Exchange Income Corporation Reports Record Quarterly Revenue and EPS

Adjusted Net Earnings of $1.03 per share an all-time high.

WINNIPEG, Manitoba – November 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 nine months ended September 30, 2019. All amounts are in Canadian currency.

“The third quarter saw us reach new highs on a number of financial metrics, once again demonstrating the importance of our diversified business model,” said Mike Pyle, the CEO of EIC. “Record revenue and EBITDA contributed to a new milestone for EIC: our Adjusted Net Earnings were $1.03 per share for the quarter - the first time in our history that our Adjusted Net Earnings exceeded $1.00 per share. Net Earnings per share increased 17% to $0.90.

Q3 Financial Highlights

- Revenue and EBITDA each reached all-time quarterly highs
  - Revenue grew 15% to $355 million;
  - EBITDA increased by 12% to $89 million;
- Adjusted Net Earnings per share increased 10% to $1.03 per share;
- Adjusted Net Earnings payout ratio improved to 55% from 58% for the quarter; the trailing 12-month payout ratio improved to 72% from 75%;
- Free Cash Flow less Maintenance Capital Expenditures increased to 49% from 42% for the quarter; trailing 12-month payout ratio improved to 57% from 62%.

These results were achieved despite a temporary headwind - an airline customer of Regional One filed for bankruptcy, resulting in a bad-debt expense of approximately $6 million.

EIC closed two acquisitions subsequent to the quarter, L.V. Control Mfg. Ltd. (“LV Control”) and Advanced Window Inc. (“AWI”), both of which will be part of EIC’s Manufacturing segment. “These acquisitions align with our long-standing strategy of acquiring profitable companies with niche markets, and a strong management team,” stated Adam Terwin, Chief Corporate Development Officer of EIC. “ LV Control is a unique opportunity to grow our Manufacturing segment and provides exposure to the agricultural sector with a best-in-class operator, and the acquisition of AWI enables Quest to further enhance its offering to its key markets in the northeastern United States, building out sales channels and overall product offering, and provides vertical integration for the Quest plant.”

Darryl Bergman, EIC’s Chief Financial Officer, commented, “Since the end of the quarter, we have had success in further strengthening our balance sheet to fund our future growth. Firstly, our common shares offering of $70 million was over-subscribed which enabled the underwriters to exercise their over-allotment option, bringing the offering to $80.5 million. We utilized these funds to close the LV Control and AWI acquisitions. Also, during the quarter, our lenders approached EIC with a new credit facility which more accurately reflects the performance of EIC. Not only did it increase the size of the facility and reduce rates, but it also relaxed covenants to make the facility more flexible for EIC. The precise details of this facility are available in our MD&A, but the most salient point is that in one month we have successfully tapped both debt and equity markets and have set up the foundation for growth for the foreseeable future."

"One final thought," Bergman continued," It has taken EIC 15 years to utilize $700M of our current facility. The fact that we now have access to an additional $900M should in no way be viewed as a change in our balance sheet strategy. Our aggregate leverage has stayed remarkably constant for 15 years and we don't intend to change that now. We have earned the confidence of the capital markets with our consistent strategy – that has never been more evident than over the last month."

Selected Financial Highlights

(All amounts in thousands except % and share data)

	Q3 2019	Q3 2018	% Change	YTD 2019	YTD 2018	% Change
Revenue	$355,164	$ 308,179	+15%	$ 978,087	$887,655	+10%
EBITDA[1]	$89,002	$79,174	+12%	$240,065	$208,258	+15%
Net Earnings	$28,990	$24,162	+20%	$58,353	$52,323	+12%
per share (basic)	$ 0.90	$ 0.77	+17%	$ 1.83	$1.66	+10%
Adjusted Net Earnings[2]	$33,073	$29,550	+12%	$72,370	$67,690	+7%
per share (basic)	$ 1.03	$ 0.94	+10%	$2.27	$2.15	+6%
Trailing Twelve-Month Adjusted Net Earnings Payout Ratio (basic)	72%	75%				
Free Cash Flow[3]	$67,166	$64,219	+5%	$177,141	$163,600	+8%
per share (basic)	$2.08	$2.04	+2%	$5.55	$5.19	+7%
Free Cash Flow less Maintenance Capital Expenditures[4]	$36,885	$41,103	-10%	$89,140	$80,624	+11%
per share (basic)	$1.14	$1.31	-13%	$2.79	$2.56	+9%
Trailing Twelve-Month Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic)	57%	62%				
Dividends declared	$18,145	$17,215	+5%	$52,978	$51,305	+3%

[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.

Review of Q3 Financial Results

Consolidated revenue for the quarter was a record $355.2 million, representing an increase of $47.0 million or 15% over the comparative period. A significant increase of $39.9 million in the Aerospace & Aviation segment accounted for most of the growth, while the remaining $7.1 million was generated by the Manufacturing segment.

The Aerospace & Aviation segment had revenue of $266.5 million, an increase of 18% compared to the third quarter of last year. Revenue from Legacy Airlines and Provincial was up $15.9 million or 10% for the quarter. Regional One's revenue increased by $24.0 million, or 37%, while sales and service revenue increased by 54%, as a result of higher than average volume of whole aircraft and engine sales. The Manufacturing segment revenue increased by $7.1 million to $88.7 million as a result of production from Quest's US plant.

Consolidated EBITDA increased 12% over the prior year to $89.0 million, also hitting an all-time quarterly high. EBITDA growth of 29% for the Legacy Airlines and Provincial contributed to overall growth. This increase can be attributed to a variety of factors, including an increase in revenue due to the deployment of the Force Multiplier on several missions, increased service support revenue, higher passenger volumes in Newfoundland & Labrador and Quebec, increased passenger and medevac volumes in the Kivalliq region and increased passenger revenue in Manitoba. A bad debt expense of approximately $6.0 million reduced consolidated EBITDA for Regional One for the quarter. This one-time write down was the result of a significant airline customer of Regional One filing for bankruptcy. Excluding this write-off, EBITDA would have reached $95 million.

The Manufacturing segment's EBITDA fell 11% due to decreased EBITDA contribution from Quest, associated with initial costs for the commencement of commercial production at the new US plant as production ramps up. The remainder of the segment continued to benefit from operational efficiencies and strong demand.

Setting a new mark for the third quarter, Adjusted Net Earnings increased by 12% to reach $33.1 million. Adjusted Net Earnings per share increased 10% to $1.03 per share in comparison to $0.94 per share in the third quarter of 2018. Net Earnings and Net Earnings Per Share increased by 20% and 17% respectively – also a quarterly record for the Corporation.

Free Cash Flow generated in the third quarter was $67.2 million, an increase of $2.9 million or 5% compared to the same period last year. Excluding the $6.0 million one-time write off due to customer bankruptcy, Free Cash Flow increased by 13%. Free Cash Flow less Maintenance Capital Expenditures decreased by 10% to $36.9 million as a result of higher Maintenance Capital Expenditures in the quarter. The higher Maintenance Capital Expenditures were related to normal quarter to quarter variability and now the growth in the Maintenance Capital Expenditures for the nine months is in line with the growth of operations, consistent with EIC's prior guidance. On a per share basis, Free Cash Flow less Maintenance Expenditures decreased by 13% to $1.14 which in turn increased the quarterly dividend payout ratio to 49% from 42% for the third quarter.

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

Outlook

"We remain on track to meet our guidance for the year, including our expectations for EBITDA to grow between 10 and 15% and Adjusted Net Earnings per share to increase between 8 and 12%," added Mr. Pyle. "With the Force Multiplier signing on more missions for the remainder of 2019 and into 2020, the new Quest production facility continuing to ramp up, and the new contract with the Canadian Government for surveillance on the east and west coasts, we are bullish on 2020 and expect our growth next year to meet or exceed that achieved this year. We have a great group of companies with strong growth prospects, and that group just got larger with the addition of LV Control and AWI. I look forward to providing you a more detailed outlook for 2020 when we report our 2019 fourth quarter results in February."

Conference Call Notice

Management will hold a conference call to discuss its 2019 third quarter financial results on Friday, November 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 November 15, 2019 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 8566297.

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.

The Corporation currently operates two segments: Aerospace & Aviation and Manufacturing. 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).

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Exchange Income Corporation

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*.*