Exchange Income Corporation Announces Record Results

Payout ratio all-time best 60%

WINNIPEG, Manitoba – February 20, 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 twelve months ended December 31, 2018. All amounts are in Canadian currency.

2018 Financial Highlights

- Revenue grew 19% to $1.2 billion;
- EBITDA increased by 12% to $278 million;
- Adjusted Net Earnings per share increased by 14% to $2.94 per share;
- Dividends per share increased 4% to $2.175 per annum;
- Adjusted Net Earnings payout ratio strengthened from 81% to 74%
- Free Cash Flow less Maintenance Capital Expenditures payout ratio improved from 71% to an all-time best 60%

Q4 Financial Highlights

- Revenue grew 20% to $316 million;
- EBITDA increased by 10% to $70 million;
- Adjusted Net Earnings per share increased by 10% to $0.79 per share;
- Adjusted Net Earnings payout ratio improved to 69% from 73%
- Free Cash Flow less Maintenance Capital Expenditures payout ratio improved to 51% from 58%

CEO Commentary

"2018 was yet another example whereby our prudent and proven strategy delivered record results, demonstrating our ability to continue EIC's long track record of dividend growth," said Mike Pyle, the CEO of EIC. "Our acquisitions of Quest Window Systems in late 2017, and of Moncton Flight College in February of 2018, further diversified our revenue and were strong contributors to our growth in the year. We met the aggressive targets we had previously communicated to the market, including double-digit increases in EBITDA and Adjusted Net Earnings per share over the prior year's records. And, once again we increased our dividend and reduced our payout ratio at the same time. Moreover, we have extended and improved the terms of our convertible debentures and increased capacity under our credit facility earlier in the year, and are well-positioned for another exceptional year in 2019."

Selected Financial Highlights

(All amounts in thousands except % and share data)

	FY 2018	FY 2017	% Change	Q4 2018	Q4 2017	% Change
Revenue	$1,203,392	$1,012,950	+ 19%	$315,737	$263,910	+ 20%
EBITDA[1]	$277,765	$248,698	+ 12%	$69,507	$63,315	+ 10%
Net Earnings	$70,769	$72,160	- 2%	$18,446	$16,920	+ 9%
per share (basic)	$2.25	$2.33	- 3%	$0.59	$0.55	+ 7%
Adjusted Net Earnings[2]	$92,360	$79,727	+ 16%	$24,670	$22,260	+ 11%
per share (basic)	$2.94	$2.58	+ 14%	$0.79	$0.72	+ 10%
Adjusted Net Earnings Payout Ratio	74%	81%		69%	73%	
Free Cash Flow[3]	$223,363	$191,114	+ 17%	$59,763	$49,745	+ 20%
Free Cash Flow less Maintenance Capital Expenditures[4] Payout Ratio	60%	71%		51%	58%	
Dividends declared	$68,460	$65,087	+ 5%	$17,155	$16,290	+ 5%

Review of 2018 Financial Results

Consolidated revenue for the year was $1.2 billion, representing a 19% increase over the previous record of $1.0 billion reported for 2017. The higher revenue in 2018 was attributable to acquisitions as well as organic growth in both the Aerospace & Aviation and Manufacturing segments.

Aerospace & Aviation revenue was up 9% to $884.0 million, driven by a 9% increase at Legacy Airlines and Provincial, and a 11% increase at Regional One. Legacy Airlines benefited from the Kitikmeot contract, higher passenger volumes in the Ontario and Kivalliq markets, and new and expanded services in the rotary wing operation, while Provincial benefited from the addition of Moncton Flight College part way through the year. Higher sales and service revenue drove increases at Regional One.

Manufacturing revenue grew 56% to $319.4 million. With orders from existing customers as well as demand from new developers, Quest Window Systems was the largest contributor to the higher Manufacturing revenue.

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[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 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.

Consolidated EBITDA for the year increased 12% to $277.8 million compared to $248.7 million in 2017. A 126% increase in EBITDA from Manufacturing and a 6% increase from Legacy Airlines and Provincial were partially offset by lower contributions from Regional One due to fewer high margin lease redelivery settlements in 2018 compared to the prior year.

For the year, Adjusted Net Earnings improved to $92.4 million, or $2.94 per share, compared to $79.7 million, or $2.58 per share, in 2017. Net Earnings for the year were $70.8 million, or $2.25 per share, compared to $72.2 million, or $2.33 per share, in 2017.

The Corporation had Free Cash Flow of $223.4 million and Maintenance Capital Expenditures of $109.0 million for the year, compared to $191.1 million and $99.2 million respectively in 2017. Dividends declared increased to $68.5 million from $65.1 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 60% for the year, which was the lowest in the Corporation's history.

Review of Q4 Financial Results

Revenue in the fourth quarter increased 20% to $315.7 million, compared to $263.9 million in the fourth quarter of 2017. Again, the higher revenue was attributable to acquisitions and organic growth in both the Aerospace & Aviation and Manufacturing segments.

Aerospace & Aviation revenue was up 17% to $234.2 million, driven by a 10% increase at Legacy Airlines and Provincial, and a 32% increase at Regional One.

Manufacturing revenue grew 29% to $81.6 million, with Quest Window Systems being the largest contributor to the increase.

Consolidated EBITDA for the quarter was $69.5 million, up $6.2 million or 10%. A 38% increase in EBITDA from Manufacturing and a 12% increase from Legacy Airlines and Provincial were partially offset by lower contributions from Regional One.

Results would have been even better if it were not for temporary production delays at Quest due to a water main break which flooded the plant and shutdown production for part of November, and inclement weather temporarily reducing student flying hours at MFC, both of which were in the fourth quarter. Both events serve to push revenue into subsequent periods.

In the fourth quarter, EIC recorded Adjusted Net Earnings of $24.7 million, or $0.79 per share, compared to $22.3 million, or $0.72 per share, in the same quarter of 2017. Despite increased interest costs and higher acquisition related costs, Net Earnings for the quarter increased 9% to $18.4 million. Net earnings per share were $0.59 compared to $0.55 in the fourth quarter of 2017.

The Corporation's Free Cash Flow less Maintenance Capital Expenditures Payout Ratio improved to 51% for the quarter.

Outlook

"Our new Quest facility in Texas is on track to open in early 2019, with production ramping up over the course of the year," said Mr. Pyle. "Once fully ramped up, the new facility will more than double Quest's capacity, and should drive additional revenue and earnings growth in 2019. We expect Moncton Flight College to be a growing contributor to earnings in 2019 while providing a strategic, competitive advantage for years to come. And, we remain bullish on the future of our demonstrator surveillance aircraft, the Force Multiplier, which received its final certification from Transport Canada and went into service in the fourth quarter. Provincial's contract to service the new Government of Canada Fixed Wing Search and Rescue Aircraft will ramp up this year with the delivery of the first of 16 aircraft."

The long-term focus and investment made in previous periods will drive further growth in 2019. EBITDA is expected to grow 10 to 15%, while Adjusted Net Earnings per share and Free Cash Flow less Maintenance Capital Expenditures per share will increase by 8 to 12%. It is important to note that these increases are not driven by new acquisitions, RFP awards or major capital investments in 2019. In fact, total capital (growth and maintenance) investment is expected to be similar to 2018 levels. Any such acquisitions or investment programs will generate growth in addition to what is set out above.

This guidance does not include the impact of the IFRS 16 changes which go into effect in 2019. These changes will result in all material leases being shown on the balance sheet. This accounting change in no way effects cash flow but in addition to the guidance set out above will serve to increase EBITDA by approximately $20 million while reducing Adjusted Net Earnings per share by approximately $0.05. It will have no impact on our ability to pay dividends.

"I am also pleased to provide further guidance for EIC whereby we expect, within three years, to reduce the payout ratio when measured as a percentage of Free Cash Flow less Maintenance Capital Expenditures to approximately 50% and 60% when calculated based on Adjusted Net Earnings. We do not intend to accomplish this at the expense of dividend growth. We have demonstrated that we can not only grow our dividend but reduce the payout ratio at the same time as evidenced by our all time best payout ratio of 60%. 2018 was a great year for EIC and 2019 looks even better."

EIC's complete consolidated annual financial statements and management's discussion and analysis for the three- and twelve-month period ended December 31, 2018 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 2018 results on February 21, 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 February 28, 2019 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 9563448.

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 by 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.

For further information, please contact:

Mike Pyle
Chief Executive Officer
Exchange Income Corporation
(204) 982-1850
MPyle@eig.ca

Trevor Heisler
Investor Relations
NATIONAL Capital Markets
(416) 848-1434
theisler@national.ca