RESEARCH REPORT

November 8, 2020

Stock Rating	BUY
Price Target	$28.85
Current Price	$22.74

Bear Case	Price Target	Bull Case
$24.07	$28.85	$31.83

Finning International Inc.

CATalyzing Change

Finning International is the world's largest dealer of Caterpillar-branded heavy equipment. The company employs over 13,000 people across 214 sites in Canada, South America, the UK and Ireland. Finning is not your typical QUIC portfolio company – it is structurally disadvantaged relative to similar businesses like Toromont. However, negative market sentiment over recent years has led to the significant punishment of Finning's shares. The QUIC Industrials Team set out to understand if this negative sentiment was justified or if this sentiment was irrational, leading to inefficient market pricing.

I. Thesis: Attractive Business Fundamentals

II. Thesis: Near-Term Headwinds Drive Negative Sentiment

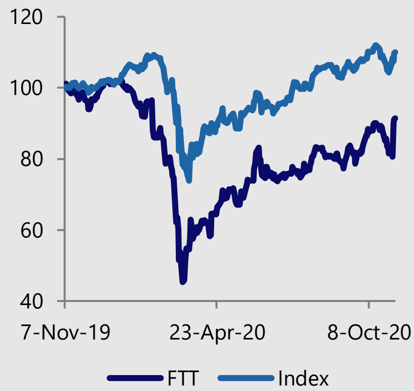
III. Thesis: COVID-19 Accelerating Structural Business Shifts

IV. Concern: Margin Compression Risk from U.S. Equipment Cyclicality

The QUIC Industrials Team believes that the market has irrationally over-punished Finning and that the company's business fundamentals and structural developments allow us to make a play on the quality-value spectrum. At Finning's current valuation, we price in a 27% upside, and intend to enter the name in the immediate future. With little deployable capital available in the Canadian portfolio, the Industrials Team intends to trim its overweight position in Ritchie Bros. Auctioneers and re-allocate that capital to an investment in Finning.

Ticker	FTT
Market Cap (MM)	$3,686
P/E NTM	13.8x
P/BV NTM	1.64x

52 Week Performance



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Company Overview

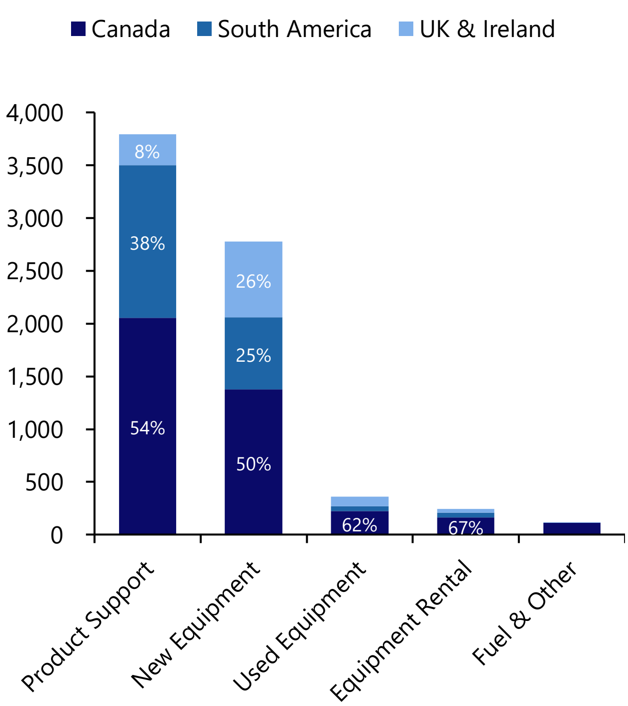
Company Introduction

Finning International Inc. is the world's largest Caterpillar (CAT) dealer. Originally founded in 1933 as a small British Columbia CAT equipment dealer, Finning now employs over 13,000 people across 214 sites in Canada, South America, the UK and Ireland. CAT produces heavy construction vehicles and equipment used for mining, infrastructure and more.

Critical activities consist of selling, renting and providing services for CAT products through their five reportable operating segments: product support, new equipment sale, used equipment sale, equipment rental, fuel & other.

EXHIBIT I

2019 Revenue Breakdown ($MM)



Source(s): Company Filings

Business Model Overview

Finning derives revenue from four distinct operating segments, each of which is directly tied to CAT; in fact, 96% of Finning's business involves CAT products. This dependence on CAT's continued success makes Finning susceptible to changes in CAT's business; however, they have a formidable relationship that is not likely to be shaken.

Product support accounted for 52% of FY2019 revenue and the segment consists of replacement part sales, maintenance for CAT products as well as servicing the refurbishing of old fleets. Support deals are typically included in long-term contracts, which increases stability of future revenue and cash flows. Finning keeps inventories of parts across their geographies. Digital software solutions for customer equipment fall under product support operations as well.

New and old equipment sales involve the distribution and reselling of CAT products. Used equipment is acquired through trade and sold through consignment and auctions in addition to resell. Finning's used equipment business is similar to and competitive with Ritchie Bros. Auctioneers. Some of this used equipment is rebuilt or refurbished by Finning, and demand for used product can vary greatly depending on general economic conditions and new product availability. Finning's expertise on CAT products contributes to high margins on used equipment deals.

Finning also offers short and long-term equipment rental arrangements. They hold three rental fleets in Canada and one in both South America and the UK and Ireland. Although just 3.3% of 2019 revenue was derived from rentals, Finning maintains relatively high margins in this line of business.

Beyond their four principal operational segments, Finning recently acquired 4Refuel, a fuel logistics company that can fuel CAT equipment on-site; this creates a complimentary addition to their operations.

Company Overview

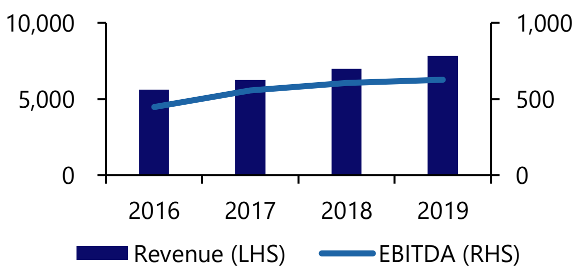
Relationship with Caterpillar

CAT's dealership style distribution strategy has been mutually beneficial for both CAT and their dealers, including Finning International. CAT focuses on the engineering, designing and manufacturing of their equipment. When a finished product leaves the factory, the dealer becomes independently responsible for providing maintenance, monitoring the product's performance and sharing their expertise as needed. CAT can exclusively work on perfecting their product while dealers remain highly incentivized to sell the product and provide exceptional service as they compete to become the go-to heavy equipment dealer.

Contracts are structured to be rewarding for all three parties involved: the buyer, the dealer and CAT. The dealer will seek out buyers that need mining, forestry, construction or power generation equipment. When a buyer is found, the dealer will quote the equipment needed and arrange a deal with CAT to provide the equipment. Finning does not typically assume inventory risk for any new equipment. Once the equipment is delivered and in the buyer's possession, the dealer is almost completely responsible for supporting the product and customer through their project or operations. Smaller buyers can also reach products through Finning's website which results in additional low-scale deals with independent buyers.

EXHIBIT II

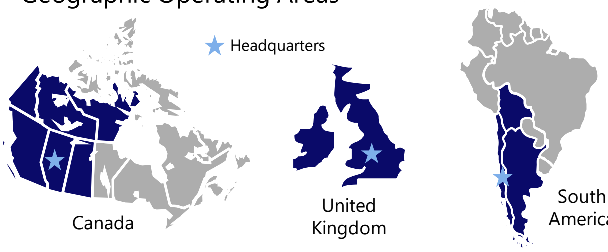
Revenue and EBITDA ($M)



Source(s): Company Filings

EXHIBIT III

Geographic Operating Areas



Source(s): Company Filings

Geography & Key Customers

Finning is the exclusive CAT dealer in three major geographies. In Canada, Finning operates a 62-branch product support network developed over 87 years. One of their largest Canadian customers is Teck Resources, a $9.4B mining company.

Finning expanded to South America in 1993; today Chile, Argentina and Bolivia account for 30% of total revenues. In 2017, Finning inked a $185 million deal with Lundin Mining Corporation. Finning's top UK deal is HS2's high speed rail, the largest infrastructure project in Europe which boasts an initial budget of ~$131.3 billion.

Internal Outlook

In 2016, Finning attempted to rehaul their strategy to be more customer-centric and improve their value chain. During COVID-19, Finning's product support heavy business model has been a key factor in keeping revenues stable. Alternative delivery has been adopted and Finning currently has $1.8 billion in committed credit capacity, only $300 million of which has been used. In addition to this, COVID-19 could be a catalyst that accelerates the organizational change that was instituted in 2016.

Industry Overview

Relationship with OEMs

OEMs in the industry often take very different approaches when it comes to selling. Since the 1980s, Japanese manufacturers such as Komatsu began selling directly to customers, shunning a dealer network. At the time, Caterpillar's dealer-based strategy was viewed as outdated and ineffective. This prompted the company to re-vamp the concept by further enhancing its own relationship with its dealers. More recently, Caterpillar's focus on its dealers has been widely acclaimed both within and beyond the heavy equipment industry.

This is important in understanding the advantages Finning has over other equipment competitors. Caterpillar works closely with dealers to monitor equipment demand, customer requirements and potential maintenance problems, making the company and its network far more responsive to new ideas or problems. By contrast, Japanese manufacturers have traditionally lagged when it comes to post-product customer service and attentiveness. Thus, Caterpillar maintains excellent dealer relationships, reducing the risk Finning has by relying heavily on them.

Toromont Industries

Toromont serves Eastern Canada and enjoys a reputation in the industry for having a well diversified client base and excellent operating metrics. Toromont and Finning are not direct competitors.

Key Manufacturers

CAT remains the largest manufacturer of heavy equipment with over $26 billion in annual revenue. The company is well known for its equipment reliability, efficient supply chain and breadth of product offerings. This is advantageous for larger or more complex projects where multiple types of machinery are required. Rather than approaching several dealers/manufacturers for their needs, a project manager can opt to solely use CAT.

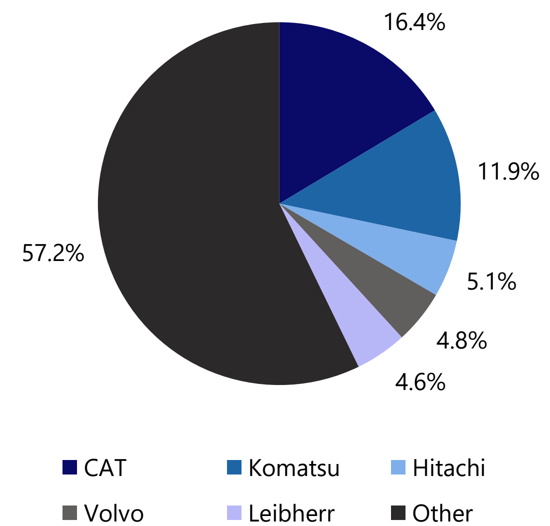
Komatsu enjoys a comfortable second-place position in the market and is the most direct competitor to CAT. The manufacturer still prices its machines below CAT in order to offer a better value proposition to customers. However, importing replacement parts from Japan combined with the higher annual depreciation rates can make them more expensive to own for longer periods compared to CAT equipment.

Customer Needs – Outstanding Service

The cost of a broken machine for construction companies can wreak havoc on timelines and be very costly. Hence, the industry values timely repair services by dealers and manufacturers. This makes localized supply chains for parts advantageous given that they offer considerable time savings when a part is requested. It also means that dealers must have a large stock of parts at most of their facilities – a significant barrier to entry.

EXHIBIT IV

Heavy Equipment Manufacturers Market Share



Source(s): iSeekplant

Industry Outlook

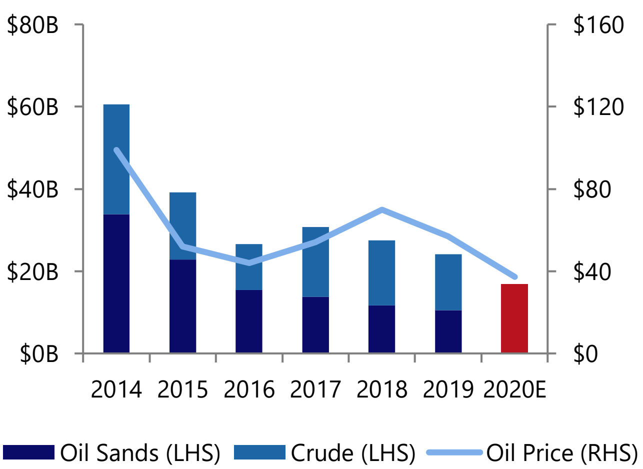
Oil

Oil sands (bitumen) construction represents a large proportion of Finning's revenues in Canada. This is a major concern for the company as the sector has dramatically reduced capital expenditures in recent years. Part of the reason for this lies with the high cost of bitumen extraction relative to other types, causing the breakeven price to be higher. Furthermore, a steep decline in the price of oil following the coronavirus outbreak caused many operators to further reduce spending.

The regulatory environment has also impacted foreign investment in Canadian oil sands, further reducing capital expenditures. Anti-pipeline rhetoric both in British Columbia and at the federal level have made investors wary about energy investments in Canada. The recently elected NDP majority in British Columbia combined with the anticipated launch of a new federal environmental strategy are likely to further weaken confidence in the sector. These regulatory concerns also explain decreased investment despite improved oil prices since 2014.

EXHIBIT V

Canadian Oil Investments



Source(s): Alberta Energy Regulator

Mining

Finning's South America business relies heavily on copper mining, an industry with a mixed outlook. Mining in Latin America is heavily dependent on the current political climate.

Chile is currently re-writing their constitution which is expected to include stronger protections for workers, unions, and the environment. This is a major concern for mining companies, and many are expecting weaker growth in this country.

Furthermore, Argentina has been struggling with its fiscal stability, largely a result of reckless anti-growth policies, and leading it to its ninth default. While a deal has been reached with creditors, the country's economic growth prospects and currency value continue to worsen.

Bolivia is also suffering from heightened geopolitical tensions; however, no clear hurdles are in place for the mining industry.

All three countries have also had challenges when dealing with the coronavirus outbreak, which halted many mining operations in the region. Overall, the outlook remains mixed for this market, and the decrease in foreign direct investment (particularly in mining) will certainly affect Finning's revenues.

It is important to note, however, that copper demand is still expected to increase over the next number of years. This is largely due to the electrification of traditionally fossil-fuel related tasks such as electricity generation and vehicles, a shift which will largely take place over the next decade. The increased adoption of electronic devices by many developing countries is also expected to contribute. Overall, demand is expected to grow at 2.2% per year.

Industry Outlook

Infrastructure

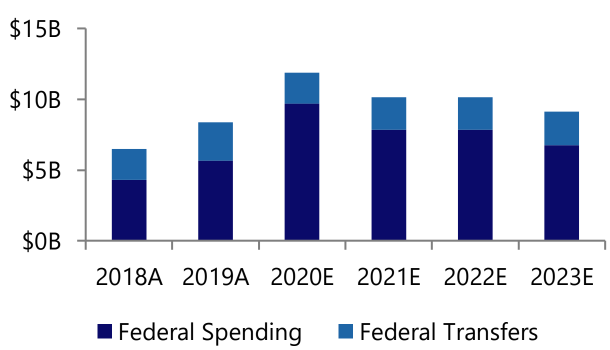
Aside from resource extraction, Finning relies heavily on major infrastructure projects in Canada and the UK. This is likely where the company has the best growth prosects in the coming years. As a result of current economic conditions, both countries are planning to significantly expand their infrastructure investments. Additionally, the rise of private infrastructure investing and public-private partnerships will also lead to increased demand for heavy equipment.

With the creation of the Business Development Bank of Canada the introduction of liberal fiscal policies, there is no shortage of funding available to large green projects. Therefore, many of the new planned projects are also categorized as "mega-projects" due to their size, scale and complexity. This complexity and scale yield an advantage to large suppliers such as Finning, who can supply an extremely large quantity of equipment for a wide variety of tasks. This is a prime example of when CAT's diverse product offerings benefit Finning.

In the United Kingdom, existing megaprojects such as the HS1 and HS2 high speed rail projects are also perceived by Finning to be key revenue generators for at least the next decade.

EXHIBIT VI

Anticipated Core Infrastructure Spending



Source(s): Infrastructure Canada

Enterprise Resource Planning

Enterprise Resource Planning (ERP) as a software solution has increased in popularity over the past 20 years. More recently, companies have sought to use the system as a means of interacting with customers and ensuring that lead times for parts remains low. Continuous integration between the OEM, dealer and customer has also led to better customer satisfaction rates. Most large dealers or OEM sellers have their own software solutions. An additional benefit which ERP solutions have is that they increase switching costs for a customer, further solidifying the dealer's current revenue base.

Automation

Both the mining and energy sectors have recently sought to increase the prevalence of automatic vehicles and equipment in extraction locations. In the past five years, most OEMs have introduced automated systems for certain types of vehicles; most notably, Ultra-Class dump-trucks. Both CAT and Komatsu have pioneered the development of these types of vehicles. Given the cost savings these automated products provide (reducing labour costs and supply chain inefficiencies), most large users of equipment are quickly adopting this new technology. Product sales are expected to have a CAGR of 55% until 2027.

Aging Fleets

Equipment operators, particularly in Canada, are expected to embark on major retrofitting projects within the next three years. The average age of Caterpillar trucks in Western Canada is currently 11 years – a high figure in the industry. Overall this should create more demand for equipment replacement and refurbishment in the near future.

Investment Thesis I: Attractive Business Fundamentals

Due to its historically strong performance, stable management team and less-cyclical end-markets, Toromont is commonly referred to as the higher quality company when compared to Finning. However, the Industrials Team believes that there are many positive elements within Finning's business that still make it a fundamentally attractive business.

The Caterpillar Advantage

The first element is the Caterpillar advantage. In all of its operating regions, Finning essentially has a monopoly over the dealership of Caterpillar-branded products. As such, its ability to capture demand and generate business is ultimately reliant on the demand for these CAT products – we view this dynamic as a significant competitive advantage for the company.

Over the years, CAT has become the most formidable heavy equipment manufacturer in the world. The company is notably bigger than competitors and has developed a strong reputation for quality, customer service, and durability. Additionally, CAT offers the most comprehensive heavy equipment product portfolio on the market. These characteristics of CAT products have enabled the company to charge an accepted premium in the heavy equipment market. The benefits of these business elements to Finning's business are two-fold. First, they allow Finning to be the leader in all markets that it serves. The company competes against dealers of non-CAT products that are generally less desired. Second, CAT's accepted pricing premium profits Finning. While pricing is competitive in equipment markets, this premium provides a cushion against the equipment supply gluts that were formed in prior cycles, especially 2009 and 2010. However, there are elements of this dynamic that have been squeezing margins in recent times – this will be discussed in more depth in *Concern 1*.

The CAT advantage will continue to be visible as industry trends develop. Due to its enormous size, Caterpillar is able to invest significantly more capital in R&D than competitors, allowing it to develop an ever-changing product portfolio that will continue to lead markets amongst shifts in preferences. An example of this is the CAT's prominence in autonomous heavy equipment.

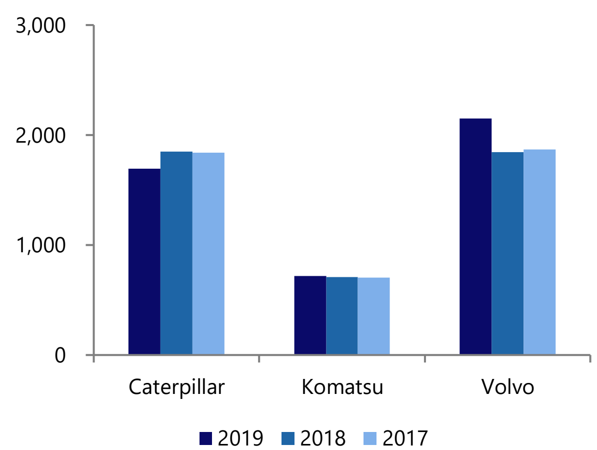
The Industrials Team believes that the Caterpillar advantage is sustainable moving forward. Finning started as a CAT dealer in 1933 and has grown into the largest Caterpillar dealer in the world – neither CAT nor Finning management is aware of any matter that could result in the termination of any dealership agreements between the two parties.

Scale

In the heavy equipment dealership business, size matters. In conjunction with the Caterpillar advantage, Finning's massive scale has played an important role in the company's emergence as the dominant dealer of heavy equipment in each of its markets. Finning represents one of the world's largest operations of its kind. Accordingly, this has enabled Finning to exploit substantial economies of scale.

EXHIBIT VII

R&D Expenditures ($USD millions)



Source(s): Capital IQ

Investment Thesis I: Attractive Business Fundamentals

From a financial perspective, Finning has been able to centralize and consolidate administrative expenses. More importantly, however, scale has translated into many competitive advantages in the markets it serves. For example, Finning is one of the only companies that can operate the full life cycle of equipment (new, used, rental, product support) – these comprehensive services are very beneficial to customers looking to enter into contractual heavy equipment agreements. Additionally, Finning exhibits a massive branch network, translating into a global supply chain, strong distribution capabilities and significantly increasing its proximity to customers, other major value-adds. Finally, Finning has developed centralized component remanufacturing centers to meet the demand for continuous component replacement due to the modular design of CAT products. This centralization, through specialization and volume, further develops economies of scale, allowing Finning to offer lower prices to competitors.

More fragmented dealers with smaller OEMs find this scale difficult to duplicate, creating an economic moat around Finning's operations.

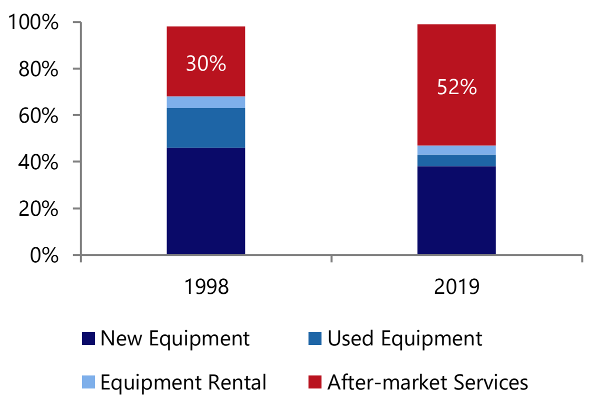
Product Support Services

Finning's after-market, product support services are very attractive. These services provide a very stable source of recurring revenue, which is particularly important given the cyclical nature of the equipment industry and Finning's end markets. Additionally, parts and service sales are significantly higher margin compared to machine sales. Note that while Finning does not disclose margins by product line, industry research and analysis of historical results has allowed the street to develop reasonably good estimates of segmented gross profitability.

Finning's after-market services line continues to be a growing proportion of the company's overall product mix; this growth is driven by FTT's scale advantage. Finning's massive parts and inventory availability, centralized remanufacturing centers and proximity to customers have driven significant demand. Furthermore, management has been proactive in growing this product line. Due to these factors, parts and service sales represent 52% of current revenues, compared to ~30% of revenue in 2000.

EXHIBIT VIII

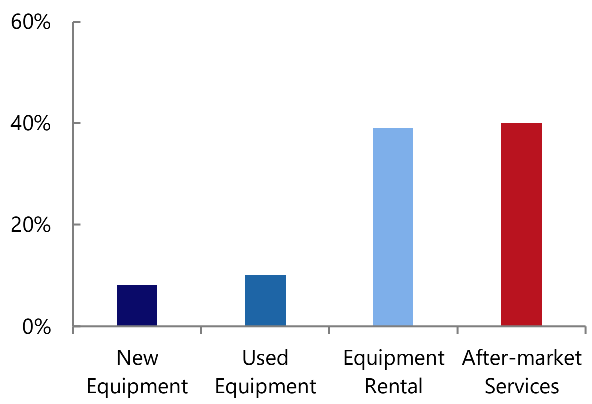
Revenue Breakdown



Source(s): Capital IQ, Raymond James

EXHIBIT IX

Segmented Gross Margin Assumptions



Source(s): Raymond James

Investment Thesis II: Near-Term Headwinds Drive Negative Sentiment

In order to outperform, one must expose and take advantage of inefficiencies in the market – doing this requires the application of second-level thinking. Currently, negative investor sentiment due to macro and political related headwinds is punishing Finning; the QUIC Industrials Team views this as a positive development for the company. To take advantage of the most discounted prices, one must be willing to buy a business when the company's outlook appears the bleakest – this is one of those scenarios.

Current negative market sentiment is due to three key factors: i) civil and political unrest in Chile; ii) cyclical commodity prices, particularly depressed oil prices; and iii) COVID-19 and its impacts on construction activity. Civil and political unrest in Chile has had a material impact on Finning's earnings, particularly in late 2019 and Q1 of 2020, depressed oil prices have decreased demand for Caterpillar equipment in Western Canada and COVID-19 has led to a general slowdown in construction activity, also negatively weighing on 2020 earnings. The QUIC Industrials Team believes that these are short-term, macroeconomic headwinds that will have no structural impact on Finning's long-term competitive position or earnings power.

Historical multiples can be utilized to illustrate how much bad news is baked into Finning's current share price. On a Price-to-Book (P/B) multiple, Finning is trading at 1.64x, a significant discount to its historical average P/B of around 2.3x (note that the theory is that book value represents a good floor for a dealer business insofar as most of its assets represent liquid inventory and working capital). As seen in Exhibit XI, this current valuation is well within the threshold of the four most attractive buying opportunities for Finning over the past 30+ years. Historical data supports this theoretical buying tactic, with prior troughs in P/B also occurring during cyclical downturns. The difference, this time, is that Finning is slowly transforming from an uber-cyclical business into a long-term growth compounder. Therefore, the current P/B multiple indicates that this may be an unprecedented entry opportunity.

In support of this indication is the analysis of Finning's historical NTM Price-to-Earnings (P/E) multiples, particularly relative to Toromont Industries. Finning's P/E discount relative to Toromont is at a record level – the ~11x P/E spread between the two companies is more than four times larger than the average over the last decade (2.74x). As seen in Exhibit XII, the multiples have diverged significantly due to elevated irrational sentiment against Finning. While the QUIC Industrials team understands and agrees that Toromont is a higher quality business, Finning's short-term headwinds do not structurally impact the company enough to justify this historical discount. Additionally, Finning is much better positioned now than it has been in the past, offering reduced cyclic exposure and positive FCF through the cycle.

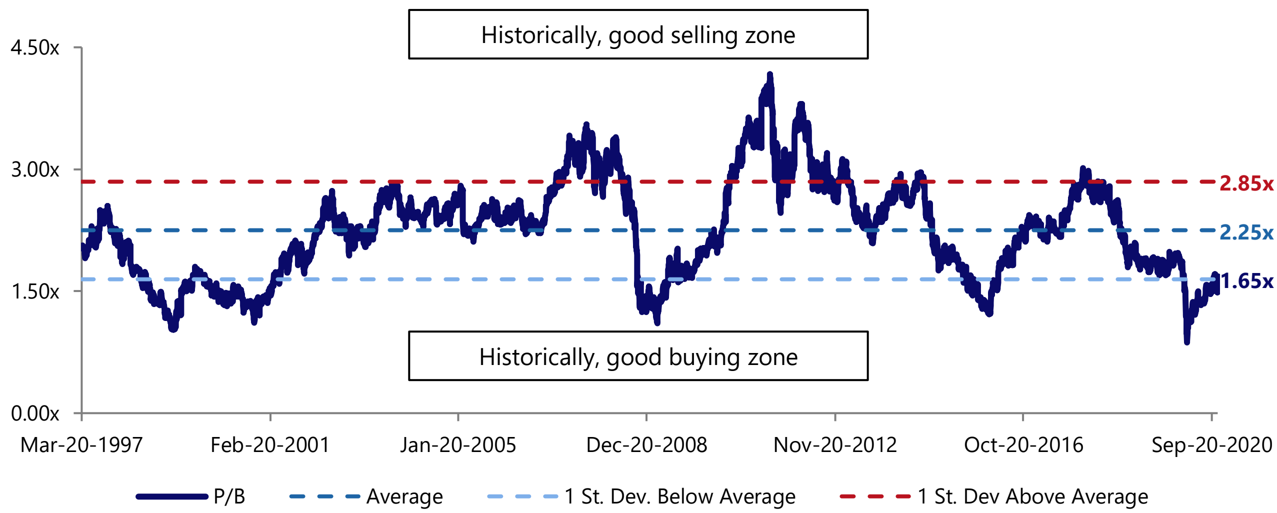
EXHIBIT X

Political Unrest in Chile

Source(s): Unsplash

EXHIBIT XI

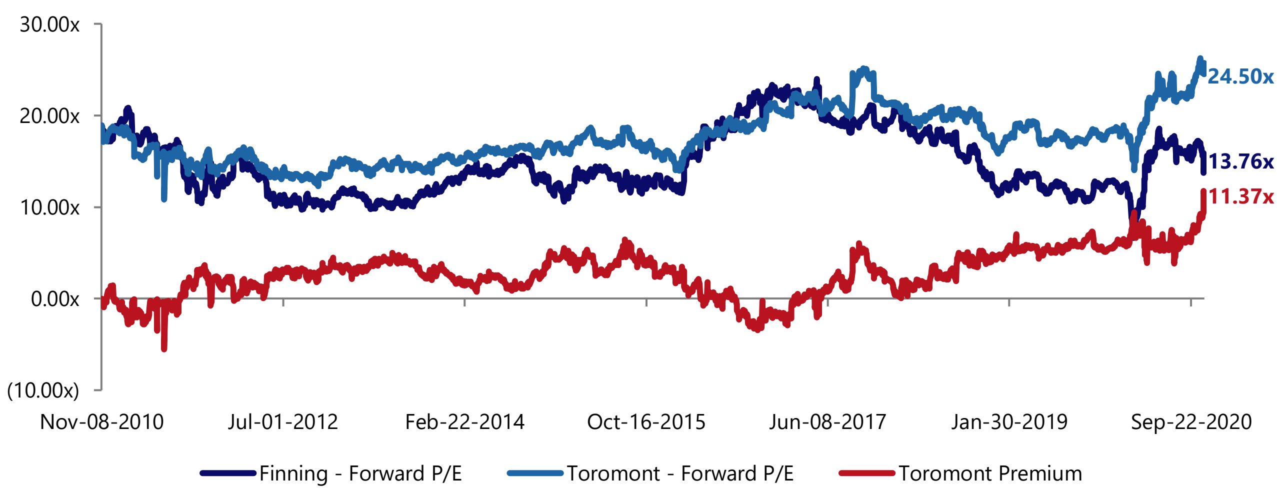
Historical P/B Multiples



Source(s): Capital IQ

EXHIBIT XII

Diverging P/E Multiples



Source(s): Capital IQ

Investment Thesis III: COVID-19 Accelerating Structural Business Shifts

There have always been glaring red flags regarding Finning's business model, most notoriously its cyclicality and lack of business efficiency. As such, Finning management has always been clear about tackling these issues. Until recently, though, Finning saw no real structural change within the business.

Since 2016, management has attempted a significant overhaul of Finning's operations. Up until COVID-19, operational progress was certainly visible, but it fell short of the ambitious expectations set back in 2016. However, the QUIC Industrials Team believes that the COVID-19 pandemic will accelerate structural shifts within Finning's business – after all, the pursuit of operational excellence should be a constant journey, not a destination.

Overview of Management

To start, the QUIC Industrials Team is encouraged by recent leadership changes in conjunction with a strong compensation plan. In March 2020, Greg Palaschuk, formerly the Senior Vice President of Commercial & Financial Performance Management for Finning Canada, stepped into the position of CFO after Steve Nielsen, the formed CFO and Executive Vice President retired. We believe that this is a favourable development for the company; Palaschuk joined Finning in 2015 and was one of the brainchildren behind the operational initiatives of 2016. Additionally, in his short time as CFO, Palaschuk has already demonstrated his ability to execute structural change – this will be elaborated on further on the next page.

We are also encouraged by Finning's strong management compensation plan. Management is incentivized in the short-term by three financial factors: i) invested capital turnover – a key indicator of capital efficiency and supply chain and asset utilization priorities; ii) EBITDA margin – an important factor related to cost management and the profitability of operations; and iii) absorption – this aligns the company's strategic focus on improving operating leverage through cost efficiencies. Long-term compensation is driven by equal parts ROIC and relative stock performance. Both the short and long-term compensation plans incentivize management to execute material structural changes to Finning's business, which is necessary to create shareholder value.

EXHIBIT XIII

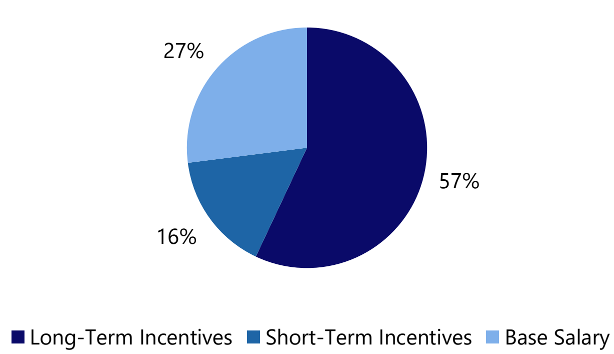
Variable Compensation Factors

- ROIC
- Relative Stock Performance
- Invested Capital Turnover
- EBITDA Margin
- Absorption

Source(s): Company Filings

EXHIBIT XIV

"Pay-for-Performance" Philosophy



Source(s): Company Filings

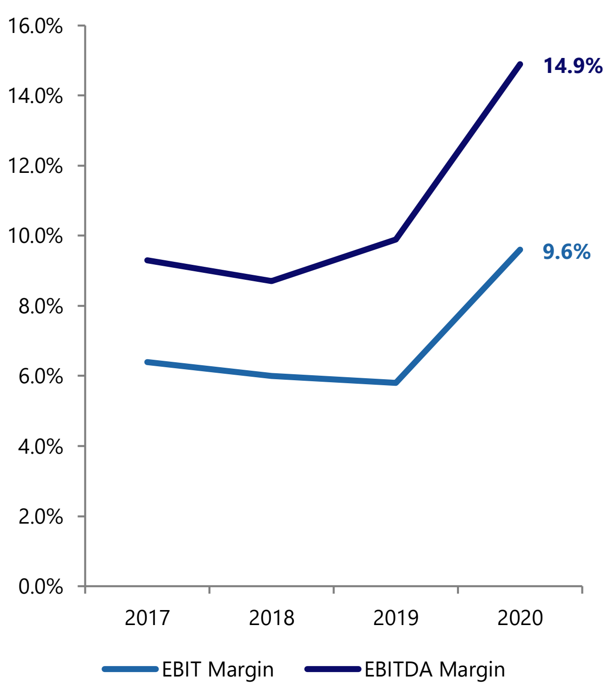
Investment Thesis III: COVID-19 Accelerating Structural Business Shifts

2016 – COVID

Management embarked on a significant overhaul of Finning's operations in 2016. Their focuses were on cost reduction, but more importantly in streamlining the supply chain and maximizing capital deployment. As a result of these changes, tangible improvements have been achieved in inventory turnover and capital efficiency metrics. Furthermore, while end-markets for Finning are still largely cyclical in nature, the sustainability and earnings power of the "new" Finning is much better positioned through the cycle. However, although progress was visible, management was unable to generate margin expansion over this time.

EXHIBIT XV

Structural Shifts Driving Margin Growth



Source(s): Capital IQ

COVID-19

The QUIC Industrials Team believes that the COVID-19 pandemic is the catalyst accelerating structural business development and margin expansion.

To start, the company expects to reduce the global workforce by 8% by the end of 2020 from the end of 2019 – the majority of these reductions are in managerial and back office functions. FTT estimates this restructuring will result in over $100 million in annualized cost savings, with one third of these costs to likely return when market activity fully recovers. The headcount that returns will be made up of revenue-generating employees in lower cost locations. $51 million in restructuring costs were recognized in Q2 of 2020 and are expected to fully cover the entire restructuring plan.

COVID-19 has also allowed management to "re-shape" its existing branch network in Canada to a hub and spoke model – this will enhance labour productivity and facility utilization. Additionally, in South America, the company is leveraging its enterprise resource planning (ERP) system to rationalize and cut out some of its branch network and reduce its cost to serve customers. Both of these initiatives have already had material positive impacts on margins, with a 17 percent year-over-year reduction in SG&A costs.

We have confidence in the Finning management team's continuation of these structural changes. They have long understood the weaknesses of Finning's business and what elements were necessary to improve, as seen by their focus on ROIC, asset utilization and supply chain practices, but simply lacked the catalyst for change. As illustrated, management has been able to take advantage of this catalyst and drive real change in the business. If they remain properly incentivized, we see no reason to believe that management will fail its continuation of structural change.

Concern: Margin Compression Risk from U.S. Equipment Cyclicality

One of the key risks inherent in Finning's business model is a fundamental downward pressure on gross margins. Finning's highest margin business segment is its product support services. Over the past six fiscal years, Finning's revenue has shifted toward this higher margin segment. However, gross margins have not expanded as much as the math would suggest. Instead, margins have actually decreased between 2014A and 2018A. This is the opposite of what one would expect as the business shifts to dependency on a higher margin business segment. The only explanation for the decreased margins proposed by analysts is an underlying flaw in the business model.

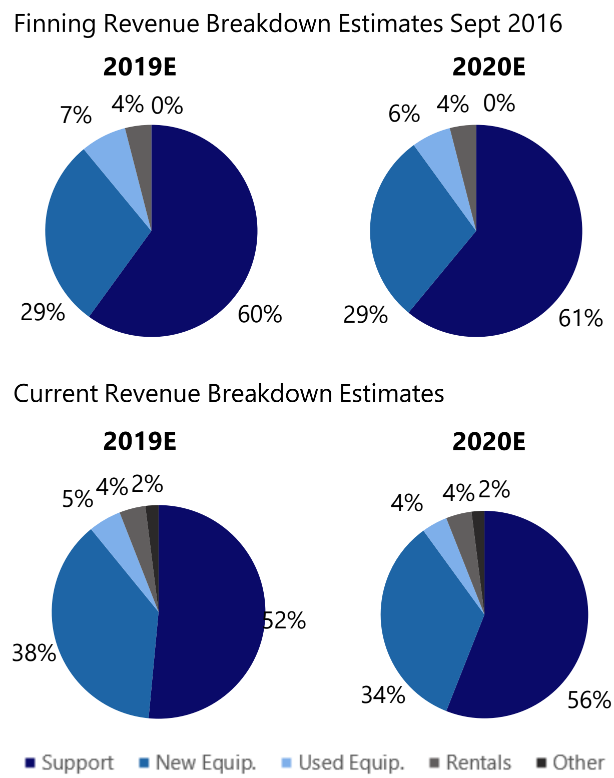
The reason for decreasing gross margins despite a shift to higher margin revenue producing activities is a supply drought on CAT's end. If CAT decreases its supply of equipment rentals, then Finning is subject to a macro risk that is entirely in the control of a business higher in its vertical chain. Therefore, this margin compression may offer a glimpse of a more fundamental risk in Finning's business model: its dependency on CAT producing a consistent quantity of equipment. Any drought in the purchase of CAT equipment or its production results in a revenue risk for Finning.

The cyclicality of CAT's equipment selection is contingent on the broader United States equipment supply cycle. The manufacturing of CAT equipment is contingent on the broader supply demand cycle of manufacturing end markets. To summarize - it is apparent that the number of equipment pieces made by CAT in the market have a proportional impact on demand for Finning's services. Moreover, the inventory of CAT products is contingent on the broader market equipment cycles in the United States – a macroeconomic phenomenon beyond the control of Finning's management team. This finding presents a significant cyclicality risk to the business, and is a factor that must be considered before entering a position.

The figures on the following page both reflect this phenomenon in visual terms. The first shows the franticness of the United States equipment cycle. Evidently, Finning has no control over the quantity of CAT products on the market, and is therefore unable to defend against a drop in product availability on a macroeconomic level. Macroeconomic trends are not only unpredictable, but are not worth betting on from a quality-value investing perspective. Therefore, QUIC will not initiate a position in Finning as a result of an opinion on the United States equipment cycle.

Purchasing a state in Finning would be tantamount to QUIC accepting the inherent business risk stemming from the exposure to equipment supply cyclicality.

EXHIBIT X

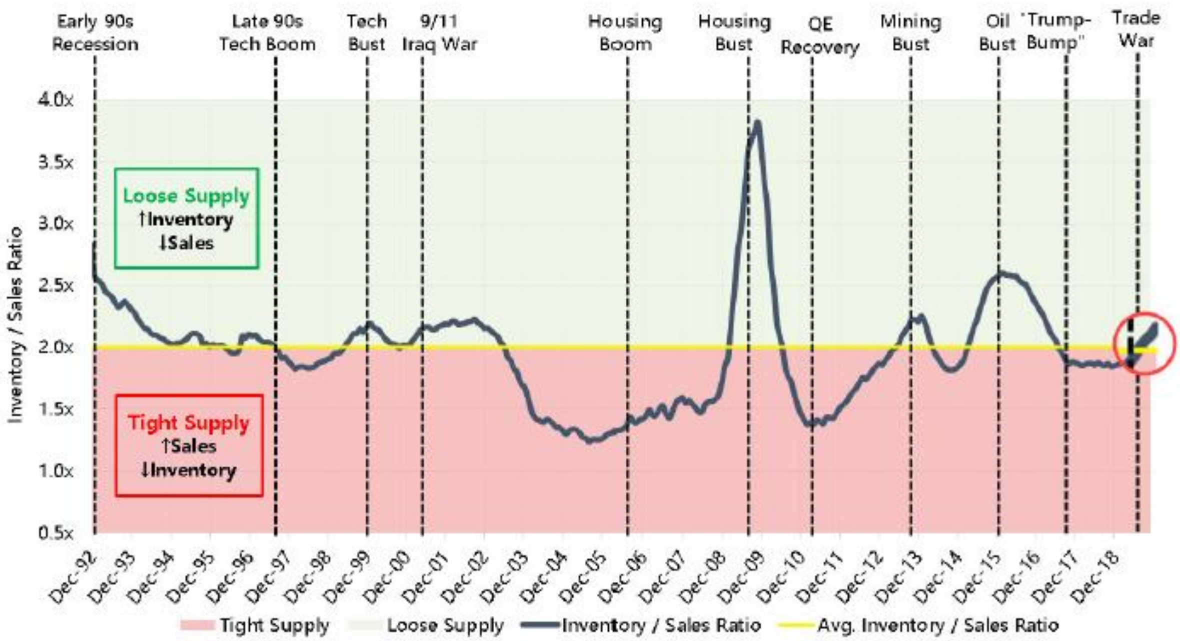


Source(s): Raymond James

Concern: Margin Compression Risk from U.S. Equipment Cyclicality

EXHIBIT X

United States Equipment Cycle (1992-Present)



Source(s): Raymond James

EXHIBIT X

Finning Margin Compression (2014A-2020E)

Revenue Segment	2014	2015	2016	2017	2018	2019E	2020E
New Equipment	10.0%	8.0%	6.0%	7.0%	7.5%	6.0%	5.0%
Used Equipment	13.0%	12.0%	13.0%	10.0%	10.0%	10.0%	10.0%
Equipment Rental	45.0%	40.0%	35.0%	36.0%	38.0%	38.0%	39.0%
Customer Support	40.0%	38.0%	39.0%	40.0%	39.5%	39.0%	38.0%
Other	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Consolidated	26.8%	26.2%	26.0%	26.6%	25.3%	24.9%	25.4%

Source(s): Raymond James

Valuation Summary & Commentary

EXHIBIT XII

Valuation Summary

Finning International Discounted Cash Flow							
TSX:FTT	Historical	Projected					
($ in Millions Except Per Share Data)	FY 2019	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	7,817.0	**8,243.3**	**8,690.5**	**9,015.8**	**9,276.8**	**9,543.5**	**9,736.4**
New Mobile Equipment	2,776.0	2,942.6	3,119.1	3,243.9	3,341.2	3,441.4	3,510.3
Used Equipment	361.0	375.4	386.7	398.3	410.3	420.5	431.0
Equipment Rental	246.0	250.9	255.9	261.1	266.3	271.6	277.0
Customer Support Services	3,793.0	4,020.6	4,261.8	4,432.3	4,565.3	4,702.2	4,796.3
Fuel and Other	641.0	653.8	666.9	680.2	693.8	707.7	721.9
YoY Growth (%)		*5.5%*	*5.4%*	*3.7%*	*2.9%*	*2.9%*	*2.0%*
Cost of Sales	**(6,018.0)**	**(6,223.7)**	**(6,604.8)**	**(6,942.1)**	**(7,143.2)**	**(7,348.5)**	**(7,497.1)**
Gross Profit	**1,799.0**	**2,019.6**	**2,085.7**	**2,073.6**	**2,133.7**	**2,195.0**	**2,239.4**
Gross Profit Margin	*23.0%*	*24.5%*	*24.0%*	*23.0%*	*23.0%*	*23.0%*	*23.0%*
Operating Expenses	**(1,374.0)**	**(1,442.6)**	**(1,520.8)**	**(1,532.7)**	**(1,577.1)**	**(1,574.7)**	**(1,606.5)**
% of Revenue	*17.6%*	*17.5%*	*17.5%*	*17.0%*	*17.0%*	*16.5%*	*16.5%*
EBITDA	**425.0**	**577.0**	**564.9**	**540.9**	**556.6**	**620.3**	**632.9**
Less: Depreciation and Amortization	**(293.0)**	**(288.5)**	**(304.2)**	**(315.6)**	**(324.7)**	**(334.0)**	**(340.8)**
EBIT	**132.0**	**288.5**	**260.7**	**225.4**	**231.9**	**286.3**	**292.1**
Less: Income Taxes	**(34.3)**	**(75.0)**	**(67.8)**	**(58.6)**	**(60.3)**	**(74.4)**	**(75.9)**
Net Operating Profit After Taxes	**97.7**	**213.5**	**192.9**	**166.8**	**171.6**	**211.9**	**216.1**
Add: Depreciation and Amortization	**293.0**	**288.5**	**304.2**	**315.6**	**324.7**	**334.0**	**340.8**
Less: Capital Expenditures	**(215.0)**	**(329.7)**	**(347.6)**	**(360.6)**	**(371.1)**	**(381.7)**	**(389.5)**
Less: Change in Working Capital	**(219.0)**	**(160.3)**	**(154.6)**	**(150.4)**	**(147.1)**	**(143.7)**	**(141.2)**
Unlevered Free Cash Flow	**394.7**	**332.6**	**304.0**	**272.1**	**272.3**	**307.8**	**308.7**
PV of Unlevered Free Cash Flows		**321.8**	**275.4**	**230.8**	**216.2**	**228.8**	**214.8**

DCF Assumptions and Outputs	
Terminal Multiple	9.0x
Terminal EBITDA	$633
Discount Rate	6.81%
Terminal Value	$5,696
PV of Terminal Value	$3,836
Sum of PV of Cash Flows	$1,488
Enterprise Value	$5,324
Less Net Debt	$1,410
Less Preferred Equity	$0
Equity Value	$3,914
Shares Outstanding	163
Target Return	
Implied Share Price	$24.07
Current Share Price	$22.74
Dividend Yield	3.35%
Implied Return	**5.84%**

Commentary

After looking at the valuation for Finning, the Team believes that the overly negative market sentiment has weighed significantly on the share price and presents a compelling buying opportunity. Although the business has some highly cyclical end-market exposure, we have the view that over the long-term Finning has the ability to outperform. The model accounts for higher gross margins in 2020 and 2021 due to higher fleet replacement, and then lowers them to more conservative assumptions at the end of the projection period. The bear case of the model is shown with gross margins going to historical lows. Nevertheless, there is still an implied return of almost 6%. This shows that even in the worst-case scenario there still remains a buying opportunity.

References

1. Alberta Energy Regulator
2. Bloomberg
3. Capital IQ
4. Company Filings
5. Infrastructure Canada
6. iSeekplant
7. Raymond James
8. RBC Capital Markets
9. Unsplash