁾ increased by about \$450 million from Q4 2021, driven mostly by higher inventory and the acquisition of Hydraquip (£70 million total consideration).

Inventory increased by \$414 million from Q4 2021, reflecting higher new equipment inventory to meet strong customer demand and deliver a growing backlog and higher parts inventory in line with strong product support volumes. As a result, Q1 2022 free cash flow was a use of cash of \$303 million compared to a use of cash of \$20 million in Q1 2021.

Adjusted ROIC of 17.0% was up 60 basis points from Q4 2021, with higher Adjusted ROIC in all regions, driven by improved profitability.

Key Performance Measures (\$ millions, unless otherwise stated)	Q1 2022	Q4 2021
Invested capital		
Consolidated	3,777	3,326
Canada	2,122	1,876
South America	1,139	1,026
UK & Ireland	448	381
<i>South America (US dollars)</i>	912	809
<i>UK & Ireland (UK pound sterling)</i>	273	222
Adjusted ROIC (%)		
Consolidated	17.0%	16.4%
Canada	17.4%	16.9%
South America	21.7%	20.3%
UK & Ireland	15.7%	14.8%
Invested capital turnover ⁽²⁾ (<i>times</i>)	2.03	2.04
Inventory	2,101	1,687
Inventory turns (dealership) ⁽²⁾ (<i>times</i>)	2.66	3.09
Working capital to net revenue ⁽²⁾ ratio	23.8%	22.9%
Net debt to Adjusted EBITDA ratio ⁽²⁾⁽⁴⁾ (<i>times</i>)	1.6	1.1

All comparisons are to Q1 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 14% from Q1 2021, driven by product support, as well as higher new equipment and rental revenues. Used equipment sales were below Q1 2021 mostly due to a large fleet of used mining equipment delivered in Q1 2021 and tight used equipment availability in Q1 2022.
- Product support revenue was up 18% from Q1 2021, reflecting increased spending by our customers in the mining sector and strong execution of our product support growth strategy in construction.
- New equipment sales were up 11% from Q1 2021, driven largely by mining deliveries.
- Rental revenue was up 54% from Q1 2021, reflecting strong customer demand in a constrained supply environment in Q1 2022, compared to softer market conditions including certain pipeline and construction work stoppages in Q1 2021.
- EBIT as a percentage of net revenue was 9.1%, up 140 basis points from Adjusted EBIT as a percentage of net revenue in Q1 2021, mostly due to higher equipment and rental margins compared to Q1 2021.
- We have continued to support our customers in reaching their emissions reduction targets by providing alternative fuel engines. Since the beginning of 2021, we have sold 72 Caterpillar Tier 4 DGB (Dynamic Gas Blending) engines in Western Canada, including the orders we have received so far this year. These engines allow oil & gas customers to substitute up to 85% of diesel with natural gas and are capable of operating with up to 20% hydrogen blend, resulting in significant cost savings and emissions reduction.

South America Operations

- Net revenue increased by 18% from Q1 2021, with higher activity across all sectors, especially in mining. New equipment sales were up 32% and product support revenue increased by 14%, with construction product support up 31% from Q1 2021.

- SG&A as a percentage of net revenue decreased 180 basis points from Q1 2021 due to a streamlined cost structure and improved productivity.
- EBIT as a percentage of net revenue was 11.4%, up 280 basis points year over year, driven by strong operating leverage from an improved cost structure, combined with higher margins in all lines of business compared to Q1 2021.
- Q1 2022 ROIC ⁽²⁾ was 21.7%, driven by a significant improvement in profitability.

UK & Ireland Operations

- Net revenue increased by 35% from Q1 2021, driven by new equipment deliveries to construction customers, including HS2, and stronger product support activity in all sectors. New equipment sales were up 63% and product support revenue was up 10% from Q1 2021.
- Despite a higher proportion of new equipment sales in the revenue mix compared to Q1 2021, EBIT as a percentage of net revenue was 5.0%, up 180 basis points from Q1 2021, reflecting the benefit of various productivity initiatives as well as operating leverage on strong revenue growth.
- Q1 2022 ROIC was 15.7%, driven by revenue growth and strong profitability. An increase in invested capital from Q4 2021 reflects the acquisition of Hydraquip.

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

Strong commodity prices and a combination of public and private sector investment are expected to continue to support a healthy demand environment across all sectors in Western Canada.

The 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 drive demand for construction equipment and product support, heavy rentals, and prime and standby electric power generation. We remain focused on growing our product support market share in construction by driving rebuilds and customer value agreements (CVAs), as well as leveraging our digital platform CUBIQ™.

Healthy commodity markets, including base and precious metals, oil, natural gas, metallurgical coal, lumber, uranium, and potash provide a positive backdrop for mining activity in Western Canada and support increased capital spending, including in the oil sands. We expect the large and aging mining equipment population in our territory to continue driving demand for product support, including rebuilds, and opportunities for fleet renewals.

South America Operations

We expect a strong copper price, large and mature equipment population, and declining ore grades to continue driving healthy mining activity in Chile. We continue to closely monitor the constitutional reform process and expect a moderate increase in mining royalties. While the timing of investment decisions related to greenfield and new expansion projects remains uncertain, we are constructive about long-term copper mining growth in Chile. We are in a great position to capture opportunities for new mining equipment and autonomous solutions for brownfield expansions and greenfield projects.

We expect robust activity in the Chilean construction sector to be driven by growing demand for mining infrastructure and the government's infrastructure investment program.

In Argentina, we are benefitting from improved activity in construction, oil and gas, and mining, however, the overall business environment continues to be challenging. We remain focused on managing fiscal, regulatory, and currency risks, including high inflation and ARS devaluation.

UK & Ireland Operations

Ongoing HS2 construction activity, coupled with government investments in other infrastructure projects, are expected to drive strong demand for construction equipment and product support in the UK. We are leveraging our digital solutions on the CUBIQ™ platform to continue capturing a large share of opportunities for the remainder of HS2 Phase 1 and other construction projects.

We expect demand for our power systems business in the UK & Ireland to remain strong, including in the data centre market, which is projected to continue to grow over the next few years ⁽⁵⁾. We have a solid backlog of power systems projects for deliveries in 2022 and are well positioned to capture further opportunities in the growing data centre market.

Executing On Our Strategic Plan

Our market outlook remains positive. We expect upcycle demand conditions in 2022 to be supported by strong commodity prices, public and private sector spending, and economic growth forecasts in all our regions.

Constraints in the global supply chain are expected to continue impacting availability of new equipment and parts for most of the year. To meet our customers' needs in this environment, we continue to offer rebuilds and rental options, and proactively source used equipment. Our data-driven inventory forecasting and improved supply chain efficiencies position us well to successfully navigate industry-wide supply constraints.

Underpinned by backlog deliveries, growth in product support, and strong market activity, we expect higher revenue and higher new equipment mix for the remainder of the year compared to Q1 2022. We are closely monitoring inflationary pressures, including further price increases from our key suppliers in the second quarter, and are working with customers to implement those changes. We remain committed to delivering fixed cost reduction initiatives, productivity gains, and strong operating leverage going forward. We expect above mid-teens EPS growth in 2022 compared to 2021.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a 5% increase in the quarterly dividend to \$0.236 per share from \$0.225 per share, payable on June 9, 2022 to shareholders of record on May 26, 2022. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Renewal of Share Repurchase Program

We have received approval from the Toronto Stock Exchange ("TSX") to renew our normal course issuer bid ("NCIB") to purchase for cancellation up to 8,000,000 of our common shares, representing 5.1% of the public float of 155,646,910 common shares as at May 5, 2022. As of May 5, 2022, Finning had a total of 156,217,581 common shares issued and outstanding.

The NCIB, which will begin on May 13, 2022 and end no later than May 12, 2023, will be conducted through the facilities of the TSX or other Canadian marketplaces or alternative trading systems, if eligible, and will conform to their rules and regulations.

Our Board of Directors believe that, from time to time, the purchase by Finning of its common shares represents a desirable use of its available cash to increase shareholder value.

The average daily trading volume of our common shares over the six-month period ending April 30, 2022, as calculated in accordance with TSX rules, was 373,403 common shares. Consequently, under TSX rules, we will be allowed to purchase daily, through the facilities of the TSX, a maximum of 93,350 common shares representing 25% of such average daily trading volume, subject to certain exceptions for block purchases. All shares purchased pursuant to the normal course issuer bid will be cancelled.

Purchases under the normal course issuer bid will be made by means of open market transactions or such other means as the TSX may permit. The price to be paid by Finning for any common share will be the market price at the time of acquisition, plus brokerage fees, or such other price as the TSX may permit.

In connection with the NCIB, we will enter into an automatic share purchase plan ("ASPP") with a designated broker. The ASPP will allow for the purchase of shares under the NCIB at times when we would ordinarily not be permitted to purchase shares due to regulatory restrictions and customary self-imposed blackout restrictions.

The ASPP will provide a set of standard instructions to the designated broker to make purchases under the NCIB in accordance with the limits and other terms set out in the ASPP. The designated broker will determine the timing of these purchases in its sole discretion based on purchasing parameters set by Finning and subject to the rules of the TSX, applicable securities laws, and the terms of the ASPP. The ASPP has been pre-cleared by the TSX and will be implemented as of May 13, 2022. All purchases made under the ASPP will be included in computing the number of shares purchased and cancelled by Finning under the NCIB. Outside of pre-determined blackout periods, shares may be purchased under the NCIB based on management's discretion, in compliance with TSX rules, and applicable securities laws.

Under the current NCIB, which expires on May 12, 2022, we obtained approval to purchase up to 8,000,000 common shares. As of May 5, 2022, we purchased and cancelled 6,443,088 common shares under the current NCIB on the open market through the facilities of the TSX and other Canadian marketplaces at a weighted average price paid of \$33.99 per common share (excluding commissions).

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(\$ millions, except per share amounts)	Three months ended March 31		
	2022	2021	% change fav (unfav)
New equipment	527	403	31%
Used equipment	79	103	(23)%
Equipment rental	65	45	45%
Product support	1,027	887	16%
Net fuel and other	38	31	25%
Net revenue	1,736	1,469	18%
Gross profit	490	407	20%
<i>Gross profit as a percentage of net revenue</i> ⁽²⁾	28.2%	27.7%	
SG&A ⁽¹⁾	(351)	(314)	(12)%
<i>SG&A as a percentage of net revenue</i> ⁽²⁾	(20.2)%	(21.4)%	
Equity earnings of joint ventures	1	-	
Other income	—	15	
EBIT	140	108	29%
<i>EBIT as a percentage of net revenue</i>	8.1%	7.4%	
Adjusted EBIT	140	93	51%
<i>Adjusted EBIT as a percentage of net revenue</i>	8.1%	6.3%	
Net income attributable to shareholders of Finning	92	70	33%
Basic EPS	0.59	0.43	37%
Adjusted EPS	0.59	0.35	68%
EBITDA	221	185	19%
<i>EBITDA as a percentage of net revenue</i>	12.7%	12.6%	
Adjusted EBITDA	221	170	30%
<i>Adjusted EBITDA as a percentage of net revenue</i>	12.7%	11.6%	
Free cash flow	(303)	(20)	n/m

To access Finning's complete Q1 2022 results, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q1 2022 INVESTOR CALL

The Company will hold an investor call on May 10, 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.

CONTACT INFORMATION

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FOOTNOTES

- (1) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC); not meaningful (n/m).
- (2) See "Description of Specified Financial Measures and Reconciliations" later in this Earnings Release.
- (3) These are non-GAAP financial measures. See "Description of Specified Financial Measures and Reconciliations" later in 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 into account these items are referred to as "Adjusted measures".
- (5) UK Data Center Market – Investment Analysis and Growth Opportunities Publication (2020-2025); Ireland Data Center Market – Growth, Trends and Forecasts Publication (2020-2025)

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 into account these significant items 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 9 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			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	140	157	150	137	108	108	138	52
Depreciation and amortization	81	84	80	78	77	77	77	78
EBITDA	221	241	230	215	185	185	215	130
EBIT	140	157	150	137	108	108	138	52
Significant items:								
CEWS support	—	—	—	—	(10)	(14)	(37)	(64)
Return on our investment in Energyst	—	—	—	—	(5)	—	—	—
Severance costs	—	—	—	—	—	—	—	42
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	9
Adjusted EBIT	140	157	150	137	93	94	101	39
Depreciation and amortization	81	84	80	78	77	77	77	78
Adjusted EBITDA	221	241	230	215	170	171	178	117

The impact on provision for income taxes of significant items was as follows:

3 months ended (\$ millions)	2022 Mar 31	2021 Mar 31
Significant item:		
CEWS support	—	2
Provision for income taxes on significant item	—	2

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

3 months ended (\$)	2022 Mar 31	2021 Mar 31
Basic EPS	0.59	0.43
Significant items:		
CEWS support	—	(0.05)
Return on our investment in Energyst	—	(0.03)
Adjusted basic EPS ⁽¹⁾	0.59	0.35

⁽¹⁾ 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		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	80	92	84	82	69	72	93	63
Significant items:								
CEWS support	—	—	—	—	(10)	(13)	(35)	(60)
Severance costs	—	—	—	—	—	—	—	20
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	5
Adjusted EBIT	80	92	84	82	59	59	58	28
Depreciation and amortization	47	50	48	47	46	47	48	47
Adjusted EBITDA	127	142	132	129	105	106	106	75

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		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	65	59	58	51	41	41	40	2
Significant items:								
Severance costs	—	—	—	—	—	—	—	17
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	4
Adjusted EBIT	65	59	58	51	41	41	40	23
Depreciation and amortization	23	22	22	20	20	20	19	22
Adjusted EBITDA	88	81	80	71	61	61	59	45

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		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	14	12	17	17	7	11	9	(5)
Significant item:								
Severance costs	—	—	—	—	—	—	—	4
Adjusted EBIT	14	12	17	17	7	11	9	(1)
Depreciation and amortization	10	11	10	10	10	9	9	9
Adjusted EBITDA	24	23	27	27	17	20	18	8

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

3 months ended (\$ millions)	2022		2021			2020		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	(19)	(6)	(9)	(13)	(9)	(16)	(4)	(8)
Significant items:								
CEWS support	—	—	—	—	—	(1)	(2)	(4)
Return on our investment in Energyst	—	—	—	—	(5)	—	—	—
Severance costs	—	—	—	—	—	—	—	1
Adjusted EBIT	(19)	(6)	(9)	(13)	(14)	(17)	(6)	(11)
Depreciation and amortization	1	1	—	1	1	1	1	—
Adjusted EBITDA	(18)	(5)	(9)	(12)	(13)	(16)	(5)	(11)

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 of free cash flow is as follows:

3 months ended	2022	2021
(\$ millions)	Mar 31	Mar 31
Cash flow (used in) provided by operating activities	(273)	12
Additions to property, plant, and equipment and intangible assets	(30)	(33)
Proceeds on disposal of property, plant, and equipment	—	1
Free cash flow	(303)	(20)

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	2022	2021	2021	2020
(\$ millions)	Mar 31	Dec 31	Mar 31	Dec 31
Cost of sales	1,463	1,465	1,189	1,248
Cost of sales related to mobile refuelling operations	(231)	(190)	(140)	(129)
Cost of sales related to the dealership	1,232	1,275	1,049	1,119

(\$ millions)	2022	2021	2021	2020
	Mar 31	Dec 31	Mar 31	Dec 31
Inventory	2,101	1,687	1,593	1,477
Fuel inventory	(11)	(9)	(3)	(3)
Inventory related to the dealership	2,090	1,678	1,590	1,474

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		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash and cash equivalents	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)
Short-term debt	804	374	419	114	103	92	217	158
Current portion of long-term debt	63	190	191	386	326	201	200	200
Non-current portion of long-term debt	909	921	923	903	973	1,107	1,136	1,348
Net debt	1,481	983	1,015	1,025	933	861	1,100	1,368
Total equity	2,296	2,343	2,320	2,252	2,244	2,206	2,184	2,127
Invested capital	3,777	3,326	3,335	3,277	3,177	3,067	3,284	3,495

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		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total revenue	1,953	1,949	1,904	1,845	1,596	1,666	1,553	1,419
Cost of fuel	(217)	(175)	(156)	(140)	(127)	(115)	(110)	(84)
Net revenue	1,736	1,774	1,748	1,705	1,469	1,551	1,443	1,335

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		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total current assets	4,030	3,619	3,620	3,416	3,319	3,214	3,261	3,416
Cash and cash equivalents	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)
Total current assets in working capital	3,735	3,117	3,102	3,038	2,850	2,675	2,808	3,078
Total current liabilities	2,647	2,155	2,156	1,942	1,817	1,623	1,717	1,735
Short-term debt	(804)	(374)	(419)	(114)	(103)	(92)	(217)	(158)
Current portion of long-term debt	(63)	(190)	(191)	(386)	(326)	(201)	(200)	(200)
Total current liabilities in working capital	1,780	1,591	1,546	1,442	1,388	1,330	1,300	1,377
Working capital	1,955	1,526	1,556	1,596	1,462	1,345	1,508	1,701

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 plan to grow product support, reduce costs, and reinvest free cash flow to compound our earnings; our active management of inflationary pressures through our continued focus on productivity gains; our positive market outlook and expected increased activity for the remainder of the year, targeting above mid-teens EPS growth in 2022 (assumes continued strong commodity prices, public and private sector investment, and economic growth forecasts; expectations that Tier 4 DGB engines will enable oil & gas customers to substitute up to 85% of diesel with natural gas and are capable of operating with up to 20% hydrogen blend, resulting in significant cost savings and CO2 emission reduction; all information in the section entitled “Market Update and Business Outlook” regarding our expectations for our Canada operations (based on assumptions of continued strong commodity prices, public and private sector investment, a healthy demand environment across all sectors in Western Canada, federal and provincial government infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and power projects, and our ability to leverage CUBIQ™ and drive continued success with construction rebuilds and customer value agreements, and continued capital expenditures in mining, including the oil sands), our expectations for our South America operations (based on assumptions related to Chile of a continued strong copper price, a projected increase in copper mining growth, a moderate increase in mining royalties, our position to capture opportunities for new mining equipment and autonomous solutions for brownfield expansions and greenfield projects, and continued strong demand for mining infrastructure and the government’s infrastructure investment program), our expectations for our UK & Ireland operations (based on assumptions of continued HS2 construction activity, continued government investments in infrastructure projects, our ability to leverage CUIBIQ™ and projections of continued growth in data centre market), our continued positive market outlook and our expectations of upcycle demand conditions in 2022, higher revenue and higher new equipment mix for the remainder of the year compared to Q1 2022, and above mid-teens EPS growth in 2022 compared to 2021 (based on assumptions of continued strength in commodity prices, public and private sector spending, forecasted economic growth in all our regions, and that we will successfully manage industry-wide constraints in the global supply chain and inflationary pressures including further price increases from key suppliers in the second quarter, including through successfully working with customers to implement those changes); the Canadian income tax treatment of the quarterly dividend; and our intention to purchase common shares under our renewed NCIB for a further year effective May 13, 2022 and implement an automatic share purchase plan with a designated broker in connection with the renewed NCIB (no assurance is given as to the number of common shares that may be purchased under the NCIB, or if any will be purchased). 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; 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 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; that there will be a moderate increase in mining royalties in Chile; 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.