

Finning reports Q4 and annual 2016 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning” or the “Company”) reported fourth quarter and annual 2016 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

- Q4 basic EPS⁽¹⁾ was \$0.05 per share; Adjusted EPS⁽²⁾⁽³⁾ was \$0.28 per share.
- Q4 revenue was up 12% from Q3 2016, driven by higher new equipment sales in Canada and South America, and stronger product support in Canada.
- Canada’s annual fixed SG&A⁽¹⁾ costs were down 22% from 2014, excluding significant items and the Saskatchewan operations acquired in 2015. Q4 2016 total SG&A, excluding severance and restructuring costs, was down 7% from Q4 2015 on flat revenues.
- New equipment inventory was down \$155 million from December 2015, excluding the impact of foreign exchange, driven by \$175 million reduction in Canada.
- Strong annual free cash flow⁽³⁾ of \$370 million, including \$113 million in Q4, reflects improved working capital⁽³⁾ management.

“Our fourth quarter results provide a solid end to a year marked by continued progress towards reshaping Finning into a stronger, more agile company. We enter 2017 with a significantly reduced cost structure, optimized facility footprint, efficient parts supply chain, and improved service profitability. Our resilient business model and capital discipline have enabled us to generate strong free cash flow, which has contributed to strengthening our financial position despite challenging market conditions,” said Scott Thomson, president and CEO, Finning International.

“The changes we have made to our business position us well for the year ahead. We expect a modest increase in product support to be offset by ongoing weakness in equipment demand due to prevalent uncertain market conditions in our territories. Going forward, we have clear plans in place to build on the significant operational improvements made with continued focus on safety and people. We will also increase our emphasis on leveraging technology to improve performance and deliver greater customer value. Importantly, our business has been repositioned to support our objective of delivering improved profitability in a capital efficient fashion,” concluded Mr. Thomson.

Q4 2016 FINANCIAL SUMMARY

<i>\$ millions, except per share amounts</i>	Q4 2016	Q4 2015 (restated)⁽⁴⁾	% change
Revenue	1,491	1,537	(3)
EBIT ⁽¹⁾	18	(349)	105
<i>EBIT margin</i>	1.3%	(22.7)%	
EBITDA ⁽¹⁾⁽³⁾	65	(282)	123
<i>EBITDA margin⁽³⁾</i>	4.3%	(18.4)%	
Net income	9	(309)	103
Basic EPS	0.05	(1.82)	103
Free cash flow	113	347	(67)

Included in Q4 2016 and Q4 2015 results are the following significant items that management does not consider indicative of operational and financial trends either by nature or amount. These significant items are summarized below and described in more detail on page 18 of the Company's Management's Discussion and Analysis ("MD&A").

Q4 2016 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	(3)	27	8	(14)	18	0.05
Severance costs	15	-	-	-	15	0.06
Facility closures and restructuring costs	32	-	-	-	32	0.15
Estimated loss on alleged fraud by a customer	-	10	-	-	10	0.04
Gain on investment	-	-	-	(5)	(5)	(0.02)
Adjusted EBIT ⁽²⁾⁽³⁾ / Adjusted EPS	44	37	8	(19)	70	0.28
Adjusted EBITDA ⁽²⁾⁽³⁾	68	53	15	(19)	117	
<i>EBIT margin</i>	<i>(0.3)%</i>	<i>5.0%</i>	<i>3.3%</i>	-	<i>1.3%</i>	
<i>Adjusted EBIT margin⁽²⁾⁽³⁾</i>	<i>6.2%</i>	<i>7.0%</i>	<i>3.3%</i>	-	<i>4.8%</i>	
<i>Adjusted EBITDA margin⁽²⁾⁽³⁾</i>	<i>9.5%</i>	<i>9.9%</i>	<i>6.1%</i>	-	<i>7.9%</i>	

Q4 2015 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	(17)	(303)	(31)	2	(349)	(1.82)
Distribution network and goodwill impairment	-	324	14	-	338	1.56
Facility closure and restructuring costs	40	3	2	-	45	0.19
Inventory and other asset impairments	16	10	16	-	42	0.19
FX & tax impact on Argentine peso devaluation	-	12	-	-	12	0.14
Severance costs	-	-	2	-	2	0.01
Gain on sale of Uruguay business	-	-	-	(8)	(8)	(0.04)
Adjusted EBIT / Adjusted EPS	39	46	3	(6)	82	0.23
Adjusted EBITDA	70	65	10	(6)	139	
<i>EBIT margin</i>	<i>(2.4)%</i>	<i>(57.3)%</i>	<i>(10.6)%</i>	-	<i>(22.7)%</i>	
<i>Adjusted EBIT margin</i>	<i>5.5%</i>	<i>9.0%</i>	<i>0.8%</i>	-	<i>5.3%</i>	
<i>Adjusted EBITDA margin</i>	<i>9.8%</i>	<i>12.4%</i>	<i>3.2%</i>	-	<i>9.0%</i>	

- Revenues were down 3% in Q4 2016 due to lower revenues in the UK & Ireland as a result of an unfavourable translation impact from a stronger Canadian dollar relative to the British Pound compared to Q4 2015. Product support revenues declined by 3%, reflecting lower product support in South America which offset an increase in product support revenues in Canada. New equipment sales were down 2%, with higher sales in South America being more than offset by lower new equipment sales in the UK & Ireland when translated into Canadian dollars.
- Gross profit was up 3% compared to Q4 2015 due to higher margins. However, excluding the impairment of inventory and other assets recorded in Q4 2015, gross profit margin of 25.4% was 100 basis points below Q4 2015, reflecting increased competitive pressures in all markets and lower margins on certain equipment sales in Canada and South America.
- Adjusted EBIT improved in Canada (up \$5 million) and the UK & Ireland (up \$5 million) from Q4 2015, reflecting lower SG&A costs. However, consolidated Adjusted EBIT was down \$12 million mostly as a result of:
 - o the negative performance of a specific mining contract in South America, which reduced Adjusted EBIT by \$7 million (\$0.03 per share);

- o higher costs for the Company's long-term incentive plan, which were \$8 million (\$0.04 per share) in the quarter, an increase of \$10 million (\$0.04 per share) over Q4 2015; and
 - o \$4 million (\$0.02 per share) higher corporate costs related to strategic digital initiatives in Q4 2016.
- Adjusted EPS of \$0.28 per share for the quarter benefited from a tax recovery of which approximately \$0.05 per share offset higher tax expenses in the prior quarters of 2016. This tax recovery is the outcome of qualifying for an adjustment to reduce taxable income in Argentina to compensate for inflation.
 - Q4 free cash flow was \$113 million, with strong cash flow generated by all operations. For the full year 2016, free cash flow of \$370 million was above \$325 million in 2015, reflecting improved working capital management.
 - The Company has a strong balance sheet: net debt to Adjusted EBITDA ratio⁽²⁾⁽³⁾ was 1.9 and net debt to invested capital ratio⁽³⁾ was 32.0% at the end of Q4 2016.

Q4 2016 INVESTED CAPITAL

	Q4 2016	Q3 2016	Q4 2015
Invested capital⁽³⁾ (\$ millions)			
Consolidated	2,797	2,917	3,240
Canada	1,595	1,650	1,760
South America (U.S. dollars)	741	778	811
UK & Ireland (U.K. pound sterling)	130	148	157
Invested capital turnover⁽³⁾⁽⁴⁾ (times)	1.90	1.85	1.78
Adjusted ROIC⁽¹⁾⁽²⁾⁽³⁾ (%)			
Consolidated	9.3	9.2	10.9
Canada	9.3	8.7	10.6
South America	15.0	15.6	14.0
UK & Ireland	5.9	3.4	9.0

- Excluding the impact of foreign currency translation, invested capital decreased by nearly \$365 million from December 2015, driven by improved management of working capital across the organization, including a \$175 million reduction in new equipment inventory in Canada which was partly offset by investment in Argentina to support increased sales activity. Lower rental and capital assets in Canada also contributed to a decrease in invested capital from December 2015.
- Despite reduced invested capital levels, consolidated Adjusted ROIC of 9.3% was below Q4 2015 as difficult market conditions impacted earnings in all operations.

Q4 2016 HIGHLIGHTS BY OPERATION

Canada

- Revenue was comparable to Q4 2015, with higher product support (up 5%) offsetting lower new equipment sales (down 4%) and rental revenues (down 24%). Compared to Q3 2016, new equipment sales increased by 26% and included a shovel delivery in the oil sands, while product support was up 11% with the oil sands volumes returning to the pre-wildfire levels. For the full year 2016, the 3% decline in product support was attributable to the impact of Alberta wildfires, as well as lower demand from construction and power systems customers, primarily in Alberta's resource sectors. Mining product support in 2016 was flat compared to 2015 despite the impact of Alberta wildfires in Q2 and Q3 2016.

- Adjusted EBIT of \$44 million was the highest in 2016 and up 13% from Q4 2015. The Canadian cost structure was reduced substantially over the last two years. Excluding significant items and the Saskatchewan operations acquired in 2015, fixed annual SG&A costs were down 22% from 2014. Q4 2016 total SG&A, excluding severance and restructuring costs, was down 7% from Q4 2015 on flat revenues. Despite increased pressure on gross profit from a competitive pricing environment, the Canadian operations exited 2016 with an Adjusted EBIT margin of 6.2%, up from 5.5% in Q4 2015 and 5.9% in Q3 2016.

South America

- Revenues were up slightly compared to Q4 2015, both in Canadian dollars and functional currency (US dollars), as stronger new equipment sales (up 25%) offset lower product support revenues (down 8%). New equipment sales were the highest over the last two years, driven by improved construction activity in Argentina where the Company is successfully building market share. While product support revenues were below 2015, mining product support activity has stabilized and quarterly revenues remained relatively flat throughout the year.
- Adjusted EBIT of \$37 million and Adjusted EBIT margin of 7.0% were below Q4 2015 primarily due to the negative performance of a specific mining contract. SG&A costs were down 2% from Q4 2015, excluding significant items in both quarters. The recent recovery in the price of copper strengthened the Chilean peso relative to the US dollar, which has increased the Company's labour costs without an immediate corresponding benefit to revenues.

United Kingdom & Ireland

- In functional currency (UK Pound Sterling), revenues were similar to Q4 2015. However, due to the negative translation impact of a weaker UK Pound Sterling to Canadian dollar, reported revenues decreased by 19%. Product support revenues continued to be impacted by lower activity in mining, marine and oil & gas sectors, and were down 5% in functional currency. This was offset by higher rental revenues and used equipment sales.
- EBIT of \$8 million and EBIT margin of 3.3% improved significantly from reported and Adjusted EBIT results in Q4 2015, driven by a lower cost structure and a successful execution of the turnaround plan. Management continues to transform the UK's business model to deliver sustainable results in an extremely competitive environment and with a lower proportion of product support in the revenue mix.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.1825 per share, payable on March 16, 2017 to shareholders of record on March 2, 2017. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended Dec 31			Twelve months ended Dec 31		
	2016	2015 (restated) ⁽⁴⁾	% change	2016	2015 (restated) ⁽⁴⁾	% change
New equipment	519	531	(2)	1,838	2,190	(16)
Used equipment	96	91	4	367	341	7
Equipment rental	56	70	(20)	226	294	(23)
Product support	816	841	(3)	3,182	3,434	(7)
Other	4	4	-	15	16	-
Total revenue	1,491	1,537	(3)	5,628	6,275	(10)
Gross profit	380	370	3	1,473	1,641	(10)
Gross profit margin	25.4%	24.0%		26.2%	26.1%	
SG&A	(333)	(347)	4	(1,280)	(1,369)	7
SG&A as a percentage of revenue	(22.3)%	(22.6)%		(22.7)%	(21.8)%	
Equity earnings (loss) of joint venture and associate	(1)	1		5	5	
Other expenses	(28)	(373)		(33)	(382)	
EBIT	18	(349)	105	165	(105)	257
EBIT margin	1.3%	(22.7)%		2.9%	(1.7)%	
Adjusted EBIT	70	82	(13)	273	383	(28)
Adjusted EBIT margin	4.8%	5.3%		4.9%	6.1%	
Net income	9	(309)	103	65	(161)	140
Basic EPS	0.05	(1.82)	103	0.38	(0.94)	141
Adjusted basic EPS	0.28	0.23	20	0.88	1.29	(32)
EBITDA	65	(282)	123	357	126	184
EBITDA margin	4.3%	(18.4)%		6.3%	2.0%	
Adjusted EBITDA	117	139	(15)	465	604	(23)
Adjusted EBITDA margin	7.9%	9.0%		8.3%	9.6%	
Free cash flow	113	347	(67)	370	325	14
	Dec 31, 2016		Dec 31, 2015			
	2,797		3,240			
	1.90		1.78			
	32.0%		36.7%			
	5.6%		(3.0)%			
	9.3%		10.9%			

Q4 2016 INVESTOR CALL

The Company will hold an investor call on February 16 at 11:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The call will be webcast live and subsequently archived at www.finning.com. Playback recording will be available at 1-855-669-9658 (access code 1112) until February 23, 2017.

ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for over 80 years. Finning sells, rents, and provides parts and services for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, the United Kingdom and Ireland.

CONTACT INFORMATION

Mauk Breukels
Vice President, Investor Relations and Corporate Affairs
Phone: (604) 331-4934
Email: mauk.breukels@finning.com
www.finning.com

FOOTNOTES

- (1) Earnings Before Finance Costs and Income Taxes (EBIT); 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).
- (2) Certain 2016 and 2015 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are summarized on page 2 of this news release and described on pages 3, 4, and 18 of the Company's MD&A, and the financial metrics that have been adjusted to take these items into account are referred to as "Adjusted" metrics.
- (3) These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" in the Company's MD&A. Management believes that providing certain non-GAAP financial measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out in this MD&A, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.
- (4) As previously disclosed, management has voluntarily changed its presentation of certain expenses to provide reliable and more relevant information to users of the financial statements and better align with industry comparable companies. In addition and as previously disclosed, management has concluded that certain cost recoveries are better reflected as revenues. Certain line items have been restated in the comparative 2015 periods but the impact of restatement is not significant. For more information on the impact to financial statements, please refer to note 2 of the Company's annual consolidated financial statements.

FORWARD-LOOKING DISCLAIMER

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations about the economy, market conditions and the competitive environment and the associated impact on the Company's financial results; expected revenue; expected free cash flow; expectations of a modest increase in product support that is expected to be offset by ongoing weakness in equipment demand due to prevalent uncertain market conditions; plans to build on operational improvements and focus on safety and people; leveraging technology to improve performance and deliver greater customer value; repositioning of Finning's business; delivering improved profitability in a capital efficient fashion; market share growth; stabilization of mining product support activity in South America; execution of the turnaround plan in the UK and Ireland and transformation of the UK's business model to deliver sustainable results with a lower proportion of product support in the revenue mix. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations as at the date of this report. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar Inc.; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability and availability of, and benefits from information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of the MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operations.

Except as otherwise indicated, forward-looking statements do 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 report. 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. Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.