

Finning reports Q2 2023 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning”, the “Company”, “we”, “our” or “us”) reported second quarter 2023 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

All comparisons are to Q2 2022 results unless indicated otherwise.

- Q2 2023 EPS ⁽¹⁾ of \$1.00 was up 24%, driven by significant revenue growth and strong operating margins.
- Q2 2023 revenue of \$2.8 billion and net revenue ⁽²⁾ of \$2.6 billion were up 21% and 28%, respectively. Revenues were higher in all lines of business, including a 30% increase in product support revenue.
- Q2 2023 SG&A ⁽¹⁾ as a percentage of net revenue ⁽²⁾ was 16.2%, down 70 basis points. Over the last twelve months ended Q2 2023, SG&A as a percentage of net revenue was 17.3%.
- Q2 2023 EBIT ⁽¹⁾ was up 28%. EBIT as a percentage of net revenue ⁽²⁾ was 9.9% in Canada, 12.1% in South America, and 5.5% in the UK & Ireland.
- Q2 2023 Adjusted ROIC ⁽¹⁾⁽²⁾⁽⁴⁾ increased to 20.2%, up 270 basis points.
- Q2 2023 free cash flow ⁽³⁾ was \$31 million compared to a use of cash of \$142 million in Q2 2022, and Q2 2023 net debt to Adjusted EBITDA ⁽¹⁾⁽²⁾⁽⁴⁾ was 1.8 times which was comparable to Q2 2022.
- Consolidated equipment backlog ⁽²⁾ was \$2.4 billion at June 30, 2023 compared to \$2.7 billion at March 30, 2023 reflecting strong deliveries, which were up 40% from Q1 2023. Equipment backlog was up from \$2.1 billion at June 30, 2022, driven by mining and power systems, which represent about 40% and 25% of our equipment backlog, respectively.

“Our team continues to execute well, delivering another great quarter, with EPS of \$1.00 per share and Adjusted ROIC above 20% for the first time. The combination of our expanding installed equipment base and disciplined execution of our product support strategy continues to drive strong product support revenue, which was again the largest contributor to our earnings growth in the quarter. We are hiring technicians and building our capabilities and capacity to continue delivering the best service to our customers and capturing market share opportunities.

The performance of our South American business was particularly strong in Q2. Strategic wins with large mining customers are helping drive increased activity in our mining business, with product support revenue up 34% in functional currency compared to Q2 2022 and Adjusted ROIC above 26%. We are excited about both near and long-term growth opportunities in South America, and we look forward to sharing more details about our strategy and demonstrating our strong capabilities in the region when we host our Investor Day and Tour in Antofagasta, Chile in September.

Customer activity levels in our regions remain robust, and our outlook is positive. We expect continued momentum in our business to be underpinned by strong equipment backlog and service levels, as well as successful execution of our product support growth strategy, including very strong rebuild activity,” said Kevin Parkes, president and CEO.

Q2 2023 FINANCIAL SUMMARY

(\$ millions, except per share amounts)	3 months ended June 30		
	2023	2022	% change fav ⁽¹⁾ (unfav) ⁽¹⁾
New equipment	949	733	29%
Used equipment	93	86	8%
Equipment rental	78	70	11%
Product support	1,395	1,075	30%
Net fuel and other	44	40	12%
Net revenue	2,559	2,004	28%
Gross profit	654	528	24%
<i>Gross profit as a percentage of net revenue⁽²⁾</i>	25.6%	26.3%	
SG&A	(415)	(338)	(23)%
<i>SG&A as a percentage of net revenue</i>	(16.2)%	(16.9)%	
Equity earnings of joint ventures	3	—	
EBIT	242	190	28%
<i>EBIT as a percentage of net revenue</i>	9.4%	9.4%	
Net income attributable to shareholders of Finning	148	126	18%
EPS	1.00	0.80	24%
Free cash flow ⁽³⁾	31	(142)	122%

Q2 2023 EBIT by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	136	104	18	(16)	242	1.00
<i>EBIT as a percentage of net revenue</i>	9.9%	12.1%	5.5%	n/m ⁽¹⁾	9.4%	

Q2 2022 EBIT 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%	n/m	9.4%	

QUARTERLY KEY PERFORMANCE MEASURES

	2023				2022			2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
EBIT (\$ millions)	242	239	214	224	190	140	157	150	137
Adjusted EBIT ⁽³⁾⁽⁴⁾ (\$ millions)	242	216	214	224	190	140	157	150	137
EBIT as a % of net revenue									
Consolidated	9.4%	11.2%	9.0%	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%
Canada	9.9%	11.0%	11.0%	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%
South America	12.1%	10.5%	11.4%	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%
UK & Ireland	5.5%	5.1%	4.4%	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%
Adjusted EBIT as a % of net revenue ⁽²⁾⁽⁴⁾									
Consolidated	9.4%	10.1%	9.0%	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%
Canada	9.9%	11.3%	11.0%	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%
South America	12.1%	11.5%	11.4%	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%
UK & Ireland	5.5%	5.7%	4.4%	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%
EPS	1.00	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56
Adjusted EPS ⁽²⁾⁽⁴⁾	1.00	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56
Invested capital ⁽²⁾ (\$ millions)	4,630	4,545	4,170	4,358	4,076	3,777	3,326	3,335	3,277
ROIC ⁽²⁾ (%)									
Consolidated	20.8%	20.2%	18.7%	18.3%	17.5%	17.0%	16.8%	15.6%	15.3%
Canada	20.1%	19.4%	18.7%	18.2%	17.4%	17.4%	17.5%	16.5%	17.0%
South America	25.9%	24.0%	24.5%	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%
UK & Ireland	15.5%	17.0%	17.0%	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%
Adjusted ROIC									
Consolidated	20.2%	19.7%	18.7%	18.3%	17.5%	17.0%	16.4%	14.7%	13.3%
Canada	20.2%	19.6%	18.7%	18.2%	17.4%	17.4%	16.9%	15.3%	14.0%
South America	26.4%	24.6%	24.5%	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%
UK & Ireland	15.9%	17.4%	17.0%	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%
Invested capital turnover ⁽²⁾ (times)	2.07	2.01	2.01	1.96	2.00	2.03	2.04	2.01	1.93
Inventory (\$ millions)	2,764	2,710	2,461	2,526	2,228	2,101	1,687	1,627	1,643
Inventory turns (dealership) ⁽²⁾ (times)	2.49	2.51	2.61	2.52	2.50	2.66	3.09	3.09	2.84
Working capital to net revenue ⁽²⁾	27.5%	28.0%	27.4%	27.1%	25.1%	23.8%	22.9%	23.0%	24.0%
Free cash flow (\$ millions)	31	(245)	332	(57)	(142)	(303)	148	176	(4)
Net debt to Adjusted EBITDA ratio (times)	1.8	1.7	1.6	1.8	1.8	1.6	1.1	1.3	1.4

Q2 2023 HIGHLIGHTS BY OPERATION

All comparisons are to Q2 2022 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 36%, driven primarily by strong new equipment sales across all sectors, which were up 84%, led by mining deliveries to oil sands customers.
- Product support revenue increased by 24%, led by mining, including increasing rebuild activity.
- EBIT as a percentage of net revenue was 9.9%, comparable to Q2 2022, primarily due to a higher proportion of mining new equipment sales in the revenue mix. SG&A as a percentage of net revenue declined from Q2 2022.
- Canada's Adjusted ROIC was 20.2% in Q2 2023.

South America Operations

- Net revenue increased by 28%, driven primarily by mining product support.
- New equipment sales were up 18% mostly due to higher sales to large contractors supporting mining operations in Chile.
- Product support revenue was up 34%, led by strong mining activity in Chile.
- EBIT was up 53% and EBIT as a percentage of net revenue was 12.1%, up 200 basis points, attributable to strong growth in product support and operating leverage.
- South America generated Adjusted ROIC of 26.4% in Q2 2023.

UK & Ireland Operations

- Net revenue decreased by 11% due to lower new equipment sales in construction. In Q2 2022, HS2 deliveries drove record new equipment sales and EBIT.
- Used equipment sales more than doubled.
- Product support revenue was up 14%, driven by strong customer activity and equipment utilization in all sectors.
- EBIT as a percentage of net revenue was a solid 5.5%, reflecting continued focus on growing our product support business.

Corporate and Other Items

- Corporate EBIT loss was \$16 million in Q2 2023 compared to EBIT of \$1 million in Q2 2022, primarily due to higher LTIP expense compared to an LTIP recovery in Q2 2022. On a consolidated basis, Q2 2023 LTIP expense was \$25 million higher compared to Q2 2022.
- The Board of Directors has approved a quarterly dividend to \$0.25 per share, payable on September 7, 2023, to shareholders of record on August 24, 2023. This dividend will be considered an eligible dividend for Canadian income tax purposes.
- We repurchased 3.0 million shares in Q2 2023 at an average price of \$37.96, representing 2.0% of our public float.

Finning Appoints Charles Ruigrok to the Board of Directors

We are pleased to announce the appointment of Charles Ruigrok as an independent director to the company's Board of Directors effective immediately. Mr. Ruigrok brings over 40 years of business and executive leadership experience in the energy industry. Currently, Mr. Ruigrok serves as Chair of the board of directors of ENMAX Corporation, having previously served as Chair of ENMAX's Audit Committee and as Board Chair of Versant Power, ENMAX's Maine-based transmission and distribution business. Mr. Ruigrok is a former CEO of Syncrude Canada Ltd. and spent 26 years at Imperial Oil in various senior executive positions, including Vice President of Oil Sands Development and Research. Mr. Ruigrok has served on several boards, including Syncrude Canada Ltd., Rainbow Pipeline Company, ProGas Limited, the Alberta Chamber of Resources and Soane Energy LLC, and is a former member of the Board of Governors of the Canadian Association of Petroleum Producers.

"We are pleased to welcome Charles to our Board," said Harold Kvisle, chair of Finning's Board of Directors. "Charles is an accomplished leader and brings extensive governance experience and in-depth knowledge of the energy business to complement the talent and diversity of our Board."

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

Our outlook for Western Canada is positive, supported by healthy order activity, record equipment backlog, and continued strong demand for product support across all sectors.

In the mining and energy sectors, constructive commodity prices and improved customer capital budgets are driving investment in renewal of aging fleets and growing demand for product support, including component remanufacturing and equipment rebuilds. In the oil and gas sector, customer activity remains strong and high utilization of drilling and well servicing equipment is driving demand for maintenance and rebuilds.

In the construction sector, federal and provincial governments' infrastructure programs and private sector investments support healthy demand for construction equipment, rentals, and prime and standby electric power generation.

South America Operations

Our outlook for Chile mining remains strong, supported by growing demand for copper and improving political clarity. We are encouraged by the recent government approvals of large-scale brownfield expansions and increasing customer confidence to invest into brownfield and greenfield projects. We are seeing robust quoting activity, and we have received significant orders from our mining customers after June 30 which will be added to our equipment backlog in Q3 2023. We also expect continued strong demand for mining product support and technology solutions.

About half our construction business in Chile is related to the mining sector where we continue to see strong demand from large contractors supporting mining operations. We expect infrastructure construction activity in Chile to remain stable.

In the power systems sector, order activity remains strong. We are well positioned to benefit from future opportunities in the growing data centre market.

In Argentina, activity in construction, oil and gas, and mining is expected to remain stable. However, high inflation, currency restrictions, and new import regulations are expected to continue impacting our business in Argentina. With the election process beginning in August and concluding in November, we expect volatility to continue in an already challenging fiscal, regulatory, and currency environment. We continue to actively manage and mitigate these risks.

UK & Ireland Operations

In the construction sector, order activity remains stable and demand for equipment has been resilient. Construction order intake was up 60% from Q1 2023. With deliveries to HS2 largely completed, we continue to expect lower construction new equipment sales in the UK in 2023 compared to 2022. Demand for product support is expected to remain strong, driven by high machine utilization across construction markets and growing contribution from Hydraquip ⁽¹⁾.

We expect continued strong demand for our power systems business in the UK & Ireland, including in the data centre market. We have a significant backlog of power systems projects for delivery in 2023 and 2024.

Executing Well and Building on Positive Momentum

Customer activity levels in our regions remain robust, and our outlook is positive. We expect continued momentum in our business to be underpinned by strong equipment backlog and service levels, as well as successful execution of our product support growth strategy, including very strong rebuild activity. Our equipment backlog for delivery in 2024 continues to grow and now stands at \$0.9 billion. All our operations are hiring technicians and building capabilities and capacity to continue delivering the best service to our customers and capturing market share.

To access Finning's complete Q2 2023 results, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q2 2023 INVESTOR CALL

We will hold an investor call on August 9, 2023 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 is the world's largest Caterpillar dealer, delivering unrivalled service to customers for 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⁽¹⁾ 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 EPS

Adjusted 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 EPS (the most directly comparable GAAP financial measure) and Adjusted EPS can be found on page 9 of this Earnings Release.

Adjusted EBIT and Adjusted EBITDA

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.

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

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

Significant items identified by management that affected our results were as follows:

- In Q1 2023, we executed various transactions to simplify and adjust our organizational structure. We wound up two wholly owned subsidiaries, recapitalized and repatriated \$170 million of profits from our South American operations, and incurred severance costs in each region as we reduced corporate overhead costs and simplified our operating model. As a result of these activities, our Q1 2023 financial results were impacted by significant items that we do not consider indicative of operational and financial trends:
 - Net foreign currency translation gain and income tax expense were reclassified to net income on the wind up of foreign subsidiaries;
 - Withholding tax payable related to the repatriation of profits; and,
 - Severance costs incurred in all of our operations.
- Finning qualified for and recorded a benefit from Q2 2020 to Q1 2021 related to CEWS⁽¹⁾, which was introduced by the Government of Canada in response to the COVID-19⁽¹⁾ pandemic for eligible entities that met specific criteria.
- In December 2020, the shareholders of Energyst⁽¹⁾, which included Finning, decided to restructure the company. A plan was put in place to sell any remaining assets and wind up Energyst, with net proceeds from the sale to be distributed to Energyst's shareholders. In Q1 2021, we recorded a return on our investment in Energyst.

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

3 months ended (\$ millions)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	242	239	214	224	190	140	157	150	137	108	108	138
Significant items:												
Gain on wind up of foreign subsidiaries	—	(41)	—	—	—	—	—	—	—	—	—	—
Severance costs	—	18	—	—	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	—	(10)	(14)	(37)
Return on Energyst investment	—	—	—	—	—	—	—	—	—	(5)	—	—
Adjusted EBIT	242	216	214	224	190	140	157	150	137	93	94	101
Depreciation and amortization	94	92	87	84	81	81	84	80	78	77	77	77
Adjusted EBITDA ⁽³⁾⁽⁴⁾	336	308	301	308	271	221	241	230	215	170	171	178

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

3 months ended (\$ millions)	2023				2022			2021	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Significant items:									
Gain on wind up of foreign subsidiaries	—	9	—	—	—	—	—	—	—
Severance costs	—	(5)	—	—	—	—	—	—	—
Withholding tax on repatriation of profits	—	19	—	—	—	—	—	—	—
Provision for income taxes on the significant items	—	23	—	—	—	—	—	—	—

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

3 months ended (\$)	2023				2022			2021	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EPS ^(a)	1.00	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56
Significant items:									
Gain on wind up of foreign subsidiaries	—	(0.21)	—	—	—	—	—	—	—
Severance costs	—	0.09	—	—	—	—	—	—	—
Withholding tax on repatriation of profits	—	0.12	—	—	—	—	—	—	—
Adjusted EPS ^(a)	1.00	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56

^(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 for our Canadian operations is as follows:

3 months ended (\$ millions)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	136	126	128	125	102	80	92	84	82	69	72	93
Significant items:												
Severance costs	—	4	—	—	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	—	(10)	(13)	(35)
Adjusted EBIT	136	130	128	125	102	80	92	84	82	59	59	58

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

3 months ended (\$ millions)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	104	74	96	85	64	65	59	58	51	41	41	40
Significant item:												
Severance costs	—	7	—	—	—	—	—	—	—	—	—	—
Adjusted EBIT	104	81	96	85	64	65	59	58	51	41	41	40

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

3 months ended (\$ millions)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	18	15	16	21	23	14	12	17	17	7	11	9
Significant item:												
Severance costs	—	2	—	—	—	—	—	—	—	—	—	—
Adjusted EBIT	18	17	16	21	23	14	12	17	17	7	11	9

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

3 months ended (\$ millions)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
EBIT	(16)	24	(26)	(7)	1	(19)	(6)	(9)	(13)	(9)	(16)	(4)
Significant items:												
Gain on wind up of foreign subsidiaries	—	(41)	—	—	—	—	—	—	—	—	—	—
Severance costs	—	5	—	—	—	—	—	—	—	—	—	—
Return on Energyst investment	—	—	—	—	—	—	—	—	—	(5)	—	—
CEWS support	—	—	—	—	—	—	—	—	—	—	(1)	(2)
Adjusted EBIT	(16)	(12)	(26)	(7)	1	(19)	(6)	(9)	(13)	(14)	(17)	(6)

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)	2023				2022				2021
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash flow provided by (used in) operating activities	66	(166)	410	(24)	(112)	(273)	193	212	8
Additions to property, plant, and equipment and intangible assets	(40)	(79)	(78)	(33)	(30)	(30)	(45)	(38)	(17)
Proceeds on disposal of property, plant, and equipment	5	—	—	—	—	—	—	2	5
Free cash flow	31	(245)	332	(57)	(142)	(303)	148	176	(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)	2023				2022				2021	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cost of sales	2,125	1,758	2,025	1,807	1,761	1,463	1,465	1,443	1,396	1,189
Cost of sales related to mobile refuelling operations	(237)	(253)	(302)	(293)	(300)	(231)	(190)	(170)	(153)	(140)
Cost of sales related to the dealership ⁽³⁾	1,888	1,505	1,723	1,514	1,461	1,232	1,275	1,273	1,243	1,049

(\$ millions)	2023				2022				2021	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Inventory	2,764	2,710	2,461	2,526	2,228	2,101	1,687	1,627	1,643	1,593
Fuel inventory	(14)	(12)	(12)	(12)	(13)	(11)	(9)	(6)	(3)	(3)
Inventory related to the dealership ⁽³⁾	2,750	2,698	2,449	2,514	2,215	2,090	1,678	1,621	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)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Cash and cash equivalents	(74)	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)
Short-term debt	1,142	1,266	1,068	1,087	992	804	374	419	114	103	92	217
Long-term debt												
Current	199	253	114	106	110	63	190	191	386	326	201	200
Non-current	949	675	815	836	807	909	921	923	903	973	1,107	1,136
Net debt ⁽³⁾	2,216	2,065	1,709	1,909	1,739	1,481	983	1,015	1,025	933	861	1,100
Total equity	2,414	2,480	2,461	2,449	2,337	2,296	2,343	2,320	2,252	2,244	2,206	2,184
Invested capital	4,630	4,545	4,170	4,358	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, 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 EBIT as a % of net revenue using 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 ratios are calculated, respectively, as gross profit divided by net revenue, SG&A divided by net revenue, and EBIT divided by net revenue. The most directly comparable GAAP financial measure to net revenue is total revenue. Net revenue is calculated as follows:

3 months ended (\$ millions)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Total revenue	2,779	2,380	2,653	2,384	2,289	1,953	1,949	1,904	1,845	1,596	1,666	1,553
Cost of fuel	(220)	(236)	(285)	(277)	(285)	(217)	(175)	(156)	(140)	(127)	(115)	(110)
Net revenue	2,559	2,144	2,368	2,107	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)	2023				2022				2021		2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Total current assets	4,985	4,974	4,781	4,652	4,098	4,030	3,619	3,620	3,416	3,319	3,214	3,261
Cash and cash equivalents	(74)	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)
Total current assets in working capital	4,911	4,845	4,493	4,532	3,928	3,735	3,117	3,102	3,038	2,850	2,675	2,808
Total current liabilities	3,569	3,763	3,401	3,196	2,789	2,647	2,155	2,156	1,942	1,817	1,623	1,717
Short-term debt	(1,142)	(1,266)	(1,068)	(1,087)	(992)	(804)	(374)	(419)	(114)	(103)	(92)	(217)
Current portion of long-term debt	(199)	(253)	(114)	(106)	(110)	(63)	(190)	(191)	(386)	(326)	(201)	(200)
Total current liabilities in working capital	2,228	2,244	2,219	2,003	1,687	1,780	1,591	1,546	1,442	1,388	1,330	1,300
Working capital ⁽³⁾	2,683	2,601	2,274	2,529	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); favourable (fav); unfavourable (unfav); not meaningful (n/m); Hydraquip Hose & Hydraulics Ltd. and Hoses Direct Ltd. (Hydraquip); generally accepted accounting principles (GAAP); Canadian Emergency Wage Subsidy (CEWS); Novel Coronavirus (COVID-19); Energyst B.V. (Energyst).
- (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: all information in the section entitled “Market Update and Business Outlook”, including for our Canada operations: our positive outlook for Western Canada (based on our healthy order activity and record equipment backlog (and our ability and timing to deliver our equipment backlog) and on assumptions in the mining and energy sectors of constructive commodity prices and improved customer capital budgets driving investment in renewal of aging fleets and growing demand for product support, including component remanufacturing and equipment rebuilds, assumptions in the oil and gas sector of continued strong customer activity and high utilization of drilling and well servicing equipment driving demand for maintenance and rebuilds, and assumptions in the construction sector of federal and provincial governments’ infrastructure programs and private sector investments in infrastructure and power projects); for our South America operations: our strong outlook for Chile mining (based on assumptions of continued growth in demand for copper, improving political clarity, government approvals of large-scale brownfield expansions (which assumes approved projects will proceed as anticipated), and increasing customer confidence to invest), the significant orders from our mining customers will be added to our equipment backlog in Q3 2023, our expectation for continued strong demand for mining product support and technology solutions, our expectation for infrastructure construction activity in Chile to remain stable (based on assumptions of continued strong demand from large contractors supporting mining operations), our belief that we are well positioned to benefit from future opportunities in the growing data centre market (based on assumptions of strong order activity); and for Argentina, our expectation for activity in construction, oil and gas, and mining to remain stable (based on assumptions that our customers will be able to manage through the challenging fiscal, regulatory, and currency environment), and the expected continued impact of high inflation, currency restrictions, and new import regulations on our business and the continued volatility from the upcoming election process; for our UK & Ireland operations: our expectation for lower construction new equipment sales in 2023 (based on deliveries to HS2 being largely completed), our expectation of continued strong demand for product support (based on assumptions of continued high machine utilization rates across construction markets and growing contribution from Hydraquip) and that demand for our power systems business will remain strong, and the strength of our backlog of power systems projects for delivery in 2023 and 2024; and overall: our positive outlook and expectation of continued momentum in our business (based on assumptions of our strong equipment backlog and service levels, and successful execution of our product support growth strategy, including very strong rebuild activity), continuing growth in our equipment backlog for delivery in 2024 (assumes supply chain continuity and that supply chain and inflationary challenges will not materially impact orders and deliveries), and our expectations for hiring technicians and building capabilities and capacity to continue delivering the best service to our customers and capturing market share, and for near and long-term growth opportunities in South America; 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 specific factors stated above; the impact and duration of, and our ability to respond to and manage, high inflation, increasing interest rates, supply chain challenges, and the impacts of the Russia-Ukraine war; general economic and market conditions, including increasing inflationary cost pressure, and economic and market conditions in the regions where we operate; the outcome and impact of the upcoming election cycle in Argentina; government approvals of large-scale brownfield expansions; the constitutional reform process and proposed tax reform bill in Chile; foreign exchange rates; commodity prices; interest rates; 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 effectively integrate and realize expected synergies from businesses that we acquire; our ability to deliver our equipment backlog; 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; business disruption resulting from business process change, systems change and organizational change; regulatory initiatives or proceedings, litigation and changes in laws, regulations or policies, including with respect to environmental protection and/or energy transition; 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 availability of carbon neutral technology or renewable power; the cost of climate change initiatives; the occurrence of one or more 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; and the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; and our ability to protect our business from cybersecurity threats or incidents. Forward-looking information is provided in this news release 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 volatile commodity prices, high inflation, increasing interest rates, supply chain challenges and the impacts of the Russia-Ukraine war, and successfully execute our strategies to win customers, achieve full cycle resilience (based on assumptions that steps to reduce corporate overhead, drive productivity and optimize working capital while supporting strong business growth will be successful and sustainable) and continue business momentum (based on assumptions that we will be able to continue to source and hire technicians, build capabilities and capacity and successfully and sustainably improve workshop efficiencies); 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 support and demand for renewable energy will continue to grow; that present supply chain and inflationary challenges will not materially impact large project deliveries in our equipment backlog; our ability to successfully execute our plans and intentions; that we will successfully execute initiatives to reduce our GHG emissions; 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; 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; our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained and that Caterpillar and such other suppliers will deliver quality, competitive products with supply chain continuity; 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 the regions that we operate. 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. 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. 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.