# Exchange Income Corporation Establishes New Second Quarter Highs

### *Corporation increases its dividend for 14th time in 16 years*

**WINNIPEG, Manitoba – August 7, 2019 –** 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 six months ended June 30, 2019. All amounts are in Canadian currency.

"Our strong results this quarter once again demonstrate the effectiveness of our time-tested strategy and diversified business model," said Mike Pyle, the CEO of EIC. "Prior investments in our operations, made with the intention of delivering future, sustainable results, combined with a focus on continued execution of our business plan, enabled EIC to establish new second quarter records for several key metrics, including Revenue, EBITDA and Adjusted Net Earnings. Our trailing twelve month payout ratio, calculated on a Free Cash Flow less Maintenance Capital Expenditures basis, fell to 54% – an all-time best. As a result of the ongoing strength of our financial performance, we're pleased to announce our 14th dividend increase over the past 16 years, to an annualized rate of $2.28 – a track record of growth that is among the best on the TSX."

**Q2 Financial Highlights**

- Revenue grew 4% to $326 million;
- EBITDA increased by 16% to $87 million;
- Adjusted Net Earnings per share increased 4% to $0.83 per share;
- Adjusted Net Earnings trailing twelve month payout ratio improved to 74% from 77%;
- Free Cash Flow less Maintenance Capital Expenditures trailing twelve month payout ratio improved to 54% from 64%

"During the first half of 2019, we continued to strengthen the foundation of our business by making additional investments in our operations and through winning new long-term contracts that will provide revenue streams and help fund our dividends for years to come. The Legacy Airlines began flying for the Manitoba Provincial Government under the new General Transportation Contract and we anticipate having acquired and outfitted the last of six additional King Air aircraft early in the third quarter. After being awarded the Aerial Surveillance contract by the Government of Canada late in the first quarter, we immediately initiated work on developing the enhanced fleet of Dash 8 and King Air aircraft required under the contract. This upfront investment will generate returns over the next decade for EIC. Quest's new manufacturing facility was completed and production commenced during the second quarter. And just last week, we announced that our joint venture with SkyWest, which was completed in the first quarter of the year, had entered into an agreement to lease all 14 engines owned by the joint venture, together with nine airframes provided by Regional One, to a North American carrier for a 10-year period," added Mr. Pyle.

Exchange Income Corporation

## Selected Financial Highlights

(All amounts in thousands except % and share data)

| | Q2 2019 | Q2 2018 | % Change | YTD 2019 | YTD 2018 | % Change |
|---|---|---|---|---|---|---|
| Revenue | $325,907 | $313,449 | +4% | $622,923 | $579,476 | +7% |
| EBITDA[1] | $87,237 | $75,071 | +16% | $151,063 | $129,084 | +17% |
| Net Earnings | $21,875 | $19,547 | +12% | $29,363 | $28,161 | +4% |
| per share (basic) | $0.68 | $0.62 | +10% | $0.93 | $0.89 | +4% |
| Adjusted Net Earnings[2] | $26,573 | $25,208 | +5% | $39,297 | $38,140 | +3% |
| per share (basic) | $0.83 | $0.80 | +4% | $1.24 | $1.21 | +2% |
| Trailing Twelve Month Adjusted Net Earnings Payout Ratio (basic) | 74% | 77% | | | | |
| Free Cash Flow[3] | $65,729 | $58,785 | +12% | $109,975 | $99,381 | +11% |
| per share (basic) | $2.05 | $1.86 | +10% | $3.47 | $3.15 | +10% |
| Free Cash Flow less Maintenance Capital Expenditures[4] | $34,533 | $29,679 | +16% | $52,255 | $39,521 | +32% |
| per share (basic) | $1.08 | $0.94 | +15% | $1.65 | $1.25 | +32% |
| Trailing Twelve Month Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic) | 54% | 64% | | | | |
| Dividends declared | $17,646 | $17,357 | +2% | $34,833 | $34,090 | +2% |

## Review of Q2 Financial Results

Consolidated revenue for the quarter was $325.9 million, which was an increase of $12.5 million or 4% over the comparative period. The Manufacturing segment generated $7.0 million of the increase, while growth in the Aerospace & Aviation segment generated the other $5.5 million.

Aerospace & Aviation segment revenue grew 2% for the quarter to $238.9 million. Legacy Airlines and Provincial were up 8% on higher volumes in Newfoundland & Labrador and Quebec; increased passenger and medevac volumes in the Kivalliq region; and contributions from the rotary-wing operation due to growth in new services, including the addition of emergency medical services.

[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 and includes principal payments made on finance leases.

Regional One’s revenue for the quarter was down 10% compared to the second quarter of last year, which benefited from a higher than average volume of whole aircraft and engine sales.

Manufacturing segment revenue increased 9% to $87.0 million for the quarter. Prior investments in growth capital expenditures enabled the Corporation’s manufacturing businesses to respond to increased demand from customers. The segment benefitted from an increase in custom manufacturing, high levels of defense spending worldwide, and increased spending from telecommunications companies across Canada.

Consolidated EBITDA for the quarter was $87.2 million, which was an increase of $12.2 million or 16% compared to the second quarter of last year. Excluding the impact of the adoption of IFRS 16, EBITDA increased 9%. The growth was mainly attributable to strong EBITDA growth of 32% (or 23% excluding the impact of IFRS 16) from the Legacy Airlines and Provincial, which benefited from higher revenue; cost savings associated with operational efficiencies; capacity sharing across airline subsidiaries; and investment in additional aircraft in prior periods, which reduced third party charter costs.

In the second quarter, EIC recorded Adjusted Net Earnings of $26.6 million, or $0.83 per share, compared to $25.2 million, or $0.80 per share, in the second quarter of last year.

The Corporation had Free Cash Flow of $65.7 million and Maintenance Capital Expenditures of $31.2 million for the year, compared to $58.8 million and $29.1 million respectively for the same period a year ago. Dividends declared increased to $17.6 million from $17.4 million a year ago. The growth in Free Cash Flow exceeded the increase in Maintenance Capital Expenditures and dividends, resulting in an improved payout ratio of 51% for the quarter compared to 58% for the same quarter last year.

EIC’s complete interim financial statements and management's discussion and analysis for the three- and six-month period ended June 30, 2019 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

**Outlook**

“As a result of EIC’s strong performance in the first half of the year, we are on track to deliver on our 2019 guidance,” added Mr. Pyle. “That guidance includes our expectations for EBITDA to grow between 10 and 15% and Adjusted Net Earnings per share to increase between 8 and 12%. We also remain on pace to lower our Free Cash Flow less Maintenance Capital Expenditures payout ratio to 50% and our Adjusted Net Earnings payout ratio to 60% over the next three years, as previously guided.”

“We continue to be very pleased with our investment in Quest. The Canadian facility is operating at record levels of output and we continue to grow our order book, which has grown by more than 50% since Quest was acquired in late 2017. Quest’s new facility in Dallas is complete, production began in the second quarter and will continue to ramp up throughout the balance of the year, ultimately more than doubling Quest’s production capacity. We are excited to host an Investor Day at our new plant on September 18.”

“Subsequent to quarter end, the Force Multiplier flew its first mission and began generating revenue in July. Demand for PAL’s short-term rental surveillance aircraft remains strong and additional missions are already booked over the second half of the year.”

"Calm Air International was recently chosen as the successful candidate in the Government of Nunavut Medical Transfer RFP, extending the business we have been doing for the past 30 plus years. We're currently in the process of finalizing the contract, which would take effect later this year."

"Finally, we continue to explore new acquisition opportunities. Our acquisition pipeline is very robust and contains a number of interesting prospects."

**Conference Call Notice**

Management will hold a conference call to discuss its 2019 second quarter financial results on Thursday, August 8, 2019 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 August 15, 2019 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 4789904.

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. 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.

The Corporation currently operates two segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment consists of the operations of Perimeter Aviation, Keewatin Air, Calm Air International, Bearskin Lake Air Service (operating as a division of Perimeter Aviation), Custom Helicopters, Regional One, Provincial Aerospace and Moncton Flight College, and an investment in Wasaya Group. The Manufacturing segment consists of the operations of Overlanders Manufacturing, Water Blast, Stainless Fabrication, WesTower Communications, Ben Machine and Quest Window Systems. 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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