Exchange Income Corporation Announces Record Results

21% annual shareholder return since inception

WINNIPEG, Manitoba – February 20, 2020 – Exchange Income Corporation (TSX: EIF) (the "Corporation" or "EIC"), a diversified, acquisition-oriented company focused on opportunities in the aviation, aerospace and manufacturing sectors, reported its financial results for the three and twelve months ended December 31, 2019. All amounts are in Canadian currency.

2019 Financial Highlights

- Revenue grew 11% to $1.34 billion
- EBITDA increased by 18% to $329 million
- Adjusted Net Earnings per share increased by 7% to $3.15 per share; marking the first time this key measure has exceeded $3.00
- Monthly dividend increased by 4% to $0.19
- Adjusted Net Earnings payout ratio improved to 71% from 74%
- Free Cash Flow less Maintenance Capital Expenditures payout ratio strengthened to 57% from 60%

Q4 Financial Highlights

- Revenue grew 15% to $363 million
- EBITDA increased by 28% to $89 million
- Adjusted Net Earnings per share increased by 11% to $0.88 per share
- Adjusted Net Earnings payout ratio improved to 65% from 69%
- Higher Maintenance Capital Expenditure in this quarter resulted in the Free Cash Flow less Maintenance Capital Expenditure ratio being essentially unchanged from last year at 52% versus 51%

CEO Commentary

"2019 was another great year for EIC as we extended our track record of double-digit EBITDA growth and record earnings per share," said Mike Pyle, the CEO of EIC. "Beyond the financial results, however, we made significant investments in our future that will fuel our growth in 2020 and beyond. It is precisely that focus on the longer term that has enabled EIC to achieve the sustained success that has been generated since our IPO in 2004. In the 15-year period we have maintained a strategy of accretive growth through both acquisition and organic investment. We are very proud that the consistent application of this strategy and the commitment to invest now for returns in the future has enabled EIC to earn a compounded annual return, including dividend reinvestment, of 21% since our inception. Our return is approximately three times that of the TSX over the same period and puts EIC in a very small group of companies with that level of return to its shareholders. This strong financial performance enabled EIC to raise its dividend for the 14th time in 15 years, maintaining the 5% cumulative annual growth rate that we have generated since inception. Even with the increase in the dividend, the payout ratio strengthened again in 2019."

Selected Financial Highlights

(All amounts in thousands except % and share data)

	FY 2019	FY 2018	% Change	Q4 2019	Q4 2018	% Change
Revenue	$1,341,374	$1,203,392	11%	$363,287	$315,737	15%
EBITDA[1]	$328,813	$277,765	18%	$88,748	$69,507	28%
Net Earnings	$83,636	$70,769	18%	$25,283	$18,446	37%
per share (basic)	$2.58	$2.25	15%	$0.74	$0.59	25%
Adjusted Net Earnings[2]	$102,127	$92,360	11%	$29,757	$24,670	21%
per share (basic)	$3.15	$2.94	7%	$0.88	$0.79	11%
Adjusted Net Earnings Payout Ratio	71%	74%		65%	69%	
Free Cash Flow[3]	$245,772	$223,363	10%	$68,631	$59,763	15%
per share (basic)	$7.58	$7.10	7%	$2.02	$1.91	6%
Free Cash Flow less Maintenance Capital Expenditures[4] Payout Ratio	57%	60%		52%	51%	
Dividends declared	$72,742	$68,460	6%	$19,764	$17,155	15%

Review of 2019 Financial Results

Consolidated revenue for the year was $1.34 billion, representing an 11% increase over the previous record of $1.2 billion reported for 2018. The higher revenue in 2019 was primarily attributable to organic growth in both the Aerospace & Aviation and Manufacturing segments as our acquisitions of LV Controls and AWI occurred later in the fourth quarter.

Aerospace & Aviation segment revenue was up 10% to $974.7 million, driven by a 10% increase at Legacy Airlines and Provincial, and an 11% increase at Regional One. Aerospace revenue increased with the deployment of the Force Multiplier aircraft and greater in-service support revenue as overseas maritime surveillance flying hours increased. Passenger and medevac revenue increased driven by higher volumes in Newfoundland & Labrador and Quebec and increased passenger revenue in the Manitoba market. The segment also benefitted from revenue associated with a new long-term contract to provide general transportation services to the judicial system within northern Manitoba.

[1] EBITDA is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash items such as gains or losses recognized on the fair value of contingent consideration items, asset impairment and restructuring costs, and any unusual nonoperating one-time items and acquisition costs. EBITDA is not a defined performance measure under International Financial Reporting Standards ("IFRS") but it is used by Management to assess the performance of the Corporation and its segments.
[2] Adjusted Net Earnings is defined as net earnings adjusted for acquisition costs expensed, amortization of intangible assets that are purchased at the time of acquisition and non-recurring items. Adjusted Net Earnings is a performance measure, along with Free Cash Flow less maintenance capital expenditures, which the Corporation uses to assess cash flow available for distribution to shareholders.
[3] Free Cash Flow is a performance measure used by Management and investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items. Free Cash Flow for the period is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and long-term deferred revenue, acquisition costs and any unusual non-operating one-time items.
[4] Maintenance Capital Expenditures is not an IFRS measure. Capital expenditures are characterized as either maintenance or growth capital expenditures. Maintenance capital expenditures are those required to maintain the operations of the Corporation at its current level and includes principal payments made on finance leases.

Manufacturing segment revenue grew 15% to $366.6 million. The segment continued to benefit from an increase in custom manufacturing and high levels of defense spending worldwide. Revenue at Quest also increased as the new Dallas plant began production.

Consolidated EBITDA for the year increased 18% to $328.8 million compared to $277.8 million in 2018. EBITDA from the Manufacturing segment increased 7% and the Aerospace & Aviation segment increased 21%. The growth in EBITDA was primarily from revenue increases together with a continuing focus on operational efficiencies and capacity sharing. This was offset somewhat as early production at the Quest Dallas facility was limited to ensure quality during the ramp up process.

For the year, Adjusted Net Earnings improved to $102.1 million, or $3.15 per share, compared to $92.4 million, or $2.94 per share, in 2018. Net Earnings for the year were $83.6 million, or $2.58 per share, compared to $70.8 million, or $2.25 per share, in 2018.

The Corporation had Free Cash Flow of $245.8 million and Maintenance Capital Expenditures of $119.7 million for the year, compared to $223.4 million and $109.0 million respectively in 2018. Dividends declared increased to $72.7 million from $68.5 million the year before. The growth in Free Cash Flow exceeded the increase in Maintenance Capital Expenditures and dividends, resulting in an improved payout ratio of 57% for the year, which was the lowest in the Corporation's history.

Review of Q4 Financial Results

Revenue generated by the Corporation during the fourth quarter was $363.3 million, an increase of $47.6 million or 15% over the comparative period. Of the increase, $18.5 million relates to the Aerospace & Aviation segment and $29.1 million relates to the Manufacturing segment. Revenue drivers were largely consistent with the whole year, as we experienced increases in aerospace revenue, more passenger and charter flying, increases at Regional One and in our Manufacturing segment.

EBITDA generated by the Corporation during the fourth quarter was $88.7 million, an increase of $19.2 million or 28% over the comparative three-month period. The Aerospace & Aviation segment generated $17.5 million of the increase and the Manufacturing segment generated $3.3 million of the increase. The large increase in the fourth quarter EBITDA was driven by a strong performance by the Legacy Airlines and Provincial.

"In addition to a long-term focus on accretive growth, EIC has always maintained a strong balance sheet with modest leverage and plenty of liquidity to allow us to attack opportunities when they are uncovered," stated EIC CFO Darryl Bergman. "We executed on this strategy in 2019 as we twice tapped the capital markets, for convertible debentures in March and for common equity in October. A new syndicated debt facility increased access to capital by half a billion dollars while reducing borrowing costs and improving financial flexibility. A demonstrated commitment to consistent leverage levels while growing per-share returns is a reliable model for generating shareholder returns. We enter 2020 having access to almost $900 million in available capital and are in a great position to execute on our model."

"While 2019 was clearly a strong year financially, I believe the financial returns were eclipsed by the investments made in our future," said Carmele Peter, President of EIC. "Our state-of-the-art window factory in Dallas went into production in the second half of 2019 and will grow revenue and profits from Quest. Quest will also benefit from the acquisition of AWI, a glazier in the US which will vertically integrate installation capabilities for Quest's US operations. The acquisition of LV Control will further strengthen the Manufacturing segment through its position as an industry leader with exposure to the agricultural marketplace. The Aerospace & Aviation segment is also poised for a strong 2020 after its remarkable 2019. The renewal of significant contracts such as the Nunavut medical patient transfer contract means that the segment has no North American contracts maturing in 2020 or 2021. The ramp-up of previous contract wins, such as the Government of Canada's Fixed Wing Search and Rescue work, and the implementation of the expanded Department of Fisheries contract, will drive continued growth."

"I am pleased to confirm our initial guidance for 2020 that we expect to extend our double-digit growth in EBITDA for an eighth year, with further growth of 10-15%. We remain committed to a long-term focus as we move into 2020. Our balance sheet is stronger than ever, and we have the ability to strike when the right opportunities are uncovered. 2019 was a great year for EIC and we are excited about 2020," Mike Pyle concluded.

EIC's complete consolidated annual financial statements and management's discussion and analysis for the three- and twelve-month period ended December 31, 2019 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

Conference Call Notice

Management will hold a conference call to discuss the Corporation's 2019 results on February 21, 2020 at 8:30 a.m. ET to join the conference call, dial 1-888-231-8191 or 647-427-7450. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until February 28, 2020 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 2786477.

A live audio webcast of the conference call will be available at www.ExchangeIncomeCorp.ca and www.newswire.ca. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. An archived replay of the webcast will be available for 90 days.

About Exchange Income Corporation

Exchange Income Corporation is a diversified acquisition-oriented company focused in two sectors: aerospace & aviation services and equipment, and manufacturing. The Corporation uses a disciplined acquisition strategy to identify already profitable, well-established companies that have strong management teams, generate steady cash flow, operate in niche markets and have opportunities for organic growth. For more information on the Corporation, please visit www.ExchangeIncomeCorp.ca. Additional information relating to the Corporation, including all public filings, is available on SEDAR (www.sedar.com).

Caution concerning forward-looking statements

The statements contained in this news release that are forward-looking are based on current expectations and are subject to a number of uncertainties and risks, and actual results may differ materially. These uncertainties and risks include, but are not limited to, the dependence of Exchange Income Corporation on the operations and assets currently owned by it, the degree to which its subsidiaries are leveraged, the fact that cash distributions are not guaranteed and will fluctuate with the Corporation's financial performance, dilution, restrictions on potential future growth, the risk of shareholder liability, competitive pressures (including price competition), changes in market activity, the cyclicality of the industries, seasonality of the businesses, poor weather conditions, foreign currency fluctuations, legal proceedings, commodity prices and raw material exposure, dependence on key personnel, and environmental, health and safety and other regulatory requirements. Except as required by Canadian Securities Law, Exchange does not undertake to update any forward-looking statements; such statements speak only as of the date made. Further information about these and other risks and uncertainties can be found in the disclosure documents filed by Exchange Income Corporation with the securities regulatory authorities, available at www.sedar.com.

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