Exchange Income Corporation

NEWS RELEASE

Exchange Income Corporation Demonstrates Resilience with Robust Third Quarter Performance

Strengthens Balance Sheet, Reduces Net Debt, Lowers Payout Ratio

WINNIPEG, Manitoba – November 12, 2020 – Exchange Income Corporation (TSX: EIF) ("EIC" or the "Corporation") a diversified, acquisition-oriented company focused on opportunities in the aviation, aerospace and manufacturing sectors, reported its financial results for the three and nine month period ended September 30, 2020. All amounts are in Canadian currency.

Q3 Financial Highlights

- Revenue decreased 16% to $297.3 million
- Consolidated EBITDA decreased $5.8 million or 6% from 2019's record levels to $83.2 million
- Adjusted Net Earnings per share down 43% to $0.59
- Free Cash Flow less Maintenance Capital Expenditures improved 20% over the prior year to $44.4 million
- Free Cash Flow less Maintenance Capital Expenditures quarterly payout ratio strengthened to 45% compared to 49% in third quarter of 2019
- Free Cash Flow less Maintenance Capital Expenditures trailing twelve month payout ratio remains strong at 73%, improving over the 76% at June 30, 2020

CEO Commentary

Mike Pyle, CEO of EIC, said, "The third quarter marked a return toward more normal aviation operations, as passenger volumes recovered from a low of approximately 10% of normal to a high of about 60% of capacity before the effects of the second wave of the pandemic began to be felt. I am happy to say that the improvement in operations flowed directly to our financial performance. EBITDA for the third quarter recovered to within 10% of 2019's record levels. Even more importantly, this was reflected in all our cash-related metrics, as we were able to fund our dividend, Maintenance Capital and Growth Capital Expenditures and reduce our debt, net of cash by $30 million, before considering the acquisition of WIS. In fact, our Free Cash Flow less Maintenance Capital Expenditures payout ratio improved to 45% from 49% last year. Anyone who follows the aviation industry realizes that this performance is in stark contrast to most of the other companies in the industry who have had to utilize their existing liquidity and access additional capital simply to fund day-to-day operations. We are more than a passenger airline, as we have operations focused on freight, medevac, flight training, maritime surveillance and aircraft parts sales and leasing. These diverse operations in niche markets help protect us in challenging times."

"EIC has always prided itself on our model which manages the short-term challenges and opportunities while focusing on the horizon looking for ways to grow the company for years to come. This focus was very clear in the third quarter as we were able to complete a strategic acquisition in our manufacturing segment and support an expansion in our aerospace portfolio, both of which will positively impact future results," continued Mr. Pyle. "We completed the acquisition of WIS, a full-service window glazing company with operations on the west cost of the US, which will further advance Quest's North American integration initiative in the manufacturing and installation of product for other customers. Elsewhere, EIC's financial backing was essential in supporting PAL Aerospace's win of a significant new 10-year contract to provide Maritime Patrol Aircraft for the Netherlands Coastguard. Under this contract, Provincial will modify, provide and support two missionized Dash-8 aircraft and deliver flight crew training on all systems."

Selected Financial Highlights
(All amounts in thousands except % and share data)

	Q3 2020	Q3 2019	% Change	YTD 2020	YTD 2019	% Change
Revenue	$297,286	$355,164	-16%	$847,919	$978,087	-13%
EBITDA[1]	$83,235	$89,002	-6%	$202,564	$240,065	-16%
Net Earnings	$17,244	$28,990	-41%	$14,576	$58,353	-75%
per share (basic)	$0.49	$0.90	-46%	$0.42	$1.83	-77%
Adjusted Net Earnings[2]	$20,626	$33,073	-38%	$28,329	$72,370	-61%
per share (basic)	$0.59	$1.03	-43%	$0.81	$2.27	-64%
Trailing Twelve Month Adjusted Net Earnings Payout Ratio (basic)	137%	72%				
Free Cash Flow[3]	$57,886	$67,166	-14%	$138,903	$177,141	-22%
per share (basic)	$1.64	$2.08	-21%	$3.98	$5.55	-28%
Free Cash Flow less Maintenance Capital Expenditures[4]	$44,350	$36,885	+20%	$72,061	$89,140	-19%
per share (basic)	$1.26	$1.14	+11%	$2.06	$2.79	-26%
Trailing Twelve Month Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic)	73%	57%				
Dividends declared	$20,144	$18,145	+11%	$59,812	$52,978	+13%

Review of Q3 Financial Results
Consolidated revenue for the quarter was $297.3 million, which was a decrease of $57.9 million or 16% from the comparative period. A decrease of $95.6 million in the Aerospace & Aviation segment was partially offset by an increase of $37.7 million in the Manufacturing segment. Consolidated EBITDA for the quarter was $83.2 million, which was a decrease of $5.8 million or 6% compared to the third quarter of last year.

The Corporation's results were materially impacted by the COVID-19 pandemic during both the three and nine month periods ending September 30, 2020. Travel restrictions and required quarantine periods reduced the demand for Aerospace & Aviation segment's products & services. Demand in the Manufacturing segment remained strong, but the segment continued to experience a reduction in efficiency as workplaces were responsibly spaced to ensure the health and safety of our employees. In both Aerospace & Aviation and the Manufacturing segments, increased costs associated with taking every reasonable precaution to ensure the health and safety of our employees and customers negatively impacted margins in the current year.

[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 non-operating one-time items such as 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, amortization of intangible assets that are purchased at the time of acquisition, interest accretion on acquisition contingent consideration 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, acquisition costs, principal payments on right of use assets 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.

Revenue generated by Aerospace & Aviation segment decreased by $95.6 million to $170.8 million and EBITDA decreased by $20.5 million or 25%. Passenger volumes remained lower than the prior year due to COVID-19, with varying degrees of reduction across geographic areas depending on local travel and quarantine restrictions. Strong cargo and medevac operations partially mitigated the impact of the decline in passenger volumes. Aerospace operations were minimally impacted by COVID-19 owing to the contractual nature of work performed. The Force Multiplier aircraft also returned to operation during the third quarter and has several missions scheduled for the balance of the year. Regional One's revenue for the current period decreased by $61.5 million or 70%. Regional One's business is dependent on the volume of passengers at traditional regional air carriers and lower travel throughout the world has put pressure on all its lines of business.

Manufacturing segment revenue increased 43% to $37.7 million for the quarter and EBITDA increased by $14.7 million to $27.2 million. All the Corporation's subsidiaries within Manufacturing were deemed essential businesses during the COVID-19 pandemic and have remained in operation. The acquisitions of AWI and L.V. Control in the fourth quarter of last year and WIS during this quarter are the primary drivers of the higher results.

In the third quarter, EIC recorded Adjusted Net Earnings of $20.6 million, or $0.59 per share, compared to $33.1 million, or $1.03 per share last year.

The Corporation generated Free Cash Flow of $57.9 million, a decrease from $67.2 million in the prior year, as a result of this quarter's lower EBITDA. Free Cash Flow less Maintenance Capital Expenditures is $44.4 million compared to $36.9 million in the third quarter of last year. The reduction in EBITDA was offset by a $16.7 million decrease in Maintenance Capital Expenditures flowing from the significant reduction in flight hours during the quarter. The Corporation's trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio was 73% for the third quarter of 2020.

Carmele Peter, President of EIC, stated "Over the course of the last six months EIC has successfully navigated a near total economic shut down in the spring, a tentative recovery through the summer months and now the uncertainty of a second wave of the pandemic. These are two very different business scenarios and, in each case, EIC has shown hardiness and adaptability that have allowed us to continue to deliver outstanding performance. The collective strength of our organization and the stability of our business model has underpinned our success and informs our confidence for the future. This serves as the foundation from which our strong and innovative business leaders and dedicated and focused employees can utilize their collective expertise to manage the challenges and take advantage of the opportunities being presented."

Outlook

Mr. Pyle continued, "This pandemic is far from over. In fact, it appears evident that things are going to get worse before they get better. Until a vaccine is developed, or therapeutic treatments exist, uncertainty will continue to be a way of life. But things will get better. Over the last six months, there has been a complete economic and societal shutdown, followed by a gradual reopening and recovery to what we see today, which is targeted shutdowns and limited social gatherings. As we steer a course through these challenging times, I am comforted knowing that we tangibly demonstrated our ability to weather these storms over the last six months and I have complete confidence in our ability to continue to do so. In the second and third quarters of this year, EIC generated nearly $70 million of Free Cash Flow less Maintenance Capital Expenditures; paid $40 million in dividends; funded both Maintenance and Growth Capital Expenditures; acquired a company and still managed to reduce net debt by approximately $20 million. Very few businesses can match these results, particularly those with a meaningful presence in aviation and aerospace."

Mr. Pyle concluded by saying, "In these uncertain times, I am proud to say that you can rely on EIC. The safety of our customers and employees is paramount, and EIC will continue to be a leader in safety protocols, revising and updating them constantly as the science around the virus evolves. EIC's remarkable employees in all its subsidiaries will remain focused on managing their businesses, supporting their customers and looking for new opportunities. When you combine these attributes with the proven resilience of our business model, you can count on EIC to remain one of Canada's most dependable dividend stocks."

EIC's complete interim financial statements and management's discussion and analysis for the three and nine month period ended September 30, 2020 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

Conference Call Notice
Management will hold a conference call to discuss its 2020 third quarter financial results on Friday, November 13, 2020 at 8:30am ET. To join the conference call, dial 1-888-231-8191or 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 November 20, 2020 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 2689454.

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, and 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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