

Finning reports Q4 and Annual 2023 results

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

HIGHLIGHTS

All comparisons are to Q4 2022 and full year 2022 results unless indicated otherwise.

- Q4 2023 EPS ⁽¹⁾ of \$0.59 included a \$0.37 per share foreign exchange loss in Argentina due to prolonged government currency restrictions and the significant subsequent devaluation of the Argentine peso. Excluding this and other significant items described on page 8, Adjusted EPS ⁽²⁾⁽⁴⁾ of \$0.96 was up 7% compared to Q4 2022.
- Q4 2023 revenue of \$2.7 billion was flat and net revenue ⁽²⁾ of \$2.4 billion was up 1%. This included used equipment sales growth of 48%.
- Q4 2023 EBIT ⁽¹⁾ was \$177 million. Excluding the significant items described on page 8, Q4 2023 Adjusted EBIT ⁽³⁾⁽⁴⁾ was up 9% to \$232 million, driven by lower LTIP expense and higher Adjusted EBIT in South America.
- Q4 2023 free cash flow ⁽³⁾ was \$280 million. 2023 year-end net debt to Adjusted EBITDA ⁽¹⁾⁽²⁾⁽⁴⁾ was 1.7 times, down from 1.8 times in Q3 2023.
- For the full year, 2023 Adjusted EPS was \$3.91, up 20% from 2022, driven by a 16% increase in net revenue and strong operating margins, partially offset by higher finance costs. 2023 Adjusted EBIT as a percentage of net revenue ⁽²⁾⁽⁴⁾ was 10.4% in Canada, 12.1% in South America, and 4.9% in the UK & Ireland.
- 2023 Adjusted ROIC ⁽¹⁾⁽²⁾⁽⁴⁾ was 20.0%, up 130 basis points from 2022, led by South America.
- Equipment backlog ⁽²⁾ was \$2.0 billion at December 31, 2023 compared to \$2.3 billion at September 30, 2023 due to strong deliveries outpacing order intake in Q4 2023. In Canada and the UK & Ireland, Q4 2023 order intake was higher compared to Q3 2023.

“2023 was a strong year for Finning. We achieved 17% growth in product support revenue, 31% growth in power systems revenue, and 20% adjusted return on invested capital resulting in record earnings per share. We also ended the year with positive free cash flow, a strong balance sheet, and a solid equipment backlog.

I am proud of our team’s resilience and dedication to our customers as we managed through some business challenges in the fourth quarter. The change in government, extraordinary currency restrictions, and a major devaluation in Argentina led to disrupted business activity and a significant foreign exchange loss. While changes being made by the newly-elected Argentina government have the potential to be positive in the long-run, the Q4 environment was very challenging. We have taken action to significantly reduce our go-forward financial exposure and are taking a low-risk approach in Argentina in 2024. In Canada, the delayed start to many winter programs and the completion of several major projects reduced product support and rental activity. Despite these challenges, our increased earnings capacity remains strong, and we are making progress on our strategic plan.

We will continue to build on our strong 2023 results, empowering our people to drive customer loyalty and execute on the strategic priorities we outlined at our Investor Day. As we look ahead, 2024 will be a year of execution, where we are focused on growing our business in a moderating growth environment through driving product support, building full-cycle resilience by unlocking invested capital, and delivering sustainable growth in used, rental, and power systems,” said Kevin Parkes, president and CEO.

Q4 2023 FINANCIAL SUMMARY

(\$ millions, except per share amounts)	3 months ended December 31			Years ended December 31		
	2023	2022	% change fav ⁽¹⁾ (unfav) ⁽¹⁾	2023	2022	% change fav (unfav)
New equipment	819	854	(4)%	3,262	2,793	17%
Used equipment	135	91	48%	392	352	11%
Equipment rental	88	83	6%	327	297	10%
Product support	1,313	1,295	1%	5,378	4,606	17%
Net fuel and other	48	45	5%	184	167	10%
Net revenue	2,403	2,368	1%	9,543	8,215	16%
Gross profit	640	628	2%	2,576	2,223	16%
Gross profit as a percentage of net revenue ⁽²⁾	26.6%	26.5%		27.0%	27.1%	
SG&A ⁽¹⁾	(409)	(416)	2%	(1,643)	(1,458)	(13)%
SG&A as a percentage of net revenue ⁽²⁾	(17.0)%	(17.6)%		(17.2)%	(17.7)%	
Equity earnings of joint ventures	1	2		9	3	
Other income	13	—		54	—	
Other expenses	(68)	—		(86)	—	
EBIT	177	214	(17)%	910	768	19%
EBIT as a percentage of net revenue ⁽²⁾	7.4%	9.0%		9.5%	9.3%	
Adjusted EBIT	232	214	9%	942	768	23%
Adjusted EBIT as a percentage of net revenue	9.6%	9.0%		9.9%	9.3%	
Net income attributable to shareholders of Finning	85	136	(37)%	523	503	4%
EPS	0.59	0.89	(34)%	3.55	3.25	9%
Adjusted EPS	0.96	0.89	7%	3.91	3.25	20%
Free cash flow	280	332	(16)%	66	(170)	n/m ⁽¹⁾

Q4 2023 EBIT by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	117	55	6	(1)	177	0.59
Foreign exchange and tax impact of devaluation of Argentine peso	—	56	—	—	56	0.37
Gain on sale of property, plant, and equipment	—	(13)	—	—	(13)	(0.06)
Write-off of intangible assets	5	4	3	—	12	0.06
Adjusted EBIT / Adjusted EPS	122	102	9	(1)	232	0.96
Adjusted EBIT as a percentage of net revenue	9.7%	12.6%	2.7%	n/m	9.6%	

Q4 2022 EBIT by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	128	96	16	(26)	214	0.89
EBIT as a percentage of net revenue	11.0%	11.4%	4.4%	n/m	9.0%	

QUARTERLY KEY PERFORMANCE MEASURES

	2023				2022				2021
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
EBIT (\$ millions)	177	252	242	239	214	224	190	140	157
Adjusted EBIT (\$ millions)	232	252	242	216	214	224	190	140	157
EBIT as a % of net revenue									
Consolidated	7.4%	10.3%	9.4%	11.2%	9.0%	10.7%	9.4%	8.1%	8.9%
Canada	9.3%	10.8%	9.9%	11.0%	11.0%	11.7%	10.0%	9.1%	10.1%
South America	6.7%	12.3%	12.1%	10.5%	11.4%	12.3%	10.1%	11.4%	10.1%
UK & Ireland	1.8%	5.9%	5.5%	5.1%	4.4%	6.2%	6.4%	5.0%	4.3%
Adjusted EBIT as a % of net revenue									
Consolidated	9.6%	10.3%	9.4%	10.1%	9.0%	10.7%	9.4%	8.1%	8.9%
Canada	9.7%	10.8%	9.9%	11.3%	11.0%	11.7%	10.0%	9.1%	10.1%
South America	12.6%	12.3%	12.1%	11.5%	11.4%	12.3%	10.1%	11.4%	10.1%
UK & Ireland	2.7%	5.9%	5.5%	5.7%	4.4%	6.2%	6.4%	5.0%	4.3%
EPS	0.59	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66
Adjusted EPS	0.96	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66
Invested capital ⁽²⁾ (\$ millions)	4,765	4,897	4,630	4,545	4,170	4,358	4,076	3,777	3,326
ROIC ⁽²⁾ (%)									
Consolidated	19.3%	20.7%	20.8%	20.2%	18.7%	18.3%	17.5%	17.0%	16.8%
Canada	18.6%	19.8%	20.1%	19.4%	18.7%	18.2%	17.4%	17.4%	17.5%
South America	23.8%	27.1%	25.9%	24.0%	24.5%	22.7%	22.3%	21.7%	20.3%
UK & Ireland	11.3%	13.7%	15.5%	17.0%	17.0%	16.6%	16.2%	15.7%	14.8%
Adjusted ROIC									
Consolidated	20.0%	20.2%	20.2%	19.7%	18.7%	18.3%	17.5%	17.0%	16.4%
Canada	19.0%	19.9%	20.2%	19.6%	18.7%	18.2%	17.4%	17.4%	16.9%
South America	27.6%	27.6%	26.4%	24.6%	24.5%	22.7%	22.3%	21.7%	20.3%
UK & Ireland	12.3%	14.1%	15.9%	17.4%	17.0%	16.6%	16.2%	15.7%	14.8%
Invested capital turnover ⁽²⁾ (times)	2.03	2.08	2.07	2.01	2.01	1.96	2.00	2.03	2.04
Inventory (\$ millions)	2,844	2,919	2,764	2,710	2,461	2,526	2,228	2,101	1,687
Inventory turns (dealership) ⁽²⁾ (times)	2.45	2.58	2.49	2.51	2.61	2.52	2.50	2.66	3.09
Working capital to net revenue ⁽²⁾	28.7%	27.6%	27.5%	28.0%	27.4%	27.1%	25.1%	23.8%	22.9%
Free cash flow (\$ millions)	280	—	31	(245)	332	(57)	(142)	(303)	148
Net debt to Adjusted EBITDA ratio (times)	1.7	1.8	1.8	1.7	1.6	1.8	1.8	1.6	1.1

For annual key performance measures, refer to page 6 of the 2023 Annual MD&A.

Q4 2023 HIGHLIGHTS BY OPERATION

All comparisons are to Q4 2022 results unless indicated otherwise. All numbers, except ROIC, are in functional currency: Canada – Canadian dollar; South America – US dollar (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 was up 7%, driven by higher new and used equipment sales. New equipment sales were up 22%, with strong deliveries across all sectors. Used equipment sales were up 34% with strong sales across retail and wholesale channels.
- Product support revenue was down 1% as unseasonably warm weather delayed the start of winter programs, reducing equipment utilization in the construction and mining sectors. The completion of several major projects has also slowed some construction activities in the near-term. In addition, Q4 2022 product support included revenues related to the autonomy conversion of the 797 fleet of an oil sands operator, which did not repeat in Q4 2023.
- Adjusted EBIT was down 5%. Adjusted EBIT as a percentage of net revenue of 9.7% was down from 11.0% in Q4 2022, primarily due to a higher proportion of new and used equipment sales in the revenue mix. SG&A as a percentage of net revenue was comparable to Q4 2022.

South America Operations

- Net revenue decreased by 4% due to lower new equipment sales.
- New equipment sales were down 24% reflecting challenging market conditions in Argentina and lower sales to mining contractors in Chile.
- Product support revenue was up 5%, led by mining.
- Adjusted EBIT was up 6%. Adjusted EBIT as a percentage of net revenue of 12.6% was up 120 basis points from Q4 2022, primarily due to a shift in revenue mix to product support.
- South America generated 2023 Adjusted ROIC of 27.6%, up 310 basis points from 2022.
- On December 13, 2023, the newly-elected Argentine government devalued the ARS official exchange rate by 118% from 366.5 ARS to 800 ARS for USD 1. As a result of prolonged government currency restrictions, including no material access to USD starting in late August 2023, our ARS exposure increased and during this period economic hedges were not available. As a result of the growth in our ARS exposure and the significant devaluation of the ARS in the quarter, our South American operations incurred a foreign exchange loss of \$56 million which exceeds the typical foreign exchange impact in the region.

UK & Ireland Operations

- Net revenue decreased by 10% mostly due to the timing of power systems project deliveries and lower new equipment sales in the construction sector. Q4 2022 benefitted from higher power systems project deliveries and HS2 deliveries.
- Product support revenue was down 6%, impacted by slower activity in the construction sector.
- Adjusted EBIT as a percentage of net revenue was 2.7% compared to 4.4% in Q4 2022 mostly due to a decline in net revenue. The proportion of fixed costs in SG&A on lower volumes and persistently high inflation contributed to lower operating leverage.

Corporate and Other Items

- Corporate EBIT loss was \$1 million in Q4 2023 compared to \$26 million in Q4 2022 primarily due to lower LTIP expense.
- The Board of Directors has approved a quarterly dividend of \$0.25 per share, payable on March 7, 2024, to shareholders of record on February 22, 2024. This dividend will be considered an eligible dividend for Canadian income tax purposes.
- In 2023, we repurchased 7.2 million shares under our normal course issuer bid at an average cost of \$37.75, representing 5.0% of our public float.

Board Chair Succession

Finning announces that Mr. Harold Kvisle will step down from his role as Chair of the Board of Directors following Finning's 2024 annual meeting of shareholders on May 7, 2024. He will be succeeded as Board Chair by Mr. James Carter, an independent director, effective upon his re-election at that meeting, while the Board identifies a longer-term Board Chair by Finning's 2025 annual meeting. Mr. Kvisle will remain on the Board and stand for re-election at the annual meeting.

Mr. Carter joined Finning's Board in 2007 and has served in various leadership capacities during his tenure, including as chair of the Pension Committee, the Safety, Environment and Social Responsibility Committee and the Human Resources Committee. Mr. Carter has extensive experience in mining and the oil sands, including 28 years at Syncrude Canada Ltd., including 10 years as President and 18 years as Operations Chief.

"I am honoured to be appointed as Board Chair to lead the Board during this important time while we execute on Finning's strategy announced at our 2023 Investor Day," said Mr. Carter. Mr. Carter added, "On behalf of the Board, I would like to thank Hal for his exceptional leadership and many contributions as Board Chair that helped advance and evolve Finning's strategy to better serve our customers, while delivering strong returns to our shareholders. We look forward to Hal's continued contributions on the 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. While the completion of major pipelines has slowed some construction activities in the near-term, it creates additional capacity to move heavy oil and liquefied natural gas to end markets, and we expect to see increased activity in the energy sector and production growth going forward. Our mining and energy customers are expected to increase spending levels, including investment to renew, maintain, and rebuild aging fleets. In the oil sands, based on customer commitments and discussions, we anticipate strong demand for product support, including component remanufacturing and rebuilds.

We expect ongoing commitments from federal and provincial governments to infrastructure development to support activity in the construction sector. In addition, growing demand for reliable, efficient, and sustainable electric power solutions across communities in Western Canada creates opportunities for our power systems business.

South America Operations

In Chile, our strong outlook is underpinned by growing global demand for copper, the recent approvals of large-scale brownfield expansions, and increasing customer confidence to invest in brownfield and greenfield projects. Mining activity is expected to remain strong, driving demand for equipment, product support, and technology solutions.

In the Chilean construction sector, we continue to see healthy demand from large contractors supporting mining operations, and we expect infrastructure construction to remain stable. In the power systems sector, activity remains strong in the industrial and data centre markets, and we are well positioned to benefit from growing demand for electric power solutions.

In Argentina, steps are being taken by the new government to rapidly address the fiscal imbalances in the country with the goal of ultimately stabilizing inflation and opening the economy for free import and export of goods in the long-term. However, the near-term steps of significantly devaluing the currency, containing public spending, reducing subsidies, and lowering spending on public works are driving continued challenging market and operating conditions. Starting in January 2024, currency restrictions have been significantly reduced for new imports, and economic hedging alternatives are once again available. In early February, we began a series of transactions to reduce our ARS cash balance to zero, the cost of this program is being covered with support from our key suppliers. While our currency access, exposure, and risk of losses are much lower today than in Q4 2023, new government rules and policies as well as economic conditions are subject to change, and we require ongoing support from key suppliers to return to profitability. We are actively monitoring the new rules and policies and continue to evolve our operating model, taking a low-risk approach in 2024.

UK & Ireland Operations

With the HS2 project deliveries completed and low GDP growth projected in the UK in 2024, we expect demand for new construction equipment to remain soft. We expect a growing contribution from used equipment and power systems as we continue to execute on our strategy. In power systems, we expect continued healthy demand for primary and backup power generation, including in the data centre market and short-term capacity power for utilities and other applications.

We expect our product support business in the UK & Ireland to remain resilient, driven by steady machine utilization, rebuilds, and growth in Customer Value Agreements.

Execution Focus and Building on Strong 2023 Results

We are committed to growing our business in 2024 while building more resilience into our operating model and progressing towards the Investor Day targets. We are working to increase our invested capital velocity, with the goal to unlock over \$450 million of capital by 2025 from Q2 2023. We expect our 2024 net capital expenditures and net rental fleet additions to be in the \$290 million to \$340 million range, reflecting the overall steady growth environment we expect in 2024.

To access Finning's complete Q4 and annual 2023 results, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q4 2023 INVESTOR CALL

We will hold an investor call on February 7, 2024 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 over 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:

- On December 13, 2023, the newly-elected Argentine government devalued the ARS official exchange rate by 118% from 366.5 ARS to 800 ARS for USD 1. As a result of prolonged government currency restrictions, including no material access to USD starting in late August 2023, our ARS exposure increased and during this period economic hedges were not available. As a result of the growth in our ARS exposure and the significant devaluation of the ARS in the quarter, our South American operations incurred a foreign exchange loss of \$56 million which exceeds the typical foreign exchange impact in the region.
- We began to implement our invested capital improvement plan as outlined at our 2023 Investor Day, which targets selling and optimizing real estate and exiting low-ROIC activities. In Q4 2023:
 - Our South American operations sold a property in Chile and recorded a gain of \$13 million on the sale; and,
 - Following an evaluation of the business needs of our operations and related intangible assets, several software and technology assets have been or will be decommissioned, and as a result, we derecognized previously capitalized costs of \$12 million.
- 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			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	177	252	242	239	214	224	190	140	157	150	137	108
Significant items:												
Foreign exchange and tax impact of devaluation of ARS	56	—	—	—	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	(13)	—	—	—	—	—	—	—	—	—	—	—
Write-off of intangible assets	12	—	—	—	—	—	—	—	—	—	—	—
Gain on wind up of foreign subsidiaries	—	—	—	(41)	—	—	—	—	—	—	—	—
Severance costs	—	—	—	18	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	—	—	—	(10)
Return on Energyst investment	—	—	—	—	—	—	—	—	—	—	—	(5)
Adjusted EBIT	232	252	242	216	214	224	190	140	157	150	137	93
Depreciation and amortization	99	94	94	92	87	84	81	81	84	80	78	77
Adjusted EBITDA ⁽³⁾⁽⁴⁾	331	346	336	308	301	308	271	221	241	230	215	170

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

3 months ended (\$ millions)	2023				2022				2021
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Significant items:									
Foreign exchange and tax impact of devaluation of ARS	(3)	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	4	—	—	—	—	—	—	—	—
Write-off of intangible assets	(3)	—	—	—	—	—	—	—	—
Gain on wind up of foreign subsidiaries	—	—	—	9	—	—	—	—	—
Severance costs	—	—	—	(5)	—	—	—	—	—
Withholding tax on repatriation of profits	—	—	—	19	—	—	—	—	—
(Recovery of) provision for income taxes on the significant items	(2)	—	—	23	—	—	—	—	—

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

3 months ended (\$)	2023				2022				2021
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
EPS ^(a)	0.59	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66
Significant items:									
Foreign exchange and tax impact of devaluation of ARS	0.37	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	(0.06)	—	—	—	—	—	—	—	—
Write-off of intangible assets	0.06	—	—	—	—	—	—	—	—
Gain on wind up of foreign subsidiaries	—	—	—	(0.21)	—	—	—	—	—
Severance costs	—	—	—	0.09	—	—	—	—	—
Withholding tax on repatriation of profits	—	—	—	0.12	—	—	—	—	—
Adjusted EPS ^(a)	0.96	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66

^(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			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	117	137	136	126	128	125	102	80	92	84	82	69
Significant items:												
Write-off of intangible assets	5	—	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	4	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	—	—	—	(10)
Adjusted EBIT	122	137	136	130	128	125	102	80	92	84	82	59

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

3 months ended (\$ millions)	2023				2022				2021			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	55	104	104	74	96	85	64	65	59	58	51	41
Significant items:												
Foreign exchange and tax impact of devaluation of ARS	56	—	—	—	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	(13)	—	—	—	—	—	—	—	—	—	—	—
Write-off of intangible assets	4	—	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	7	—	—	—	—	—	—	—	—
Adjusted EBIT	102	104	104	81	96	85	64	65	59	58	51	41

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

3 months ended (\$ millions)	2023				2022				2021			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	6	19	18	15	16	21	23	14	12	17	17	7
Significant items:												
Write-off of intangible assets	3	—	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	2	—	—	—	—	—	—	—	—
Adjusted EBIT	9	19	18	17	16	21	23	14	12	17	17	7

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

3 months ended (\$ millions)	2023				2022				2021			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	(1)	(8)	(16)	24	(26)	(7)	1	(19)	(6)	(9)	(13)	(9)
Significant items:												
Gain on wind up of foreign subsidiaries	—	—	—	(41)	—	—	—	—	—	—	—	—
Severance costs	—	—	—	5	—	—	—	—	—	—	—	—
Return on Energyst investment	—	—	—	—	—	—	—	—	—	—	—	(5)
Adjusted EBIT	(1)	(8)	(16)	(12)	(26)	(7)	1	(19)	(6)	(9)	(13)	(14)

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
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Cash flow provided by (used in) operating activities	291	37	66	(166)	410	(24)	(112)	(273)	193
Additions to property, plant, and equipment and intangible assets	(51)	(50)	(40)	(79)	(78)	(33)	(30)	(30)	(45)
Proceeds on disposal of property, plant, and equipment	40	13	5	—	—	—	—	—	—
Free cash flow	280	—	31	(245)	332	(57)	(142)	(303)	148

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 inventory related to the mobile refuelling operations), 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	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Cost of sales	2,024	2,044	2,125	1,758	2,025	1,807	1,761	1,463	1,465	1,443
Cost of sales related to the mobile refuelling operations	(278)	(283)	(237)	(253)	(302)	(293)	(300)	(231)	(190)	(170)
Cost of sales related to the dealership ⁽³⁾	1,746	1,761	1,888	1,505	1,723	1,514	1,461	1,232	1,275	1,273

(\$ millions)	2023				2022				2021	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Inventory	2,844	2,919	2,764	2,710	2,461	2,526	2,228	2,101	1,687	1,627
Inventory related to the mobile refuelling operations	(12)	(17)	(14)	(12)	(12)	(12)	(13)	(11)	(9)	(6)
Inventory related to the dealership ⁽³⁾	2,832	2,902	2,750	2,698	2,449	2,514	2,215	2,090	1,678	1,621

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			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash and cash equivalents	(152)	(168)	(74)	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)
Short-term debt	1,239	1,372	1,142	1,266	1,068	1,087	992	804	374	419	114	103
Long-term debt												
Current	199	203	199	253	114	106	110	63	190	191	386	326
Non-current	949	955	949	675	815	836	807	909	921	923	903	973
Net debt ⁽³⁾	2,235	2,362	2,216	2,065	1,709	1,909	1,739	1,481	983	1,015	1,025	933
Total equity	2,530	2,535	2,414	2,480	2,461	2,449	2,337	2,296	2,343	2,320	2,252	2,244
Invested capital	4,765	4,897	4,630	4,545	4,170	4,358	4,076	3,777	3,326	3,335	3,277	3,177

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 at the reporting date 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			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	2,664	2,704	2,779	2,380	2,653	2,384	2,289	1,953	1,949	1,904	1,845	1,596
Cost of fuel	(261)	(267)	(220)	(236)	(285)	(277)	(285)	(217)	(175)	(156)	(140)	(127)
Net revenue	2,403	2,437	2,559	2,144	2,368	2,107	2,004	1,736	1,774	1,748	1,705	1,469

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			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total current assets	4,930	5,217	4,985	4,974	4,781	4,652	4,098	4,030	3,619	3,620	3,416	3,319
Cash and cash equivalents	(152)	(168)	(74)	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)
Total current assets in working capital	4,778	5,049	4,911	4,845	4,493	4,532	3,928	3,735	3,117	3,102	3,038	2,850
Total current liabilities	3,485	3,690	3,569	3,763	3,401	3,196	2,789	2,647	2,155	2,156	1,942	1,817
Short-term debt	(1,239)	(1,372)	(1,142)	(1,266)	(1,068)	(1,087)	(992)	(804)	(374)	(419)	(114)	(103)
Current portion of long-term debt	(199)	(203)	(199)	(253)	(114)	(106)	(110)	(63)	(190)	(191)	(386)	(326)
Total current liabilities in working capital	2,047	2,115	2,228	2,244	2,219	2,003	1,687	1,780	1,591	1,546	1,442	1,388
Working capital ⁽³⁾	2,731	2,934	2,683	2,601	2,274	2,529	2,241	1,955	1,526	1,556	1,596	1,462

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); 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 outlook for Western Canada being positive; our expectation for increased activity in the energy sector and production growth going forward (based on assumptions of additional capacity created by the completion of major pipelines); our expectations for mining and energy customers increasing their spending levels including investment to renew, maintain, and rebuild aging fleets; in the oil sands, our expectation for strong demand for product support, including component remanufacturing and rebuilds; our expectation of ongoing commitment from federal and provincial governments to infrastructure development to support activity in the construction sector; our expectations for growing demand for reliable, efficient, and sustainable electric power solutions across communities in Western Canada, and that growing demand creates opportunities for our power systems business; for our South America operations: in Chile, our strong outlook based on growing global demand for copper, recent approvals of large-scale brownfield expansions and increasing customer confidence to invest in brownfield and greenfield projects; our expectation of mining activity remaining strong, driving demand for equipment, product support, and technology solutions, our expectation that infrastructure construction in Chile will remain stable (based on assumptions of continued healthy demand from large contractors supporting mining operations); in the power systems sector, our expectation for activity remaining strong in the industrial and data centre markets, and that we are well positioned to benefit from growing demand for electric power solutions; in Argentina, our expected low-risk approach in Argentina in 2024; our expectation that steps are being taken by the new government to rapidly address the significant fiscal imbalances in the country with the goal of ultimately stabilizing inflation and opening the economy for free import and export of goods in the long-term; our expectation that near-term steps taken by the Argentina government of significantly devaluing the currency, containing public spending, reducing subsidies, and lowering spending on public works are driving continued challenging market and operating conditions; our expectation that we will reduce our ARS balance to zero; for our UK & Ireland operations: our expectation that demand for new construction equipment to remain soft; our expectation of a growing contribution from used equipment and power systems as we continue to execute on our strategy; in power systems, our expectation of continued healthy demand for primary and backup power generation, including in the data centre market and short-term capacity power for utilities and other applications; our expectation of our product support business to remain resilient, driven by steady machine utilization, rebuilds and growth in Customer Value Agreements; and overall: growing our business in a moderating growth environment through driving product support, building full-cycle resilience by unlocking invested capital, and delivering sustainable growth in used, rental, and power systems; our belief that we are making progress on executing our strategic plan and targets outlined at our Investor Day, including driving product support, sustainable growth in used, rental, and power systems, as well as unlocking invested capital; our expectation that we will continue to build on our strong 2023 results, empowering our people to drive customer loyalty and execute on the strategic priorities we outlined at our Investor Day; our expectation of growing our business in 2024 and building more resilience into our operating model; our expectations and progress towards the Investor Day targets; our goal to increase our invested capital velocity, with the goal to unlock over \$450 million of capital by 2025 from Q2 2023; our expectation for our 2024 net capital expenditures and net rental fleet additions to be in the \$290 million to \$340 million range; our expectation to appoint a long-term Board Chair by the 2025 annual meeting; 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, and supply chain challenges; general economic and market conditions, including increasing inflationary cost pressure, and economic and market conditions in the regions where we operate; perspectives of renewed investments in the oil and gas and mining projects in Argentina;

government approvals of large-scale brownfield expansions; support and commitment by Canadian federal and provincial governments in infrastructure development; 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 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; 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, and supply chain challenges, 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, including our strategic priorities as outlined at our 2023 Investor Day; that we will successfully execute initiatives to reduce our GHG emissions and support our customers on their individual GHG reduction pathways; 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; completion of major pipelines and the resulting increased activity in the energy sector; that demand for sustainable electric power solutions in Western Canada will continue to grow; 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.