



Finning International Inc. is the world's largest distributor of Caterpillar products and serves as the exclusive authorized dealer in Western Canada, the United Kingdom, and the southern region of South America.

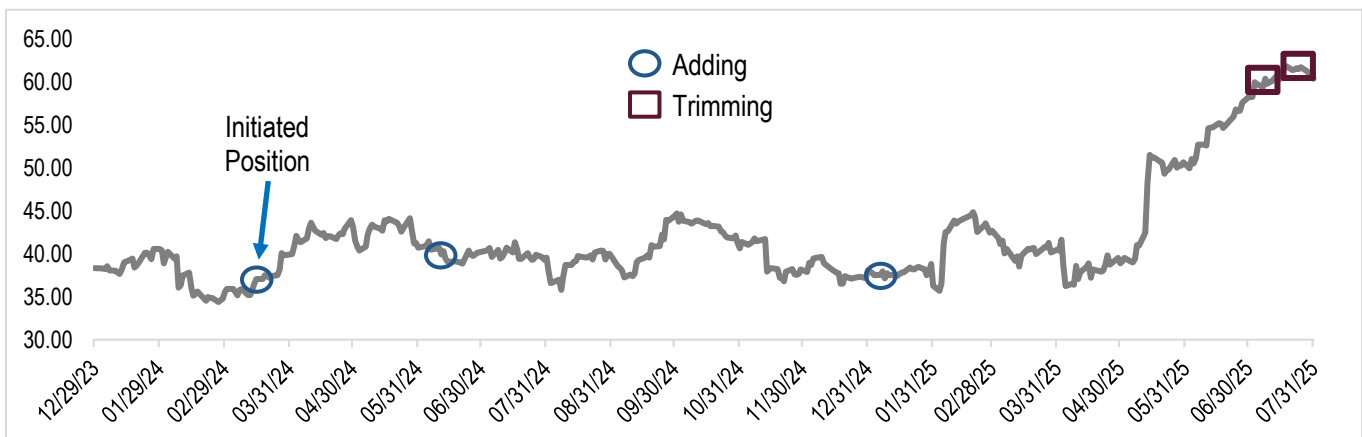
Thesis

- Finning has undergone significant transformation over the past 15 years, most notably through substantial growth in its product support revenue, which offers greater stability compared to new equipment sales, particularly during economic downturns
- Has been diversifying its customer base, product offerings and industry sectors to reduce business cyclicality
- Increased operational efficiency by focusing on lowering fixed costs and implementing a leaner organizational structure
- Progress was obscured by an exceptionally challenging macroeconomic environment over the past ten years: 2014 oil price collapse, the 2016 copper market disruption, widespread wildfires, Brexit, record-low Western Canadian Select (WCS) prices in 2018 and the global COVID-19 pandemic
- Market overlooked these fundamental changes in the business along with emerging tailwinds with the potential to significantly drive growth and profitability:
 - Expansion of the mining sector in South America, fueled by increasing global demand for copper, amplified by declining ore grades and increasing production volumes; South America appears well-positioned for ongoing investment in fleet expansion
 - Western Canada experienced heightened activity reaching record-high oil production levels; improvement in egress infrastructure further supports increased demand in the region

Opportunity

- At the time of our investment in the first quarter of 2024, Finning was trading at an over 30% discount to our estimate of its intrinsic value based on historical ROEs and trading multiples
- Sionna saw a clear path for meaningful improvement in Finning's ROE, which could support a re-rating of the stock to a higher valuation multiple, similar to its peers in the space
- Stock has appreciated approximately 60% from our original purchase; while upside is still possible as our thesis continues to unfold, we have been trimming our position and banking profits
- Strong performance has been underpinned by the company's ability to generate robust free cash flow, execute consistent share repurchases and maintain a disciplined balance sheet

Finning International Stock Price (C\$)



Source: FactSet. Buys and sells shown for Sionna SMA 40LC Model as a representative account.

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