

Finning reports Q4 and Annual 2020 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning”, “the Company”, “we”, “our” or “us”) reported fourth quarter and annual 2020 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

All comparisons are to Q4 2019 and annual 2019 results unless indicated otherwise.

- Q4 2020 EPS⁽¹⁾ of \$0.45 represented a 45% increase from Q4 2019 and included \$0.07 of Canada Emergency Wage Subsidy (“CEWS”). Q4 2020 Adjusted EPS⁽²⁾⁽³⁾ was \$0.38, 25% higher than Q4 2019.
- Q4 2020 revenue was \$1.7 billion, and net revenue⁽²⁾ of \$1.6 billion was down 12% from Q4 2019, as increased revenue in the UK & Ireland was offset by reduced market activity in Canada and South America. Compared to Q3 2020, net revenue increased by 7%, with growth in all regions.
- Gross profit as a percentage of net revenue⁽²⁾ of 26.9% in Q4 2020 was 260 basis points higher than Q4 2019, due to operational improvements and a revenue mix shift to product support revenue.
- For the full year 2020, SG&A⁽¹⁾ was down by \$115 million or 8% compared to 2019. Q4 2020 SG&A costs decreased by 3%, or \$10 million, from Q4 2019. Savings from global cost initiatives were offset by \$13 million higher long-term incentive plan (“LTIP”) expense in Q4 2020 compared to Q4 2019.
- All our operations achieved improved profitability compared to Q4 2019, driven by a lower cost base, stable gross profit margins, and the resiliency of our product support business. EBIT⁽¹⁾ as a percentage of net revenue⁽²⁾ was 9.3% in Canada (7.7% on an adjusted basis), 8.3% in South America, and 3.7% in the UK & Ireland.
- We have significantly strengthened our financial position throughout the year as we reduced our net debt⁽²⁾ by \$615 million from December 31, 2019. EBITDA⁽¹⁾⁽²⁾ to free cash flow⁽²⁾ conversion⁽²⁾ was approximately 125% in 2020. Our net debt to Adjusted EBITDA⁽²⁾⁽³⁾ ratio⁽²⁾⁽³⁾ was 1.4 at December 31, 2020, down from 2.0 at December 31, 2019, and our finance costs decreased by 21% from 2019 to \$85 million in 2020.
- Equipment backlog⁽²⁾ increased by 19% from September 30, 2020 to \$0.8 billion at December 31, 2020, driven primarily by higher order intake⁽²⁾ in the UK & Ireland related to initial equipment orders for HS2, and by mining in South America. Consolidated order intake in Q4 2020 increased by approximately 60% from Q3 2020 and was the highest since Q3 2018.

“We navigated through a very challenging year while operating safely, supporting our customers, and executing on our strategic priorities. Our Total Injury Frequency rate decreased by 35%, and our customer loyalty scores increased by 10% in 2020 compared to 2019. Our employees should be proud of these accomplishments, which demonstrate continued adaptability and unwavering commitment to providing essential services to our customers,” said Scott Thomson, president and CEO of Finning International.

“We greatly appreciate the contributions of our many stakeholders in 2020. The combination of employee flexibility, liquidity from our capital markets partners, and government support programs in Canada and the UK have helped protect against significant job losses while positioning our business for a strong recovery.”

“2020 was an exceptional execution year. Despite the challenges, we benefited from earlier investments in our digital capabilities and delivered on the commitments we set out at the beginning of the year. We improved our execution in South America, reduced our cost base in Canada, built a strong backlog of projects in the UK, and significantly lowered our finance costs.

“Our outlook for 2021 remains positive, with key markets recovering, commodity prices at constructive levels, our customers increasing capital expenditures, and government stimulus spending supporting infrastructure projects. In 2021, we expect to benefit from several profitability drivers, including operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle target of 17% SG&A as a percentage of net revenue⁽²⁾, and effective allocation of capital.” concluded Mr. Thomson.

Q4 2020 FINANCIAL SUMMARY

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q4 2020	Q4 2019	% change
Revenue	1,666	1,911	(13)
Net revenue	1,551	1,757	(12)
EBIT	108	97	11
<i>EBIT as a percentage of net revenue⁽²⁾</i>	6.9%	5.5%	
EBITDA	185	170	9
<i>EBITDA as a percentage of net revenue⁽²⁾</i>	11.9%	9.7%	
Net income	72	50	44
EPS	0.45	0.31	45
Free cash flow	292	386	(24)

Q4 2020 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	72	41	11	(16)	108	0.45
CEWS support	(13)	-	-	(1)	(14)	(0.07)
Adjusted EBIT ⁽²⁾⁽³⁾ / Adjusted EPS	59	41	11	(17)	94	0.38
<i>Adjusted EBIT as a percentage of net revenue⁽²⁾⁽³⁾</i>	7.7%	8.3%	3.7%	-	6.1%	
Adjusted EBITDA	106	61	20	(16)	171	
<i>Adjusted EBITDA as a percentage of net revenue⁽²⁾⁽³⁾</i>	13.7%	12.2%	7.0%	-	11.0%	

Q4 2019 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	72	31	5	(11)	97	0.31
<i>EBIT as a percentage of net revenue</i>	7.4%	6.0%	1.9%	-	5.5%	
EBITDA	114	51	15	(10)	170	
<i>EBITDA as a percentage of net revenue</i>	11.8%	10.0%	5.4%	-	9.7%	

Invested Capital⁽²⁾ and ROIC⁽¹⁾⁽²⁾	Q4 2020	Q4 2019
Invested capital (<i>\$ millions</i>)		
Consolidated	3,067	3,591
Canada	1,819	2,026
South America (US dollars)	731	918
UK & Ireland (UK pound sterling)	188	210
Invested capital turnover⁽²⁾ (<i>times</i>)	1.68	1.92
Working capital⁽²⁾ to net revenue ratio⁽²⁾	28.3%	27.8%
Inventory (<i>\$ millions</i>)	1,477	1,990
Inventory turns (dealership)⁽²⁾ (<i>times</i>)	2.79	2.53
Adjusted ROIC⁽²⁾⁽³⁾ (%)		
Consolidated	9.6	12.0
Canada	10.5	14.4
South America	12.9	10.5
UK & Ireland	5.5	12.1

Q4 2020 HIGHLIGHTS BY OPERATION

All comparisons are to Q4 2019 results unless indicated otherwise. All numbers are in functional currency: Canada – Canadian dollar; South America – US dollar; UK & Ireland – UK pound sterling (GBP).

Canada

- Net revenue decreased by 20%, largely due to a 47% decline in new equipment sales. Q4 2019 revenue benefited from large mining equipment packages that did not repeat in Q4 2020. Net revenue grew 6% from Q3 2020, driven by improving activity in mining and power systems deliveries.
- Product support revenue was 6% below Q4 2019 due to reduced activity in all sectors. Compared to Q3 2020, product support revenue increased by 5%, driven primarily by improved demand in the oil sands and higher rebuild activity.
- Due to a significant reduction in revenues in our Canadian operations year over year, we continued to qualify for CEWS and recognized \$13 million of this wage subsidy in Q4 2020, which is included in other income and excluded from our adjusted earnings. Support from the CEWS program allowed us to preserve over 500 jobs during 2020. We have rehired over 100 technicians since June 2020 as market activity began to improve. Our strengthened financial position will enable us to make strategic investments early in the recovery cycle, including the purchase and capacity expansion of our Regina facility in Saskatchewan, selected capacity expansions in Alberta, and the construction of new ultra-efficient facilities in Kamloops and Campbell River, British Columbia in partnership with local Indigenous communities.
- SG&A decreased by 7% from Q4 2019, reflecting cost savings from improved processes and efficiencies. However, these savings were partly offset by higher service and overhead costs, as new equipment preparation work was down significantly from Q4 2019 and we continued to use the CEWS program to retain technicians.
- Adjusted EBIT as a percentage of net revenue was 7.7%, up 30 basis points compared to Q4 2019 despite lower revenue, driven by a higher proportion of product support in the revenue mix, a reduced cost base, and operational improvements.

South America

- Net revenue decreased by 3% from Q4 2019 mostly due to continued impacts of COVID-19 restrictions on mining operations and overall economic activity. Compared to Q3 2020, net revenue increased by 6%, driven by product support recovery.
- Product support revenue was down 4% from Q4 2019, impacted by COVID-19 restrictions on mining operations. Compared to Q3 2020, product support revenue was up 8%, reflecting a recovery of repair and maintenance work for Chilean mining customers.
- New equipment sales were 10% below Q4 2019. However, order intake in South America increased by over 80% from Q3 2020, driven by mining.
- EBIT as a percentage of net revenue was 8.3%, up 230 basis points from Q4 2019, reflecting the benefit of a lower cost base from leveraging one common technology system.

United Kingdom & Ireland

- Net revenue was up by 4% from Q4 2019, driven by an 18% increase in new equipment sales, attributable to deliveries of power systems projects to the data centre and electricity capacity markets. Product support revenue was up 3% from Q4 2019 due to higher service and rebuild activity, and related parts consumption in construction.
- EBIT as a percentage of net revenue was 3.7%, up 180 basis points from Q4 2019. An increase in profitability compared to Q4 2019 was driven by a new equipment product mix shift to power systems, improved quality of equipment inventory, and effective cost control. The number of UK & Ireland employees on furlough was about 3% during Q4 2020, down from 20% in Q3 2020 and nearly 50% in Q2 2020. The UK government's furlough program has helped limit business disruptions and supported our rapid recovery in the UK and Ireland.
- An increase in order intake in the UK & Ireland in Q4 2020 was driven in part by initial equipment orders related to HS2. We expect to start delivering equipment to this project in Q2 2021. Despite some delays, we are encouraged by these orders, and remain well positioned to capture further equipment and product support opportunities for this project.

Q4 2020 MARKET UPDATE AND BUSINESS OUTLOOK

Canada

Oil sands production and capital expenditures are expected to increase in 2021 compared to 2020 in response to strengthened oil prices and the Alberta government's removal of production curtailments. We expect product support activity in the oil sands to continue to improve, with higher fleet utilization driving increased demand for maintenance and rebuilds.

The outlook for copper, precious metals and other metals has improved, supporting increased activity in this mining sector. Diamond mining activity is expected to return to full capacity in the first quarter after selected shut-downs in 2020. We are actively quoting on multiple requests for proposals (RFPs) for equipment and product support, including projects in the Golden Triangle of British Columbia, which represent significant greenfield opportunities. Higher demand for metallurgical coal is expected to be partly offset by lower thermal coal production.

We are well positioned to help our mining customers reduce cost per ton and improve operating efficiencies through initiatives such as autonomy and leveraging our technology solutions. The large and aging mining equipment population in Western Canada is expected to drive opportunities for future fleet renewals, rebuilds, autonomy conversions, and continued demand for product support.

We are encouraged by significant infrastructure investments being made in both the public and private sectors. Large fiscal stimulus programs in each province are expected to provide a near-term positive impact on construction activity, including investments in Alberta's light rail projects and BC Highway works. Other planned investments, such as the orphaned well abandonment program in Alberta and irrigation expansion in Alberta and Saskatchewan are expected to support a medium-term growth outlook for the construction sector. The significant private sector investment in LNG and power sectors will continue to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021. Cancellation of the Keystone XL pipeline is not expected to have a material impact on our business. We are seeing an increase in order intake for construction equipment. However, in the near term, COVID-19 mitigation measures are expected to continue impacting activity levels. Our focus remains on capturing product support market share in construction sectors by leveraging our technology solutions to strengthen relationships with our customers.

South America

We are optimistic about mining recovery in Chile. A positive long-term outlook for copper, increasing copper production forecasts, and an aging equipment population are expected to drive improved demand for product support and higher RFP activity in Chilean mining. We are actively quoting on multiple opportunities for new mining equipment and autonomy solutions for both brownfield expansions and greenfield projects. We are seeing an increasing commercial momentum for copper and gold mines in Chile and Argentina with significant projects advancing through feasibility studies. According to Cochilco, the Chilean Copper Commission, copper production in Chile is expected to increase to 7.1 million tons by 2029 from 5.8 million tons in 2020. Chile's portfolio of mining projects includes a total investment of US\$74 billion in 49 projects, mainly in copper, gold, iron, lithium and industrial minerals. Opportunities in the Lithium Triangle region, covering Chile, Argentina, and Bolivia, represent significant growth potential as lithium production is expected to continue increasing rapidly with the transition to electric vehicles.

We expect mining product support revenue to recover in 2021 as customers are ramping up major maintenance work and preparing their equipment fleets to meet increasing production targets. However, COVID-19 related restrictions are expected to continue to limit the capacity of mining operations in the near term. While we have reached agreements with our own unions, we are monitoring the upcoming customer union negotiations closely.

The outlook for a recovery in the Chilean construction industry is positive. The Chilean government announced US\$34 billion of public investment in infrastructure over 2020-2022 to jumpstart the economy. As a result, we expect to see improved activity and strong order intake in the construction and power systems markets in Chile in 2021. Although currently muted, we continue to monitor the potential for social unrest heading into the elections in November 2021.

In Argentina, we expect stability in gold mining and oil and gas, and some recovery in construction activity in 2021. We expect the overall business environment in Argentina to remain challenging, and are actively managing key risks, including ARS devaluation. We are maintaining a minimal level of investment in this region to manage risks and support our customers.

UK & Ireland

A new trade deal between the UK and the European Union reached in December 2020 is expected to remove uncertainty in our end markets, with no additional tariffs imposed and continued access to the single European market. We have completed significant planning ahead of the Brexit leave date in conjunction with Caterpillar to mitigate potential supply chain risks, and we are well positioned to meet our customer needs. Economic activity in the UK & Ireland continues to be affected by COVID-19 mitigation measures. However, since we provide services to industries that are deemed essential, we do not anticipate the latest lockdowns to impact the sectors we serve in a material way.

The outlook for general construction equipment markets in the UK is positive, driven by the HS2 project and the government's investment in other infrastructure initiatives to support the economy. After some delays, we expect a strong ramp-up in HS2 construction activity in 2021. Our backlog at December 31, 2020 includes some initial equipment orders related to HS2, and we expect to start delivering equipment to this project in Q2 2021.

We expect continued strong demand for our power systems solutions, particularly in the data centre market, with the timing of project deliveries expected to be phased towards the second half of 2021.

Improved Earnings Capacity in a Recovery

Our overall outlook for 2021 remains positive. Led by strong recoveries in Chile and the UK, we expect revenue growth in 2021, however remaining below 2019 levels. COVID-19 mitigation measures are expected to continue impacting our business in the first quarter of 2021. We are seeing some restrictions at construction sites in Canada, and our mining customers in Chile are currently operating at reduced capacity.

The execution of our global cost initiatives is on track to deliver more than \$100 million of annualized cost savings. Our goal is to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle.

In 2021, we expect to benefit from several profitability drivers, including operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle SG&A target, and effective allocation of capital. Assuming an undisrupted market recovery and the successful execution of our profitability drivers, we expect 2021 earnings to exceed 2019.

We will be making strategic capital investments in our Canadian facility network and our digital capabilities in 2021, and expect our net capital expenditures and net rental fleet additions to be in the \$170 to \$210 million range this year, dependent on the pace of market recovery.

We expect to deliver strong annual free cash flow in 2021. However, with increased inventory purchases, our EBITDA to free cash flow conversion is projected to be modestly below 50% for the year.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.205 per share, payable on March 11, 2021 to shareholders of record on February 25, 2021. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Amended and Restated Advance Notice By-Law

The Board of Directors has approved some minor changes to Finning's Advance Notice By-Law to update the By-law and track current market best practices. Our Amended and Restated Advance Notice By-Law, which takes effect immediately, will be available for review under our profile on SEDAR at www.sedar.com.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts	Three months ended December 31			Twelve months ended December 31		
	2020	2019	% change fav (unfav)	2020	2019	% change fav (unfav)
New equipment	500	649	(23)	1,671	2,776	(40)
Used equipment	93	99	(6)	308	361	(15)
Equipment rental	49	55	(10)	196	246	(20)
Product support	877	922	(5)	3,473	3,793	(8)
Net fuel and other	32	32		120	114	5
Net revenue	1,551	1,757	(12)	5,768	7,290	(21)
Gross profit	418	428	(2)	1,570	1,799	(13)
Gross profit as a percentage of net revenue	26.9%	24.3%		27.2%	24.7%	
SG&A	(324)	(334)	3	(1,245)	(1,360)	8
SG&A as a percentage of net revenue	(20.9)%	(19.0)%		(21.6)%	(18.7)%	
Equity earnings of joint ventures	-	3		3	15	
Other income	14	-		115	-	
Other expenses	-	-		(51)	(29)	
EBIT	108	97	11	392	425	(8)
EBIT as a percentage of net revenue	6.9%	5.5%		6.8%	5.8%	
Adjusted EBIT	94	97	(3)	328	457	(28)
Adjusted EBIT as a percentage of net revenue	6.1%	5.5%		5.7%	6.3%	
Net income	72	50	44	232	242	(4)
Basic EPS	0.45	0.31	45	1.43	1.48	(3)
Adjusted EPS	0.38	0.31	25	1.14	1.65	(31)
EBITDA	185	170	9	700	718	(3)
EBITDA as a percentage of net revenue	11.9%	9.7%		12.1%	9.9%	
Adjusted EBITDA	171	170	1	636	750	(15)
Adjusted EBITDA as a percentage of net revenue	11.0%	9.7%		11.0%	10.3%	
Free cash flow	292	386	(24)	870	42	n/m
	Dec 31, 2020	Dec 31, 2019				
Invested capital	3,067	3,591				
Invested capital turnover (times)	1.68	1.92				
Net debt to EBITDA ratio ⁽²⁾	1.2	2.1				
Net debt to Adjusted EBITDA ratio	1.4	2.0				
ROIC	11.4%	11.2%				
Adjusted ROIC	9.6%	12.0%				

n/m – not meaningful

To access Finning's complete Q4 and annual 2020 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q4 2020 INVESTOR CALL

The Company will hold an investor call on February 10, 2021 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 equipment dealer delivering unrivalled service to customers for 88 years. Finning sells, rents, and provides parts and service 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

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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).
- (2) 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, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” in the Company's 2020 management discussion and analysis (MD&A). Management believes that providing certain non-GAAP financial measures provides users of the Company's MD&A and 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 financial measures (where available) set out in the 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 financial measures alone.
- (3) Certain 2020 and 2019 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 described on pages 5, 9 and 41-43 of the MD&A. The financial metrics that have been adjusted to take into account these items are referred to as “Adjusted” metrics.

FORWARD-LOOKING INFORMATION CAUTION

This news release contains information about our business outlook, objectives, plans, strategic priorities and other information that is not historical fact. Information we provide is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking information in this news release includes, but is not limited to, the following: our positive outlook for 2021; 2021 profitability drivers will include operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle target of 17% SG&A as a percentage of net revenue and effective allocation of capital; our plans to make strategic investments early in the recovery cycle, including the purchase and capacity expansion of our Regina, Saskatchewan facility, selected capacity expansions in Alberta, and the construction of new ultra-efficient facilities in Kamloops and Campbell River, British Columbia; we expect to start delivering equipment to the HS2 project in the UK in Q2 2021 and remain well positioned to capture further equipment and product support opportunities for this project; our outlook for our Canadian operations, including: oil sands production and capital expenditures are expected to increase in 2021 compared to 2020, product support activity in the oil sands is expected to continue to improve with higher fleet utilization driving increased demand for maintenance and rebuilds (assuming sustainment of strengthened oil prices and the Alberta Government will not re-impose production curtailments); expected return of diamond mining to full capacity in the first quarter (assumed based on the improved outlook for copper and precious and other metals); the Golden Triangle of British Columbia represents significant greenfield opportunities (assumed based on request for proposal (RFP) quoting activity for equipment and product support), higher demand for metallurgical coal is expected to be partly offset by lower thermal coal production; the large and aging mining equipment population in Western Canada is expected to drive opportunities for future fleet renewals, rebuilds and autonomy conversions and continued demand for product support; large fiscal stimulus programs in Alberta, British Columbia and Saskatchewan are expected to provide near-term and medium-term positive impact and growth in the construction sector; significant private sector investment in LNG and power sectors will continue to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021; cancellation of the Keystone XL pipeline is not expected to have a material impact on our business; and in the near term, COVID-19 mitigation measures are expected to continue impacting activity levels; our outlook for our South American operations, including: we are optimistic about mining recovery in Chile; our expectation that the positive long-term outlook for copper, increasing copper production forecasts and an aging equipment population will drive improved demand for product support and higher RFP activity in Chilean mining; increasing commercial momentum for copper and gold mines in Chile and Argentina (assuming positive outcomes of feasibility studies for significant projects in progress); significant growth potential from opportunities in the Lithium Triangle region as lithium production is expected to continue increasing rapidly with the transition to electric vehicles; our expectation that mining product support revenue will recover in 2021 as customers resume major maintenance work and prepare their equipment fleets to meet increasing production targets; that COVID-19 related restrictions will continue to limit the capacity of mining operations in the near term; our positive outlook for recovery in the Chilean construction industry, including our expectation for improved activity and stronger order intake in the construction and power systems markets in Chile in 2021; and, in Argentina, our expectation for stability in gold mining and oil and gas, and some recovery in construction activity in 2021, and that Argentina will remain challenging; our outlook for our UK & Ireland operations, including: our expectation that the new trade deal between the UK and the European Union reached in December 2020 will remove uncertainty in our end markets, with no additional tariffs imposed and continued access to the single European markets and that we are well positioned to meet our customers' needs given the significant planning ahead of the Brexit leave date in conjunction with Caterpillar to mitigate potential supply chain risks; our expectation that the latest COVID-19 lockdowns will not materially impact the sectors we serve (assumed the industries we serve will continue to be deemed essential and not covered by the lockdown orders); our positive outlook for general construction equipment markets in the UK; driven by the HS2 project and the government's other infrastructure initiatives, expected strong ramp-up in HS2 construction activity in 2021 and that we will start delivering equipment to HS2 in Q2 2021; and our expectation for continued strong demand for our power systems solutions, particularly in the data centre market, with project deliveries expected towards the second half of 2021; statements regarding our improved earnings capacity in a recovery, including: our overall positive outlook for 2021 and expected revenue growth in 2021 (assuming strong recoveries particularly in Chile and the UK), however remaining below 2019 levels; our expectation that COVID-19 mitigation measures will continue impacting our business in the first quarter of 2021; that our global cost initiatives are on track to deliver more than \$100 million of annualized cost savings; our goal to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle; our expectation to benefit in 2021 from profitability drivers, including: operating leverage in a recovering market, product support growth in all regions, progress towards our mid-cycle goal of 17% SG&A as a percentage of net revenue, and effective allocation of capital, and that our 2021 earnings will exceed 2019 (assuming an undisrupted market recover, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest, and successful execution of our profitability drivers); our plans to make strategic capital investments in our Canadian facility network and digital capabilities in 2021 and our expectation that our 2021 net capital expenditures and net rental fleet additions will be in the \$170 to \$210 million range this year, dependent on the pace of

market recovery; and our expectation that we will deliver strong free cash flow in 2021, but that with increased inventory purchases, our EBITDA to free cash flow conversion will be modestly below 50% for the year; and the Canadian income tax treatment of the quarterly dividend. All such forward-looking statements are made 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 in 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 and businesses in response; general economic and market conditions and economic and market conditions in the regions where we operate; foreign exchange rates; commodity prices; the impact of changes in the UK's trade relationship with the European Union as a result of Brexit; 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 reduce costs in response to slowing activity levels; 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 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; fluctuations in defined benefit pension plan contributions and related pension expenses; 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; and our ability to protect our business from cybersecurity threats or incidents. Forward-looking information is provided in this news release for the purpose of giving information about management's current expectations and plans and allowing 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 made 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; that commodity prices will remain at constructive levels; that our customers will not curtail their increasing capital expenditures; that our action plan to minimize the impact of Brexit will be successful; that general economic and market conditions will improve; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; 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; 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. 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 news release are discussed in our current AIF and in our annual 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 AIF and in the annual and most recent quarterly MD&A are not the only ones that could impact the Company. 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 of affected countries and other steps that may be taken by such 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.