

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2016, compared to the preceding year. This MD&A should be read in conjunction with the attached audited consolidated financial statements and related notes for the year ended December 31, 2016.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The information in this MD&A is current to February 6, 2017.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2016 Annual Report and 2017 Annual Information Form. These filings are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.toromont.com](http://www.toromont.com).

## Advisory

Information in this MD&A and Annual Report that is not a historical fact is "forward-looking information". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "likely", "should", "could", "will", "may" and similar expressions are intended to identify statements containing forward-looking information. Forward-looking information in this MD&A and Annual Report is based on current objectives, strategies, expectations and assumptions which management considers appropriate and reasonable at the time including, but not limited to, general economic and industry growth rates, commodity prices, currency exchange and interest rates, competitive intensity and shareholder and regulatory approvals.

By its nature, forward-looking information is subject to risks and uncertainties which may be beyond the ability of Toromont to control or predict. The actual results, performance or achievements of Toromont could differ materially from those expressed or implied

by forward-looking information. Factors that could cause actual results, performance, achievements or events to differ from current expectations include, among others, risks and uncertainties related to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; changes in foreign exchange rates, including the Cdn\$/US\$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; and environmental regulation.

Any of the above-mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A and

Annual Report. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections of this MD&A. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

Readers are cautioned not to place undue reliance on statements containing forward-looking information that are included in this MD&A and Annual Report, which are made as of the date of this MD&A, and not to use such information for anything other than its intended purpose. Toromont disclaims any obligation or intention to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

## Corporate Profile and Business Segmentation

As at December 31, 2016, Toromont employed over 3,600 people in more than 100 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

Toromont has two reportable operating segments: the Equipment Group and CIMCO.

The Equipment Group includes Toromont Cat, one of the world's largest Caterpillar dealerships, Battlefield – The Cat Rental Store, an industry-leading rental operation, and AgWest, an agricultural equipment and solutions dealer representing AGCO, CLAAS and other manufacturers' products.

Performance in the Equipment Group is driven by activity in several industries: road building and other infrastructure-related activities; mining; residential and commercial construction; power generation; aggregates; waste management; steel; forestry; and agriculture. Significant activities include the sale, rental and service of mobile equipment for Caterpillar and other manufacturers; sale, rental and service of engines used in a variety of applications including industrial, commercial, marine, on-highway trucks and power generation; and sale of complementary and related products, parts and service. Territories

include Ontario, Manitoba, Newfoundland and most of Labrador and Nunavut.

CIMCO is a market leader in the design, engineering, fabrication, installation and after-sale support of refrigeration systems in industrial and recreational markets. Results of CIMCO are influenced by conditions in the primary market segments served: beverage and food processing; cold storage; food distribution; mining; and recreational ice rinks. CIMCO offers systems designed to optimize energy usage through proprietary products such as ECO CHILL®. CIMCO has manufacturing facilities in Canada and the United States and sells its solutions globally.

# Primary Objective and Major Strategies

The primary objective of the Company is to build shareholder value through sustainable and profitable growth, supported by a strong financial foundation. To guide its activities in pursuit of this objective, Toromont works toward specific, long-term financial goals (see section heading “Key Performance Measures” in this MD&A) and each of its operating groups consistently employs the following broad strategies:

## **Expand Markets**

Toromont serves diverse markets that offer significant long-term potential for profitable expansion. Each operating group strives to achieve or maintain leading positions in markets served. Incremental revenues are derived from improved coverage, market share gains and geographic expansion. Expansion of the installed base of equipment provides the foundation for product support growth and leverages the fixed costs associated with the Company’s infrastructure.

## **Strengthen Product Support**

Toromont’s parts and service business is a significant contributor to overall profitability and serves to stabilize results through economic downturns. Product support activities also represent

opportunities to develop closer relationships with customers and differentiate the Company’s product and service offering. The ability to consistently meet or exceed customers’ expectations for service efficiency and quality is critical, as after-market support is an integral part of the customer’s decision-making process when purchasing equipment.

## **Broaden Product Offerings**

Toromont delivers specialized capital equipment to a diverse range of customers and industries. Collectively, hundreds of thousands of different parts are offered through the Company’s distribution channels. The Company expands its customer base through selectively extending product lines and capabilities. In support of this strategy, Toromont represents product lines that are considered leading and generally best-in-class from suppliers and business partners who continually expand and develop their offerings. Strong relationships with suppliers and business partners are critical in achieving growth objectives.

## **Invest in Resources**

The combined knowledge and experience of Toromont’s people is a key competitive

advantage. Growth is dependent on attracting, retaining and developing employees with values that are consistent with Toromont’s. A highly principled culture, share ownership and profitability-based incentive programs result in a close alignment of employee and shareholder interests. By investing in employee training and development, the capabilities and productivity of employees continually improve to better serve shareholders, customers and business partners.

Toromont’s information technology represents another competitive differentiator in the marketplace. The Company’s selective investments in technology, inclusive of e-commerce initiatives, strengthen customer service capabilities, generate new opportunities for growth, drive efficiency and increase returns to shareholders.

## **Maintain a Strong Financial Position**

A strong, well-capitalized balance sheet creates stability and financial flexibility, and has contributed to the Company’s long-term track record of profitable growth. It is also fundamental to the Company’s future success.

# Consolidated Annual Operating Results

(\$ thousands, except per share amounts)	2016	2015	\$ change	% change
<b>Revenues</b>	\$ 1,867,283	\$ 1,802,233	\$ 65,050	4%
Cost of goods sold	1,399,695	1,356,630	43,065	3%
Gross profit <sup>(1)</sup>	467,588	445,603	21,985	5%
Selling and administrative expenses	255,964	241,093	14,871	6%
Gain on sale of internally-developed software	(4,939)	—	(4,939)	nm
<b>Operating income <sup>(1)</sup></b>	216,563	204,510	12,053	6%
Interest expense	7,242	8,668	(1,426)	(16%)
Interest and investment income	(4,006)	(3,422)	(584)	17%
Income before income taxes	213,327	199,264	14,063	7%
Income taxes	57,579	53,598	3,981	7%
<b>Net earnings</b>	155,748	145,666	10,082	7%
<b>Basic earnings per share</b>	\$ 1.99	\$ 1.88	\$ 0.11	6%
<b>Key ratios:</b>				
Gross profit margin <sup>(1)</sup>	25.0%	24.7%		
Selling and administrative expenses as a % of revenues	13.7%	13.4%		
Operating income margin <sup>(1)</sup>	11.6%	11.3%		
Income taxes as a % of income before income taxes	27.0%	26.9%		
Return on capital employed <sup>(1)</sup>	24.5%	24.3%		
Return on equity <sup>(1)</sup>	20.0%	21.6%		

(1) Defined in the sections titled "Additional GAAP Measures and Non-GAAP Measures."

Revenues increased 4% to \$1.9 billion. CIMCO accounted for the majority of the increase in revenues on record package sales and product support revenues. The Equipment Group reported a 1% increase in revenues on higher product support and used equipment revenues, partially offset by lower new equipment sales and rentals.

Gross profit margin was slightly higher than last year, up 30 basis points ("bps") to 25.0% largely due to a favorable sales mix of product support to total revenues. Challenging market conditions have continued to exert downward pressures on margins for each category of sales across most of the business.

Selling and administrative expenses increased \$14.9 million or 6% and were up 30 bps as a percentage of revenues versus

last year. The majority of the increase related to higher compensation costs (up \$9.3 million) and higher mark-to-market adjustments on Deferred Share Units ("DSUs") (\$3.1 million) due to the increased share price. Bad debt expenses were down \$0.7 million on an improved aging profile of receivables.

In the third quarter of 2016, Toromont sold its licences related to internally-developed software modules, designed to work with dealer-based systems (DBS). The pre-tax gain on this sale was \$4.9 million. Annual royalty revenue from the previous royalty arrangements averaged \$0.6 million over the preceding three years.

Interest expense decreased on lower average debt balances and lower

effective interest rates realized in a late-2015 refinancing.

Interest income increased on higher conversions of equipment on rent with a purchase option ("RPO") and increased investment income on higher average cash balances.

The effective income tax rate for 2016 was 27.0% compared to 26.9% in 2015.

Net earnings in 2016 were \$155.7 million and basic earnings per share ("EPS") were \$1.99, up 7% from 2015.

Comprehensive income in 2016 was \$154.2 million (2015 – \$147.6 million). Other comprehensive loss in 2016 was \$1.6 million, including an actuarial loss on defined benefit pension plans of \$1.1 million which resulted from a decrease in the discount rate.

# Business Segment Annual Operating Results

The accounting policies of the segments are the same as those of the consolidated entity. Management evaluates overall business segment performance based on revenue growth, operating income relative to revenues and return on capital employed. Corporate expenses are allocated based on each segment's revenue. Interest expense and interest and investment income are not allocated.

## Equipment Group

(\$ thousands)	2016	2015	\$ change	% change
Equipment sales and rentals				
New	\$ 518,808	\$ 595,441	\$ (76,633)	(13%)
Used	239,447	192,445	47,002	24%
Rentals	221,009	222,562	(1,553)	(1%)
Total equipment sales and rentals	979,264	1,010,448	(31,184)	(3%)
Power generation	12,242	11,173	1,069	10%
Product support	595,383	547,878	47,505	9%
<b>Total revenues</b>	<b>\$ 1,586,889</b>	<b>\$ 1,569,499</b>	<b>\$ 17,390</b>	<b>1%</b>
<b>Operating income</b>	<b>\$ 196,124</b>	<b>\$ 189,630</b>	<b>\$ 6,494</b>	<b>3%</b>
<b>Capital expenditures</b>				
Rental	\$ 98,668	\$ 119,737	\$ (21,069)	(18%)
Other	22,938	29,331	(6,393)	(22%)
<b>Total</b>	<b>\$ 121,606</b>	<b>\$ 149,068</b>	<b>\$ (27,462)</b>	<b>(18%)</b>
<b>Key ratios:</b>				
Product support revenues as a % of total revenues	37.5%	34.9%		
Operating income margin	12.4%	12.1%		
Group total revenues as a % of consolidated revenues	85.0%	87.1%		
Return on capital employed	21.8%	22.2%		

The Equipment Group has faced challenging market conditions this year. The weakened Canadian dollar has resulted in higher new equipment prices versus recent years and delays in the roll-out of the announced Federal infrastructure investment has resulted in customers being more cautious with their capital expenditures. Consequently, customers have been seeking alternatives such as used, rebuilds and, to a certain extent, rental purchase options. Additionally, weakness in other geographic markets has resulted in a migration of rental fleets, inventory and contractors into the relatively more active Ontario market. This led to increasing competitive conditions across all segments. In total, equipment sales were down \$29.6 million or 4%.

New equipment sales were down \$76.6 million or 13% versus last year, tracking industry declines based on Company estimates, with decreases reported across most industries served. Toromont's new equipment sales into construction markets declined \$40.0 million or 11%, while sales into mining markets were down \$34.2 million or 45%. Power Systems revenues were off \$10.9 million or 14%, due to delayed timing for certain project completions together with softness in most sectors. Deliveries into certain other market segments increased, including waste and landfill (up \$8.6 million or 104%) and forestry (up \$1.1 million or 7%). Agriculture revenues were relatively unchanged from last year despite very soft markets.

Offsetting the decline in new, used equipment sales increased to a new record of \$239.4 million led by strong mining deliveries and increases across most other market segments. Used equipment sales include used equipment purchased for resale, equipment received on trade-in, rent with purchase option ("RPO") returns and sales of Company-owned rental fleet units.

Rental revenues decreased \$1.6 million or 1% as lower rental rates across all segments more than offset increased time utilization in the larger rental asset categories. Light equipment rentals were up 3% on larger fleets (up 12%) and two additional locations. Heavy equipment rentals were down 5% on lower time utilization exacerbated by changes in

the competitive landscape which adversely affected demand. Power rentals decreased 17% against a tough prior year comparator, which included good activity surrounding the Toronto Pan-Am games, increased penetration of the entertainment market and the conversion of a large rental package. Rental revenues from RPO were down 8% largely due to rental rate pressures as the average RPO fleet investment increased 3% year-over-year. The ending RPO fleet at December 31, 2016, was \$61.0 million versus \$49.8 million at the end of 2015.

Power generation revenues from Toromont-owned and -managed plants increased \$1.1 million or 10% over last year on higher electricity sales from the Waterloo Landfill site and Sudbury Hospital plant in addition to higher thermal revenue from the Sudbury Downtown and Hospital plants.

Product support revenues increased \$47.5 million or 9%, benefitting from the larger installed base of equipment in our territory and good activity levels for equipment in the field. Parts revenues increased 11% over 2015, led by substantial

parts deliveries into mining (up 22%), construction (up 2%) and agriculture (up 25%) markets. Higher parts sales also reflect changes in pricing as a consequence of the weakened Canadian dollar. We estimate that on a constant dollar basis, parts sales increased 5%. Service revenues were up 2% largely due to good construction activity levels. Product support was also lifted by increased rebuild activity in mining.

Gross margins improved 60 basis points ("bps") on a favorable sales mix of product support revenues to total revenues (37.5% compared to 34.9% in 2015). Competitive market conditions were experienced across most lines of business during the year. Lower depreciation charges on the rental fleets as a result of updated estimates of estimated useful lives and residual values served to offset the impact of lower financial utilization of the rental fleets. The net impact of these changes reduced depreciation by \$4.1 million for the year versus applying the previous estimates.

Selling and administrative expenses increased \$12.6 million or 6% compared

to last year. Compensation costs (up \$6.0 million), customer allowances (up \$2.0 million) and information technology expenses (up \$1.4 million) accounted for the majority of the increase. As a percentage of revenues, expenses were 60 bps higher than 2015 (13.4% vs. 12.8%).

The \$4.9 million pre-tax gain on the sale of internally-developed software is included in the Equipment Group results. Excluding this gain, operating income increased \$1.6 million versus last year but was down 10 bps to 12.0% as a percentage of revenues.

Capital expenditures in the Equipment Group were \$27.5 million (18%) lower year-over-year. Replacement and expansion of the rental fleet accounted for \$98.7 million of total investment in 2016. Other capital expenditures include \$11.2 million for service and delivery vehicles, \$6.1 million for new and expanded facilities to meet current and future growth requirements, \$2.7 million for machinery and equipment and \$1.5 million for upgrades and enhancements to the information technology infrastructure.

## Bookings and Backlogs

(\$ millions)	2016	2015	\$ change	% change
Bookings – year ended December 31	\$ 814	\$ 779	\$ 35	4%
Backlogs – as at December 31	\$ 147	\$ 92	\$ 55	60%

Bookings increased 4% to \$814.0 million with increases in mining (29%), agriculture (18%) and power systems (7%) orders, partially offset by lower construction (1%) orders.

Backlogs of \$147.0 million were up 60% from this time last year with increases

across most market segments. At December 31, 2016, the backlog related to mining (32%), construction (28%), power systems (26%) and agriculture (14%). Most of the backlog is expected to be delivered in 2017. Backlogs can vary

significantly from period to period on large project activities, especially in mining and power systems, the timing of orders and deliveries and the availability of equipment from either equipment or suppliers.

## CIMCO

(\$ thousands)	2016	2015	\$ change	% change
Package sales	\$ 161,614	\$ 119,516	\$ 42,098	35%
Product support	118,780	113,218	5,562	5%
<b>Total revenues</b>	<b>\$ 280,394</b>	<b>\$ 232,734</b>	<b>\$ 47,660</b>	<b>20%</b>
<b>Operating income</b>	<b>\$ 20,439</b>	<b>\$ 14,880</b>	<b>\$ 5,559</b>	<b>37%</b>
<b>Capital expenditures</b>	<b>\$ 1,888</b>	<b>\$ 1,038</b>	<b>\$ 850</b>	<b>82%</b>
<b>Key ratios:</b>				
Product support revenues as a % of total revenues	42.4%	48.6%		
Operating income margin	7.3%	6.4%		
Group total revenues as a % of consolidated revenues	15.0%	12.9%		
Return on capital employed	73.8%	47.5%		

CIMCO reported record results for the year on continued growth in both Canada and the US. Translation of US operations did not have a significant impact on results.

Package revenues reflect work performed using the percentage-of-completion method, which reflects timing of projects and construction schedules largely under our customers' control. In Canada, package revenues were \$25.2 million or 26% higher than last year with terrific growth in Ontario, Quebec and Atlantic Canada, partially offset by a decline in Western Canada. Industrial markets were up \$30.4 million or 47% while recreational markets were down \$5.2 million or 17%. In the US, package revenues increased \$16.9 million or 71% versus last year with recreational activity more than doubling (up 120%) and industrial activity increasing 12%. Increased sales coverage in the US has yielded positive results and remains an area with significant growth potential.

Product support revenues increased \$5.6 million or 5% versus last year largely due to higher activity levels in Canada (up 6%) while US revenues were relatively in line with last year. Focus remains on continued expansion into US markets with traction expected over the longer term as the installed base increases.

Gross margins were down 130 bps on lower average package margins and an increased proportion of package sales versus higher margin product support sales, partially offset by improved product support margins. Lower package margins reflect the tight pricing environment and higher warranty costs, partially offset by improved execution and a favorable foreign exchange impact. Higher product support margins reflect execution experience despite increasingly competitive market conditions. Product support revenues were 42.4% as a percentage of total revenues in 2016 compared to 48.6% in 2015.

Selling and administrative expenses increased \$2.2 million or 6% compared to last year on higher compensation costs (up \$3.2 million), partially offset by lower bad debt expenses (down \$0.6 million). Certain other expense categories were lower including professional fees, insurance and depreciation. As a percentage of revenues, expenses were 220 bps lower than last year (15.3% vs. 17.5%).

Operating income increased 37% to \$20.4 million on the higher revenues and lower relative expense levels, partially offset by lower margins. Operating income margin increased 90 bps to 7.3%.

Capital expenditures were up 82% to \$1.9 million with the majority of expenditures in 2016 related to additional service vehicles (\$1.0 million), machinery and equipment (\$0.4 million) and information technology infrastructure enhancements and upgrades (\$0.3 million).

## Bookings and Backlogs

(\$ millions)	2016	2015	\$ change	% change
Bookings - year ended December 31	\$ 178	\$ 139	\$ 39	28%
Backlogs - as at December 31	\$ 99	\$ 88	\$ 11	13%

Bookings increased 28% to a new high of \$178.0 million with increases in both Canada and the US. Industrial bookings were up 45% with strong growth in both Canada (up 33%) and the US (up 211%). Recreational bookings were up 6% with increases in the US (up 20%),

partially offset by a decrease in Canada (down 4%).

Backlogs increased 13% to \$99.0 million also with increases in both Canada and the US and represented the second-highest level for this time of year. Recreational backlogs were

up 24% with increases in Canada (up 29%) and the US (up 19%). Industrial backlogs were up 4% as strong US activity levels (up 85%) were partially offset by softer Canadian levels (down 5%). Substantially all of the backlog is expected to be realized as revenue in 2017.

# Consolidated Financial Condition

The Company has maintained a strong financial position for many years. At December 31, 2016, the ratio of net debt to total capitalization was -4% (cash exceeded total debt).

## Non-Cash Working Capital

The Company's investment in non-cash working capital was \$388.5 million at December 31, 2016. The major components, along with the changes from December 31, 2015, are identified in the following table.

(\$ thousands)	2016	2015	\$ change	% change
Accounts receivable	\$ 277,050	\$ 262,523	\$ 14,527	6%
Inventories	435,757	463,210	(27,453)	(6%)
Other current assets	5,236	4,278	958	22%
Accounts payable, accrued liabilities and provisions	(264,198)	(240,203)	(23,995)	10%
Income taxes payable	(1,262)	(3,052)	1,790	(59%)
Derivative financial instruments	1,197	2,445	(1,248)	(51%)
Dividends payable	(14,111)	(13,253)	(858)	6%
Deferred revenues	(51,211)	(54,645)	3,434	(6%)
<b>Total non-cash working capital</b>	<b>\$ 388,458</b>	<b>\$ 421,303</b>	<b>\$ (32,845)</b>	<b>(8%)</b>

Accounts receivable increased \$14.5 million or 6% compared to 2015 mainly due to the 2% increase in revenues in the fourth quarter. Equipment Group accounts receivable increased \$9.3 million or 4% while CIMCO accounts receivable increased \$5.2 million or 11%. Days sales outstanding (DSO) was relatively in line with last year at 45 days with the Equipment Group holding constant and CIMCO down 2 days.

Inventories decreased \$27.5 million (6%) to \$435.8 million versus a year ago.

- Equipment Group inventories were \$29.2 million (7%) lower than this time last year with decreases in equipment (down \$21.5 million or 7%), parts (down \$6.8 million or 6%) and service work-in-process (down \$0.9 million or 5%). Managing inventory levels remains a focus.
- CIMCO inventories were \$1.7 million (10%) higher than this time last year mainly on increases in work-in-process on the timing of projects.

Accounts payable and accrued liabilities at December 31, 2016, increased \$24.0 million or 10% from this time last year. The increase was primarily due to the timing of payments related to inventory

purchases and related payments for other supplies in addition to the impact of the weaker Canadian dollar on accounts payable to US-based vendors.

Income taxes payable reflects the difference between tax installments and current tax expense.

Higher dividends payable year over year reflect the higher dividend rate. In 2016, the quarterly dividend rate was increased from \$0.17 per share to \$0.18 per share, a 6% increase.

Deferred revenues represent billings to customers in excess of revenue recognized. In the Equipment Group, deferred revenues arise on sales of equipment with residual value guarantees, extended warranty contracts and other long-term customer support agreements as well as on progress billings on long-term construction contracts. Equipment Group deferred revenues were 12% lower in 2016 than in 2015 on customer service agreements. In CIMCO, deferred revenues arise on progress billings in advance of revenue recognition. CIMCO deferred revenues were 10% higher in 2016 than in 2015.

## Goodwill and Intangibles

The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate, using the present value of expected discounted future cash flows. This assessment affirmed goodwill and intangibles values as at December 31, 2016. See Note 7 to the consolidated financial statements.

## Employee Share Ownership

The Company employs a variety of stock-based compensation plans to align employees' interests with corporate objectives.

The Company maintains an Executive Stock Option Plan for its senior employees. Non-employee directors have not received grants under this plan since 2013. Stock options vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices at the date the option is granted. Stock options granted in 2013 and after have a 10-year term while those



granted prior to 2013 have a seven-year term. At December 31, 2016, 2.4 million options to purchase common shares were outstanding, of which 0.9 million were exercisable.

The Company offers an Employee Share Ownership Plan whereby employees can purchase shares by way of payroll deductions. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the then-current market price. The Company pays a portion of the purchase price, matching contributions at a rate of \$1 for every \$3 contributed, to a maximum of the greater of 2.5% of an employee's base salary or \$1,000 per annum. Company contributions vest to the employee immediately. Company contributions amounting to \$1.8 million in 2016 (2015 – \$1.1 million) were charged to selling and administrative expense when paid. Approximately 50% (2015 – 48%) of employees participate in this plan. The Plan is administered by an independent third party.

The Company also offers a deferred share unit ("DSU") plan for certain executives and non-employee directors, whereby they may elect, on an annual basis, to receive all or a portion of their performance incentive bonus or fees, respectively, in DSUs. Non-employee directors also receive DSUs as part of their compensation, aligning at-risk and cash compensation components. A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs will be redeemed on cessation of employment or directorship. DSUs have dividend equivalent rights, which are expensed as earned. The Company records the cost

of the DSU plan as compensation expense in selling and administrative expenses.

As at December 31, 2016, 407,731 DSUs were outstanding with a total value of \$17.3 million (2015 – 377,311 units at a value of \$12.0 million). The liability for DSUs is included in accounts payable, accrued liabilities and provisions on the consolidated statement of financial position.

### **Employee Future Benefits**

#### *Defined Contribution Plans*

The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to their retirement programs in accordance with the respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents.

#### *Defined Benefit Plans*

The Company sponsors three defined benefit plans (Powell Plan, Executive Plan and Toromont Plan) for approximately 91 qualifying employees. The Powell and Toromont Plans are administered by a separate Fund that is legally separated from the Company and as described fully in Note 18 to the consolidated financial statements.

The funded status of these plans changed by \$1.5 million (an increase in the accrued pension liability) as at December 31, 2016.

The Executive Plan is a supplemental plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit to secure the obligations under this plan, which were \$17.2 million as at December 31, 2016. As there are no plan assets, there is no impact on pension expense and contributions.

The Company expects pension expense and cash pension contributions for 2017 to be similar to 2016 levels.

A key assumption in pension accounting is the discount rate. This rate is set with regard to the yield on high-quality corporate bonds of similar average duration to the cash flow liabilities of the Plans. Yields are volatile and can deviate significantly from period to period.

### **Off-Balance Sheet Arrangements**

Other than the Company's operating leases, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition.

### **Legal and Other Contingencies**

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management and by active management of these matters. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

### **Normal Course Issuer Bid (“NCIB”)**

Toromont believes that, from time to time, the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. As such, the normal course issuer bid with the TSX was renewed in 2016. This issuer bid allows the Company to purchase up to approximately 6.7 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2017. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

During the year ended December 31, 2016, the Company purchased and

cancelled 89,244 common shares for \$2.6 million (average cost of \$28.84 per share, including transaction costs) under its NCIB program (2015 – 74,500 common shares for \$2.2 million at an average cost of \$29.95 per share, including transaction costs).

### **Outstanding Share Data**

As at the date of this MD&A, the Company had 78,417,956 common shares and 2,411,371 share options outstanding.

### **Dividends**

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30 – 40% of trailing earnings from continuing operations.

During 2016, the Company declared dividends of \$0.72 per common share, \$0.18 per quarter (2015 – \$0.68 per common share or \$0.17 per quarter).

Considering the Company’s solid financial position and positive long-term outlook, the Board of Directors announced it is increasing the quarterly dividend to 19 cents per share effective with the dividend payable on April 3, 2017. This represents a 6% increase in Toromont’s regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 28th consecutive year it has announced an increase.

## **Liquidity and Capital Resources**

### **Sources of Liquidity**

Toromont’s liquidity requirements can be met through a variety of sources, including cash generated from operations, long- and short-term borrowings and the issuance of common shares. Borrowings are obtained through a variety of senior debentures, notes payable and committed long-term credit facilities.

The Company has a committed credit facility of \$250.0 million with a maturity of September 7, 2020. Debt under the facility is unsecured and ranks pari passu with debt outstanding under Toromont’s existing

debentures. The facility includes covenants, restrictions and events of default typical for credit facilities of this nature.

As at December 31, 2016 and 2015, no amounts were drawn on the facility. Letters of credit utilized \$21.7 million of the facility (2015 – \$21.9 million).

On September 30, 2015, the Company issued senior unsecured debentures in an aggregate principal amount of \$150.0 million (the “Debentures”). The Debentures mature in 2025 and bear interest at a rate of 3.71% per annum, payable semi-annually. The Debentures

are unsecured, unsubordinated and rank pari passu with other unsecured, unsubordinated debt.

Cash at December 31, 2016, was \$188.7 million, compared to \$66.7 million at December 31, 2015.

The Company expects that continued cash flows from operations in 2017 and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets.

## Principal Components of Cash Flow

Cash from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

(\$ thousands)	2016	2015
<b>Cash, beginning of year</b>	\$ 66,680	\$ 85,962
Cash, provided by (used in):		
<b>Operating activities</b>		
Operations	215,795	205,131
Change in non-cash working capital and other	34,744	(91,251)
Net rental fleet additions	(61,726)	(86,138)
	188,813	27,742
<b>Investing activities</b>	(18,575)	(27,728)
<b>Financing activities</b>	(48,112)	(19,623)
Effect of foreign exchange on cash balances	(71)	327
Increase (decrease) in cash in the year	122,055	(19,282)
<b>Cash, end of year</b>	\$ 188,735	\$ 66,680

### Cash Flows From Operating Activities

Operating activities provided significantly higher cash flow in 2016 compared to 2015. Net earnings adjusted for items not requiring cash were up 5% over last year. Non-cash working capital provided significant cash inflow due to lower inventories and higher accounts payable, accrued liabilities and provisions, partially offset by higher accounts receivables. Net rental fleet additions (purchases less proceeds of dispositions) were lower as investment levels were ramped up in 2015 in response to market demand and in light of the existing fleet age profile at that time.

The components and changes in working capital are discussed in more detail in this MD&A under the heading "Consolidated Financial Condition."

### Cash Flows From Investing Activities

Investing activities used \$18.6 million in 2016 compared to \$27.7 million in 2015.

Investments in property, plant and equipment accounted for the majority of the cash use and included the following additions:

- \$12.2 million for service vehicles (2015 – \$11.3 million);
- \$6.3 million for land and buildings for new and expanded branches (2015 – \$11.8 million);
- \$3.1 million for machinery and equipment (2015 – \$4.1 million); and
- \$1.7 million for upgrades and enhancements to information technology infrastructure (2015 – \$3.2 million).

The Company also recorded proceeds on the disposal of internally-developed software of \$4.9 million during 2016 (2015 – \$nil).

### Cash Flows From Financing Activities

Financing activities used \$48.1 million in 2016 compared to \$19.6 million in 2015.

In 2015, the Company issued \$150.0 million in long-term senior debentures and repaid the \$125.0 million long-term senior debentures which matured. Financing costs of \$1.7 million were incurred related to the issuance and amendments to the credit facility in 2015.

The Company paid dividends of \$55.4 million or \$0.71 per share in 2016 (2015 – \$51.2 million or \$0.66 per share).

The Company received \$11.6 million on the exercise of stock in 2016 (2015 – \$12.1 million).

In 2016, the Company purchased and cancelled 89,244 common shares for \$2.6 million (average cost of \$28.84, including transaction costs) under its Normal Course Issuer Bid program (2015 – 74,500 common shares for \$2.2 million [average cost of \$29.95, including transaction costs]).

## Outlook

The Equipment Group's parts and service business has provided momentum driven by the larger installed base of equipment working in the field, providing a measure of stability in a variable business environment. There was also a shift to used equipment and rebuild activity during the past year. The Company continues to hire technicians in anticipation of an increase in demand, including the opportunity for increased equipment rebuilds and readying used iron. Broader product lines, investment in rental equipment, expanding the agricultural business and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth. In the near term, national and global economic conditions are leading national and international players to allocate additional resources to Toromont's local markets, creating challenging conditions.

We are encouraged by the long-term outlook for infrastructure spending and

expect to get better visibility into future spending initiatives following the 2017 budget announcements from the federal and various provincial governments.

The mining industry has been capital constrained and focused on cost reduction initiatives for a number of years now, although increased enquiries point to the potential for a somewhat increased opportunity to come. In the meantime, mine production continues generating product support opportunities and incremental equipment to support the operations and expansion of these existing mines. With the substantially increased base of installed equipment, product support activity should continue to grow so long as mines remain active.

AgWest expands our footprint in the important agricultural equipment market. Sales coverage and operational processes will continue to be a focus in order to generate longer-term financial returns. Weak end markets together with

increased industry inventory levels are expected to continue to dampen results in the near term.

CIMCO's growth in performance in recent years represents the nascent realization of focused strategies. Recent booking activity and current backlogs bode well for future prospects. Increasing product support levels is also a positive signal for future trends. CIMCO has a wide product offering using natural refrigerants including innovative CO<sub>2</sub> solutions, which are expected to contribute to growth. In addition, CIMCO is focused on its growth strategy in the US, which represents a significant market opportunity.

The diversity of the businesses, expanding product offering and services, financial strength and disciplined operating culture position the Company for continued growth in the long term.

## Contractual Obligations

Contractual obligations are set out in the following table. Management believes that these obligations will be met comfortably through cash on hand, cash generated from operations and existing long-term financing facilities.

Payments due by period (\$ thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Long-term debt							
Principal	\$ 1,811	\$ 1,941	\$ 1,022	\$ —	\$ —	\$ 150,000	\$ 154,774
Interest	5,871	5,741	5,601	5,565	5,565	20,857	49,200
Accounts payable	278,309	—	—	—	—	—	278,309
Operating leases	3,166	2,255	1,635	1,056	716	1,874	10,702
	\$ 289,157	\$ 9,937	\$ 8,258	\$ 6,621	\$ 6,281	\$ 172,731	\$ 492,985

# Key Performance Measures

Management reviews and monitors its activities and the performance indicators it believes are critical to measuring success. Some of the key financial performance measures are summarized in the following table. Others include, but are not limited to, measures such as market share, fleet utilization, customer and employee satisfaction, and employee health and safety.

Years ended December 31	2016	2015	2014	2013	2012
<b>Expanding markets and broadening product offerings</b>					
Revenue growth	3.6%	8.5%	4.2%	5.7%	9.1%
Revenue per employee (thousands)	\$ 521	\$ 524	\$ 501	\$ 491	\$ 481
<b>Strengthening product support</b>					
Product support revenue growth	8.0%	17.3%	12.4%	2.5%	13.2%
<b>Investing in our resources</b>					
Investment in information technology (millions)	\$ 15.2	\$ 14.0	\$ 13.4	\$ 12.0	\$ 12.6
Return on capital employed <sup>(1)</sup>	24.5%	24.3%	26.0%	26.5%	28.5%
<b>Strong financial position</b>					
Non-cash working capital (millions) <sup>(1)</sup>	\$ 388	\$ 421	\$ 335	\$ 282	\$ 302
Net debt to total capitalization <sup>(1)</sup>	-4%	10%	6%	10%	25%
Book value (shareholders' equity) per share	\$ 11.29	\$ 9.95	\$ 8.65	\$ 7.50	\$ 6.24
<b>Build shareholder value</b>					
Basic earnings per share growth	6.3%	8.5%	7.6%	2.9%	17.1%
Dividends per share growth	5.9%	13.3%	15.4%	8.3%	17.0%
Return on equity <sup>(1)</sup>	20.0%	21.6%	23.0%	25.7%	29.9%

(1) Defined in the sections titled "Additional GAAP Measures and Non-GAAP Measures."

Measuring Toromont's results against these strategies over the past five years illustrates that the Company has made and continues to make significant progress.

Since 2012, revenues increased at an average annual rate of 6.2%. Product support revenue growth has averaged 10.7% annually. Revenue growth has been a result of:

- Increased customer demand in certain market segments, most notably construction and mining;
- Additional product offerings over the years from Caterpillar and other suppliers;
- Organic growth through increased rental fleet size and additional branches;
- Increased customer demand for formal product support agreements;
- Governmental funding programs such as the RinC program which provided support for recreational spending; and

- Acquisitions, primarily within the Equipment Group's rental operations and through business combinations.

Over the same five-year period, revenue growth has been constrained at times by a number of factors including:

- General economic weakness and uncertainty in specific sectors;
- Competitive conditions;
- Inability to source equipment from suppliers to meet customer demand or delivery schedules; and
- Declines in underlying market conditions such as depressed US industrial markets.

Changes in the Canadian/US exchange rate also affect reported revenues as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2012 there has been fluctuations in the average yearly exchange rate of Canadian dollar against the US

dollar – 2012 – on par, 2013 – US\$0.97, 2014 – US\$0.91, 2015 – US\$0.78 and 2016 – US\$0.75.

Toromont has generated a significant competitive advantage over the past years by investing in its resources, in part to increase productivity levels, and we will continue this into the future as it is a crucial element to our success in the marketplace.

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of net debt to total capitalization, was -4% (cash exceeded total debt), well within targeted levels.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 28 years. The regular quarterly dividend rate was increased 6% from \$0.17 to \$0.18 per share in 2016 and a further 6% to \$0.19 per share in 2017, evidencing our commitment to delivering exceptional shareholder value.

## Consolidated Fourth Quarter Operating Results

Three months ended December 31

(\$ thousands, except per share amounts)

	2016	2015	\$ change	% change
<b>Revenues</b>	\$ 480,653	\$ 471,951	\$ 8,702	2%
Cost of goods sold	351,503	350,416	1,087	—
Gross profit	129,150	121,535	7,615	6%
Selling and administrative expenses	66,262	59,862	6,400	11%
<b>Operating income</b>	62,888	61,673	1,215	2%
Interest expense	1,853	2,236	(383)	(17%)
Interest and investment income	(1,377)	(1,144)	(233)	20%
Income before income taxes	62,412	60,581	1,831	3%
Income taxes	16,883	16,177	706	4%
<b>Net earnings</b>	\$ 45,529	\$ 44,404	\$ 1,125	3%
<b>Basic earnings per share</b>	\$ 0.58	\$ 0.57	\$ 0.01	2%
<b>Key ratios:</b>				
Gross profit margin	26.9%	25.8%		
Selling and administrative expenses as a % of revenues	13.8%	12.7%		
Operating income margin	13.1%	13.1%		
Income taxes as a % of income before income taxes	27.1%	26.7%		

Revenues were 2% higher in the fourth quarter of 2016 largely due to higher revenues at CIMCO as the Equipment Group revenues were relatively unchanged from last year.

Gross profit margin increased 110 basis points ("bps") to 26.6% in the quarter versus last year mainly on improved margins in the Equipment Group, partially offset by decreased margins at CIMCO.

Selling and administrative expenses were up \$6.4 million or 11% and were 110 bps higher as a percentage of revenues.

Accounting for the majority of the increase was higher mark-to-market adjustments on deferred share units (up \$1.8 million), compensation costs (up \$0.9 million) and bad debt expenses (up \$0.9 million).

Certain other expense categories increased on the higher sales activity.

Interest expense was lower than in the similar period last year on lower average debt balances.

Interest income was up from last year on increased investment income resulting from higher average cash balances.

The effective income tax rate for the fourth quarter of 2016 was 27.1% compared to 26.7% in the same period last year and largely reflects the mix of income by tax jurisdiction.

Net earnings in the quarter were up 3% to \$45.5 million while basic earnings per share were up 2% to \$0.58.

# Business Segment Fourth Quarter Operating Results

## Equipment Group

Three months ended December 31  
(\$ thousands)

	2016	2015	\$ change	% change
Equipment sales and rentals				
New	\$ 131,664	\$ 158,123	\$ (26,459)	(17%)
Used	66,270	45,978	20,292	44%
Rentals	64,294	61,368	2,926	5%
Total equipment sales and rentals	262,228	265,469	(3,241)	(1%)
Power generation	3,137	2,694	443	16%
Product support	141,858	137,797	4,061	3%
<b>Total revenues</b>	<b>\$ 407,223</b>	<b>\$ 405,960</b>	<b>\$ 1,263</b>	<b>—</b>
<b>Operating income</b>	<b>\$ 56,651</b>	<b>\$ 56,318</b>	<b>\$ 333</b>	<b>1%</b>
<b>Bookings (\$ millions)</b>	<b>\$ 224</b>	<b>\$ 165</b>	<b>\$ 59</b>	<b>36%</b>
<b>Key ratios:</b>				
Product support revenues as a % of total revenues	34.8%	33.9%		
Operating income margin	13.9%	13.9%		
Group total revenues as a % of consolidated revenues	84.7%	86.0%		

Equipment Group results were slightly higher than last year. Revenues were relatively unchanged from last year as higher product support and rental revenues were offset by lower total equipment sales.

On a combined basis, given the interplay between new and used equipment sales described earlier, total equipment sales were down 3% versus last year. Deliveries into construction (down 11%) and power systems (down 28%) markets were lower while sales into mining (up 63%) and other market segments were higher.

Rental revenues were up 5% compared to last year with increases in light equipment (up 5%), heavy equipment (up 2%) and equipment on rent with a purchase option (up 8%). Power rentals were down 6% mainly due

to a large power project last year which boosted revenues.

Product support revenues were up \$4.1 million or 3% over 2015 with increases in both parts (up \$2.4 million or 2%) and service (up \$1.7 million or 5%). Activity was good across most markets.

Gross profit margins increased 150 basis points ("bps") in the quarter versus last year. Improved equipment margins and a favorable sales mix of product support revenues to total were partially offset by lower product support and rental margins. Rental margins decreased on lower financial utilization, partially offset by lower depreciation charges as a result of the changes in estimates described earlier. The net impact of the changes reduced depreciation by

\$1.0 million in the fourth quarter versus applying the previous estimates.

Selling and administrative expenses increased by \$6.3 million or 13% versus last year mainly due to higher customer allowances (up \$1.4 million), compensation costs (up \$0.3 million) and bad debt expenses (up \$0.9 million). Certain other expense categories such as professional fees, information technology expenses and warranty were higher. As a percentage of revenues, expenses increased 150 bps over 2015 levels (13.6% vs. 12.1%).

Operating income margin was relatively unchanged from last year at 13.9%.

Bookings in the fourth quarter of 2016 were \$224.0 million, up 36% from the similar period last year with increases across most market segments.

## CIMCO

Three months ended December 31  
(\$ thousands)

	2016	2015	\$ change	% change
Package sales	\$ 43,152	\$ 33,100	\$ 10,052	30%
Product support	30,278	32,891	(2,613)	(8%)
<b>Total revenues</b>	<b>\$ 73,430</b>	<b>\$ 65,991</b>	<b>\$ 7,439</b>	<b>11%</b>
<b>Operating income</b>	<b>\$ 6,237</b>	<b>\$ 5,355</b>	<b>\$ 882</b>	<b>16%</b>
<b>Bookings</b> (\$ millions)	<b>\$ 41</b>	<b>\$ 36</b>	<b>\$ 5</b>	<b>14%</b>
<b>Key ratios:</b>				
Product support revenues as a % of total revenues	41.2%	49.8%		
Operating income margin	8.5%	8.1%		
Group total revenues as a % of consolidated revenues	15.3%	14.0%		

CIMCO reported terrific results for the fourth quarter largely due to good momentum in Canada. Translation of US operations did not have a significant impact on results.

Package revenues increased 30% as higher activity in Canada (up 51%) was partially offset by a decrease in the US (down 21%). In Canada, higher industrial (up 96%) were partially offset by recreational (down 32%) sales. In the US, both market segments were lower where strong booking activity levels did not

translate into revenues as a result of delays in customers' construction schedules.

Product support revenues decreased 8% versus last year. Both Canadian and US activity levels were lower due to timing of job completions and invoicing.

Gross margins decreased 90 bps on lower package margins and an unfavorable sales mix, partially offset by improved product support margins. Product support revenues as a percentage of total revenues were 41.2% compared to 49.8% in the fourth quarter of 2015.

Selling and administrative expenses were relatively unchanged from last year but were 150 bps lower as a percentage of revenues (14.9% versus 16.4% last year).

Operating income increased 16% mainly on the higher revenues and was 8.5% as a percentage of revenues compared to 8.1% in 2015.

Bookings in the quarter totalled \$41.0 million, up 14% from the comparable period last year. Higher US bookings (up 35%) accounted for approximately 71% of the increase.



## Quarterly Results

The following table summarizes unaudited quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2016 annual audited consolidated financial statements.

(\$ thousands, except per share amounts)	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>Revenues</b>				
Equipment Group	\$ 327,644	\$ 441,677	\$ 410,346	\$ 407,223
CIMCO	50,072	68,979	87,912	73,430
<b>Total revenues</b>	\$ 377,716	\$ 510,656	\$ 498,258	\$ 480,653
<b>Net earnings</b>	\$ 24,170	\$ 38,406	\$ 47,643	\$ 45,529
<b>Per share information:</b>				
Basic earnings per share	\$ 0.31	\$ 0.49	\$ 0.61	\$ 0.58
Diluted earnings per share	\$ 0.31	\$ 0.49	\$ 0.60	\$ 0.58
Dividends paid per share	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18
Weighted average common shares outstanding - basic (in thousands)	77,898	78,056	78,211	78,344

(\$ thousands, except per share amounts)	Q1 2015	Q2 2015	Q3 2015	Q4 2015
<b>Revenues</b>				
Equipment Group	\$ 296,670	\$ 427,565	\$ 439,305	\$ 405,960
CIMCO	43,526	56,968	66,248	65,991
<b>Total revenues</b>	\$ 340,196	\$ 484,533	\$ 505,553	\$ 471,951
<b>Net earnings</b>	\$ 20,137	\$ 36,395	\$ 44,730	\$ 44,404
<b>Per share information:</b>				
Basic earnings per share	\$ 0.26	\$ 0.47	\$ 0.58	\$ 0.57
Diluted earnings per share	\$ 0.26	\$ 0.46	\$ 0.57	\$ 0.57
Dividends paid per share	\$ 0.15	\$ 0.17	\$ 0.17	\$ 0.17
Weighted average common shares outstanding - basic (in thousands)	77,422	77,625	77,773	77,904

Interim period revenues and earnings historically reflect significant variability from quarter to quarter.

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter had typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of

equipment on rent with a purchase option. This pattern is impacted by the timing of significant sales to mining and other customers, resulting from the timing of mine site development and access, and construction project schedules.

CIMCO has also had a distinct seasonal trend in results historically, due to timing of construction activity. Lower revenues are recorded during the first quarter on slower construction schedules due to winter weather. Revenues increase in subsequent quarters as construction schedules ramp

up. This trend can be, and has been, impacted somewhat by significant governmental funding initiatives and significant industrial projects.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarters of the fiscal year. This seasonal sales trend also leads accounts receivable to be at their highest level at year-end.

## Selected Annual Information

(\$ thousands, except per share amounts)	2016	2015	2014
Revenues	\$ 1,867,283	\$ 1,802,233	\$ 1,660,390
Net earnings	\$ 155,748	\$ 145,666	\$ 133,196
Earnings per share			
Basic	\$ 1.99	\$ 1.88	\$ 1.73
Diluted	\$ 1.98	\$ 1.86	\$ 1.71
Dividends declared per share	\$ 0.72	\$ 0.68	\$ 0.60
Total assets	\$ 1,410,571	\$ 1,276,077	\$ 1,107,802
Total long-term debt	\$ 152,528	\$ 153,769	\$ 131,518
Weighted average common shares outstanding – basic (in millions)	78.1	77.7	77.1

Revenues grew 4% in 2016 mainly through strong performance at CIMCO as the Equipment Group continued to face competitive market conditions which led to a modest increase on continued product support growth. In 2015, revenues grew 9% through strong performance in both the Equipment Group and CIMCO.

Net earnings increased 7% in 2016 on the higher revenues and slightly improved gross margins, partially offset by a higher selling and administrative expense ratio. In 2015, net earnings improved 9% on higher revenues and a lower selling and administrative expense ratio, partially offset by slightly lower margins.

Earnings per share (“EPS”) have generally followed earnings with basic EPS increasing 6% in 2016 and 9% in 2015.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate was increased in 2014 by 15% to \$0.15 per share, in 2015 by 13% to \$0.17 per share, in 2016 by 6% to \$0.18 per share and 6% to \$0.19 per share in 2017. The Company has paid dividends every year since 1968.

Total assets increased in 2016 by 11% and by 15% in 2015. The increase reflects growth in the Company’s operations and supports the higher revenues and earnings.

Long-term debt decreased in 2016 mainly due to principal repayments on the senior debenture due in March 2019, net of the amortization of debt issuance costs. In 2015, the Company issued \$150.0 million in long-term senior debentures to replace \$125.0 million of maturing debentures. The increased amount of debentures issued provides added flexibility for future investments in rental fleet, operational assets and business acquisitions. Net debt to total capitalization at December 31, 2016, was -4% (cash exceeded total debt), well within targeted levels.

## Risks and Risk Management

In the normal course of business, Toromont is exposed to risks that may potentially impact its financial results in any or all of its business segments. The Company and each operating segment employ risk management strategies with a view to mitigating these risks on a cost-effective basis.

### Business Cycle

Expenditures on capital goods have historically been cyclical, reflecting a variety of factors including interest rates, foreign exchange rates, consumer and

business confidence, commodity prices, corporate profits, credit conditions and the availability of capital to finance purchases. Toromont’s customers are typically affected, to varying degrees, by these factors and trends in the general business cycle within their respective markets. As a result, Toromont’s financial performance is affected by the impact of such business cycles on the Company’s customer base.

Commodity prices, and, in particular, changes in the view on long-term trends, affect demand for the Company’s products and services in the Equipment Group.

Commodity price movements in base and precious metals sectors in particular can have an impact on customers’ demands for equipment and service. With lower commodity prices, demand is reduced as development of new projects is often stopped and existing projects can be curtailed, both leading to less demand for heavy equipment.

The business of the Company is diversified across a wide range of industry market segments, serving to temper the effects of business cycles on consolidated results. Continued diversification

strategies such as expanding the Company's customer base, broadening product offerings and geographic diversification are designed to moderate business cycle impacts. The Company has focused on the sale of specialized equipment and ongoing support through parts distribution and skilled service. Product support growth has been, and will continue to be, fundamental to the mitigation of downturns in the business cycle. The product support business contributes significantly higher profit margins and is typically subject to less volatility than equipment supply activities.

### **Product and Supply**

The Equipment Group purchases most of its equipment inventories and parts from Caterpillar under a dealership agreement that dates back to 1993. As is customary in distribution arrangements of this type, the agreement with Caterpillar can be terminated by either party upon 90 days' notice. In the event Caterpillar terminates, it must repurchase substantially all inventories of new equipment and parts at cost. Toromont has maintained an excellent relationship with Caterpillar for 24 years and management expects this will continue going forward.

Toromont is dependent on the continued market acceptance of Caterpillar's products. It is believed that Caterpillar has a solid reputation as a high-quality manufacturer, with excellent brand recognition and customer support as well as leading market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

Toromont is also dependent on Caterpillar for timely supply of equipment and parts. From time to time during periods of intense demand, Caterpillar may find it necessary to allocate its supply of

particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment in the conduct of business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by customers.

### **Competition**

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas including: the range and quality of products and services, ability to meet sophisticated customer requirements, distribution capabilities including number and proximity of locations, financing offered by Caterpillar Finance, e-commerce solutions, reputation and financial strength.

Increased competitive pressures or the inability of the Company to maintain the factors that have enhanced its competitive position to date could adversely affect the Company's business, results of operations or financial condition.

The Company relies on the skills and availability of trained and experienced tradesmen and technicians in order to provide efficient and appropriate services to customers. Hiring and retaining such individuals is critical to the success of these businesses. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has several remote locations which make attracting and retaining skilled individuals more difficult.

### **Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, accounts receivable and derivative financial instruments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

When the Company has cash on hand it may be invested in short-term instruments, such as money-market deposits. The Company has deposited cash with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from a large diversified customer base, and is not dependent on any single customer or industry. The Company has accounts receivable from customers engaged in various industries including construction, mining, food and beverage, and governmental agencies. Management does not believe that any single customer represents significant credit risk. These customers are based predominately in Canada.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

### **Warranties and Maintenance Contracts**

Warranties are provided for most of the equipment sold, typically for a one-year period following sale. The warranty claim risk is generally shared jointly with the equipment manufacturer. Accordingly, liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts.

The Company also enters into long-term maintenance and repair contracts, whereby it is obligated to maintain equipment for its customers. The length of these contracts varies generally from two to five years. The contracts are typically fixed price on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Due to the long-term nature of these contracts, there is a risk that maintenance costs may exceed the estimate, thereby resulting in a loss on the contract. These contracts are closely monitored for early warning signs of cost

overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold.

### **Foreign Exchange**

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar and the US dollar. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies.

The rate of exchange between the Canadian and US dollar has an impact on revenue trends. The Canadian dollar averaged US\$0.75 in 2016 compared to US\$0.78 in 2015, a 4% decrease. As substantially all of the equipment and parts sold in the Equipment Group are sourced in US dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establishing a level of price stability for high-volume goods such as spare parts. The Company does not enter into foreign exchange forward contracts for speculative purposes. The gains and losses on the foreign exchange forward contracts designated as cash flow hedges are intended to offset the translation losses and gains on the hedged foreign currency

transactions when they occur. As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

### **Interest Rate**

The Company minimizes its interest rate risk by managing its portfolio of floating- and fixed-rate debt, as well as managing the term to maturity.

At December 31, 2016, the Company's debt portfolio included \$154.8 million in fixed-rate debt (38%) and a \$250.0 million floating-rate credit facility (62%).

Fixed-rate debt amortizes or matures between 2017 and 2025. Fixed-rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Further, the fair value of the Company's fixed-rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing.

Floating-rate debt exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary.

The Company does not intend to settle or refinance any existing debt before maturity.

### **Financing Arrangements**

The Company requires capital to finance its growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets, on terms that are acceptable, will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. The Company maintains a

conservative leverage structure and although it does not anticipate difficulties, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected.

### **Environmental Regulation**

Toromont's customers are subject to significant and ever-increasing environmental legislation and regulation. This legislation can impact Toromont in two ways. First, it may increase the technical difficulty in meeting environmental requirements in product design, which could increase the cost of these businesses' products. Second, it may result in a reduction in activity by Toromont's customers in environmentally sensitive areas, in turn reducing the sales opportunities available to Toromont.

Toromont is also subject to a broad range of environmental laws and regulations. These may, in certain circumstances, impose strict liability for environmental contamination, which may render Toromont liable for remediation costs, natural resource damages and other damages as a result of conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior owners, operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighbouring land owners and other third parties to file claims for personal injury, property damage and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations, and costs associated with new information, changes in existing environmental laws and regulations or the adoption of new environmental laws and regulations could be substantial and could negatively impact Toromont's business, results of operations or financial condition.

# Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements.

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Management reviews its estimates and judgments on an ongoing basis.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements. The critical accounting policies and estimates described below affect the operating segments similarly, and therefore are not discussed on a segmented basis.

## **Property, Plant and Equipment**

Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values. Depreciation expense is sensitive to the estimated service lives and residual values determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

## **Impairment of Non-financial Assets**

Judgment is used in identifying an appropriate discount rate and growth rate for the calculations required in assessing potential impairment of non-financial assets. Judgment is also used in identifying the cash-generating units ("CGUs") to which the intangible assets should be allocated, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. The key assumptions used to determine the recoverable amount for the different groups of CGUs, including a sensitivity analysis, are disclosed and further explained in Note 7 to the consolidated financial statements.

## **Income Taxes**

Estimates and judgments are made for uncertainties which exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

## **Revenue Recognition**

Recording revenues from the assembly and manufacture of equipment using the percentage-of-completion method requires management to make a number of estimates and assumptions about the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. These factors are routinely reviewed as part of the project management process.

The Company also generates revenue from long-term maintenance and repair contracts whereby it is obligated to maintain equipment for its customers. The contracts are typically fixed price on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Revenue is recognized using

the percentage-of-completion method based on work completed. This method requires management to make a number of estimates and assumptions surrounding machine usage, machine performance, future parts and labour pricing, manufacturers' warranty coverage and other detailed factors. These factors are routinely reviewed as part of the contract management process.

## **Inventories**

Management is required to make an assessment of the net realizable value of inventory at each reporting period. These estimates are determined on the basis of age, stock levels, current market prices, current economic trends and past experience in the measurement of net realizable value.

## **Allowance for Doubtful Accounts**

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. By their nature, these are estimates based on management's judgment and historical experience.

## **Share-based Compensation**

The option pricing model used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields and expected life of the options granted. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments.

### Post-Employment Benefit Plans

The Company has defined benefit pension plans and other post-employment benefit plans that provide certain benefits to its employees. Actuarial valuations of these plans are based on assumptions which

include discount rates, retail price inflation, mortality rates, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the net employee

benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in other comprehensive income.

## Future Accounting Standards

A number of new standards and amendments to standards have been issued but are not yet effective for the financial year ending December 31, 2016, and accordingly, have not been applied in preparing these consolidated financial statements.

**Statement of Cash Flows** – Amendments to IAS 7 – *Statement of Cash Flows*, introduce new disclosure requirements of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

**Share-based Payment** – Amendments to IFRS 2 – *Share-based Payment*, clarify how to account for certain types of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

**Revenue Recognition** – In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Entities chose either a full retrospective approach with some limited relief provided or a modified retrospective approach for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

**Financial Instruments** – In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which replaces all

phases of the financial instruments project, IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

**Leases** – In January 2016, the IASB issued IFRS 16 – *Leases*, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 – *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted provided the new revenue recognition standard, IFRS 15, has been applied, or is applied at the same date.

The Company is currently assessing the impact of these amendments and new standards on its financial statements. Refer to Note 1 to the consolidated financial statements for further information.

## Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and

reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements. The Audit Committee is

also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures and internal control over financial reporting.

# Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2016, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, they have concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2016, to provide reasonable assurance that a) material information relating to the Company and

its consolidated subsidiaries would have been known to them and by others within those entities, and b) information required to be disclosed is recorded, processed, summarized and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting were adequate and effective as at December 31, 2016, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There have been no changes in the design of the Company's internal controls over financial reporting during 2016 that would materially affect, or are reasonably

likely to materially affect, the Company's internal controls over financial reporting.

While the Officers of the Company have evaluated the effectiveness of disclosure controls and procedures and internal control over financial reporting as at December 31, 2016, and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## Additional GAAP Measures

IFRS mandates certain minimum line items for financial statements and also requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of the Company's financial position or performance. IFRS also requires the notes to the financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such measures outside of the minimum mandated line items are considered additional GAAP measures. The Company's consolidated financial statements and notes thereto include certain additional GAAP measures where management considers such information to be useful to the understanding of the Company's results.

### Gross Profit

Gross Profit is defined as total revenues less cost of goods sold.

### Operating Income

Operating income is defined as net earnings before interest expense, interest and investment income and income taxes and is used by management to assess and evaluate the financial performance of its operating segments. Financing and related interest charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments do not correspond to income tax jurisdictions, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of the business segments.

(\$ thousands)	Three months ended December 31		Years ended December 31	
	2016	2015	2016	2015
Net earnings	\$ 45,529	\$ 44,404	\$ 155,748	\$ 145,666
<i>plus:</i> Interest expense	1,853	2,236	7,242	8,668
<i>less:</i> Interest and investment income	(1,377)	(1,144)	(4,006)	(3,422)
<i>plus:</i> Income taxes	16,883	16,177	57,579	53,598
<b>Operating income</b>	<b>\$ 62,888</b>	<b>\$ 61,673</b>	<b>\$ 216,563</b>	<b>\$ 204,510</b>

### Net Debt to Total Capitalization

Net debt to total capitalization is calculated as net debt divided by total capitalization, both defined below, and is used by management as a measure of the Company's financial leverage.

Net debt is calculated as long-term debt plus current portion of long-term debt less cash. Total capitalization is calculated as shareholders' equity plus net debt.

The calculation is as follows:

(\$ thousands)	2016	2015
Long-term debt	\$ 150,717	\$ 152,079
Current portion of long-term debt	1,811	1,690
less: Cash	188,735	66,680
<b>Net debt</b>	(36,207)	87,089
Shareholders' equity	885,432	775,281
<b>Total capitalization</b>	\$ 849,225	\$ 862,370
<b>Net debt to total capitalization</b>	-4%	10%

For the year ended December 31, 2016, cash exceeded total debt and effectively resulted in a negative net debt to total capitalization of 4% as illustrated above.

## Non-GAAP Measures

Management believes that providing certain non-GAAP measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out

below, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

The non-GAAP measures used by management do not have any standardized meaning prescribed by IFRS and are

therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with IFRS.

### Working Capital

Working capital is defined as total current assets less total current liabilities. Management views working capital as a measure for assessing overall liquidity.

(\$ thousands)	2016	2015
Total current assets	\$ 907,975	\$ 799,136
less: Total current liabilities	332,593	312,843
<b>Working capital</b>	\$ 575,382	\$ 486,293



### Non-Cash Working Capital

Non-cash working capital is defined as total current assets (excluding cash) less total current liabilities (excluding current portion of long-term debt).

(\$ thousands)	2016	2015
Total current assets	\$ 907,975	\$ 799,136
less: Cash	188,735	66,680
	719,240	732,456
Total current liabilities	332,593	312,843
less: Current portion of long-term debt	1,811	1,690
	330,782	311,153
<b>Non-cash working capital</b>	<b>\$ 388,458</b>	<b>\$ 421,303</b>

### Key Performance Indicators (“KPIs”)

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit

margin, operating margin, order bookings and backlogs, return on capital employed and return on equity. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do

not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

#### Gross Profit Margin

This measure is defined as gross profit (defined above) divided by total revenues.

#### Operating Income Margin

This measure is defined as operating income (defined above) divided by total revenues.

#### Order Bookings and Backlogs

The Company's order bookings represent new equipment unit orders that management believes are firm. Backlogs are defined as the retail value of new equipment unit ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future new equipment deliveries. There are no directly comparable IFRS measures for order bookings or backlog.

### Return on Capital Employed (“ROCE”)

ROCE is utilized to assess both current operating performance and prospective investments. The numerator used for the calculation is income before income taxes, interest expense and interest income (excluding interest on rental conversions). The denominator in the calculation is the monthly average capital employed, which is defined as net debt plus shareholders' equity or total capitalization.

(\$ thousands)	2016	2015
Net earnings	\$ 155,748	\$ 145,666
<i>plus:</i> Interest expense	7,242	8,668
<i>less:</i> Interest and investment income	(4,006)	(3,422)
<i>plus:</i> Interest income – rental conversions (see note 13)	2,811	2,500
<i>plus:</i> Income taxes	57,579	53,598
	\$ 219,374	\$ 207,010
Average capital employed	\$ 894,765	\$ 853,101
<b>Return on capital employed</b>	24.5%	24.3%

### Return on Equity (“ROE”)

ROE is monitored to assess the profitability of the consolidated Company and is calculated by dividing net earnings by opening shareholders' equity (adjusted for shares issued and redeemed during the year).

(\$ thousands)	2016	2015
Net earnings	\$ 155,748	\$ 145,666
Opening shareholders' equity (net of adjustments)	\$ 778,896	\$ 675,165
<b>Return on equity</b>	20.0%	21.6%