Exchange Income Corporation

# Exchange Income Corporation Reports Improved Financial Results for Q4 and FY2014

**WINNIPEG, Manitoba – February 19, 2015 –** Exchange Income Corporation (TSX:EIF) (the "Company" or "Exchange"), a diversified, acquisition-oriented company focused on opportunities in the aviation and manufacturing sectors, reported its financial results for the three- and 12-month periods ended December 31, 2014. All amounts are in Canadian currency and reflective of continuing operations[1].

**Q4 2014 Highlights from Continuing Operations**

- Consolidated revenue was $138.7 million, down 2%.
- Consolidated EBITDA was $26.2 million, up 8%.
- Free Cash Flow less maintenance capital expenditures was $11.7 million, up 80%.
- Dividend payout ratio[2] improved to 83% from 143%.
- Adjusted net earnings from continuing operations was $5.9 million, up 59%.
- Completed the sale of WesTower US for approximately US$200 million.
- Announced the acquisition of Provincial Aerospace Ltd ("Provincial") for approximately $246 million. The transaction represents the Company's largest acquisition to date and enters the Company into the dynamic maritime surveillance niche market.
- Regional One signed a fleet purchase agreement with Lufthansa CityLine for 12 Bombardier CRJ700 aircraft over a period of up to 15 months. Regional One will use the fleet for sale and lease opportunities for aircraft, engines and components with regional carriers around the world.

**FY2014 Highlights from Continuing Operations**

- Consolidated revenue was $542.5 million, up 7%.
- Consolidated EBITDA was $94.3 million, up 15%.
- Free Cash Flow less maintenance capital expenditures was $35.1 million, up 30%.
- Adjusted net earnings from continuing operations was $14.8 million, up 13%.
- Increased the monthly dividend by $0.005 per share (or $0.06 per share annually) to $0.145 per share (or $1.74 per share annually), representing a 4% growth.
- Signed a strategic alliance agreement with Sakku Investments Corporation, which will enhance our relationships throughout the Kivalliq region and provide new opportunities for our airlines and aviation services operations.
- Implemented a restructuring plan at Bearskin, which right-sized their operation resulting in reduced revenue but increased Free Cash Flow after maintenance capital expenditures.
- Received full payment of the loan made to a First Nations economic partner plus other professional fee cost reimbursements and outstanding receivables totaling $8.5 million.

[1] On October 20, 2014 Exchange announced the sale of the US operations of WesTower ("WesTower US"). The Company's results are, therefore, presented with Discontinued Operations, which include the operational results of WesTower US, the allocation of certain costs incurred by the Company to support WesTower US and the net gain on disposition. Both the current and comparative period results have been presented in a consistent manner.

[2] Based on the Company's Free Cash Flow less maintenance capital expenditures on a basic per share basis.

### Highlights Subsequent to Year End

- Closed the acquisition of Provincial on January 2, 2015 for a purchase price of approximately $246 million, subject to post-closing adjustments.
- Entered into a new long-term credit facility with the Corporation's banking syndicate that resulted in a $115 million increase in the facility to $450 million, providing EIC with approximately $200 million of available capital.
- Announced an agreement with the Canada Revenue Agency ("CRA") in relation to the conversion transaction Exchange undertook in July 2009. This agreement resulted in no cash payment to the CRA for any prior taxation periods. For financial statement purposes EIC recognized a non-cash charge of $22.9 million on the write-down of the related deferred income tax asset in the Company's 2014 Net Earnings from continuing operations ($1.03 basic per share impact).

"Our fourth quarter and recent weeks have been among the most active in our 10-year history," said Mr. Mike Pyle, CEO of Exchange Income Corporation. "We completed a series of significant transactions that resulted in better diversification for our Company, improved economic balance to our operations and a stronger balance sheet to facilitate our prospects for future growth and acquisitions. Of equal importance, investments made in our operating companies have yielded significant EBITDA and Free Cash Flow gains as reflected in our results."

Mr. Pyle added, "Our recent progress was highlighted by the acquisition of Provincial Aerospace for approximately $246 million. The transaction, which is our largest to date, was driven by a number of benefits, including bringing more stability to our financial results, tapping into the growing maritime surveillance market and leveraging our experience as a regional airline operator. The expected accretive growth and lowering of our payout ratio that Provincial will bring, led us to increase our dividend distributions to $1.74 per share on an annualized basis and we expect our payout ratio to return to historical levels even after this increase."

### Selected Financial Highlights from Continuing Operations

(All amounts in thousands except % and share data)

| | Q4 2014 | Q4 2013 | Change | FY2014 | FY2013 | Change |
|---|---|---|---|---|---|---|
| Revenue | $138,726 | $141,370 | -2% | $542,503 | $509,052 | +7% |
| EBITDA[3] | $26,151 | $24,322 | +8% | $94,278 | $81,780 | +15% |
| Net Earnings from continuing operations | ($17,729) | $3,338 | -631% | ($11,625) | $10,599 | -210% |
| Adjusted Net Earnings from continuing operations[4] | $5,915 | $3,709 | +59% | $14,797 | $13,112 | +13% |
| Net Earnings per Share[5] (fully diluted) | ($0.79) | $0.15 | -627% | ($0.53) | $0.49 | -208% |
| Adjusted Net Earnings from continuing operations per Share (fully diluted) | $0.26 | $0.17 | +54% | $0.66 | $0.61 | +9% |
| Free Cash Flow (FCF) per basic share | $1.00 | $0.82 | +22% | $3.48 | $3.00 | +16% |
| FCF less Maintenance Capex per basic share | $0.52 | $0.30 | +73% | $1.59 | $1.26 | +26% |
| FCF less Maintenance Capex payout ratio | 83% | 143% | | 106% | 134% | |
| Dividends declared | $9,662 | $9,092 | +6% | $37,424 | $35,889 | +4% |

[3] 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 Company and its segments.

[4] Adjusted Net Earnings: is defined as net earnings from continuing operations adjusted for acquisition costs expensed, asset impairment and restructuring costs, gains or losses recognized on the fair value of contingent consideration items, amortization of intangible assets that are purchased at the time of acquisition, and the non-cash charge to deferred income taxes incurred as a result of the Company's settlement with the CRA on certain tax pools associated with the conversion of the Company from an income trust to a corporation.

[5] The Company had 22.5 million common shares outstanding at December 31, 2014, up from 21.8 million at December 31, 2013. The growth is due to an increase in the conversion of debentures, shares issued under the dividend reinvestment plan, and the issuance of shares in support of financing acquisition activities and other.

## Review of Q4 Financial Results from Continuing Operations

Consolidated revenue for Q4 2014 was $138.7 million, down 2% from 2013. The decline was principally due to the restructuring of Bearskin operations, which resulted in reduced revenue but increased profitability, and reduced field job volume at Stainless. This decline is partially offset by the revenue growth by Regional One, which continues to see strong demand for its after-market aviation parts and engines.

Effective with the sale of WesTower US operations, the Company has reverted to reporting its financial performance through two operating segments: Aviation and Manufacturing. WesTower Canada operations and financial results have been included in the Manufacturing segment.

On a segmented basis, the Aviation segment generated revenue in Q4 2014 of $86.9 million, up $0.3 million from 2013. The modest growth was largely due to the performance of Regional One and Calm Air, which experienced revenue growth of $6.0 million. This growth was offset by the elimination of scheduled flight services in select markets as a result of the restructuring of Bearskin. In Q4 2014, the Aviation segment generated 62.6% of the consolidated revenue from continuing operations compared to 61.3% in 2013.

The Manufacturing segment generated revenue of $51.8 million in Q4 2014, down $2.9 million from 2013. The decline was largely due to reduced field job volume at Stainless. WesTower Canada also experienced a decline in revenue over the comparative period that was attributable to a slowdown in Q4 due to telecommunication companies having equipment shortages. Demand for WesTower Canada's products and services remains strong given the ongoing deployment of 4G wireless networks by carriers across the country. In Q4 2014, the Manufacturing segment generated 37.4% of the consolidated revenue from continuing operations compared to 38.7% in 2013.

Consolidated EBITDA for Q4 2014 was $26.2 million, up 8% from 2013. The growth in EBITDA was driven largely by the performances of Regional One and Calm Air. Regional One growth can be attributed to an increased investment in its asset portfolio while Calm Air benefited from previous investments in northern infrastructure as well as from a fleet rationalization program.

On a segmented basis, the Aviation segment generated EBITDA of $22.0 million in Q4 2014, up 13% from 2013. The Aviation segment's EBITDA margins for Q4 2014 were 25.3% compared to 22.5% in 2013.

The Manufacturing segment generated EBITDA of $6.8 million in Q4 2014, down 10% from 2013. The decline is largely due to soft market conditions for Stainless' field services. EBITDA margins for the Manufacturing segment in Q4 2014 were 13.2% as compared to 13.9% in 2013.

Exchange generated adjusted net earnings from continuing operations of $5.9 million or $0.26 per share (fully diluted) for Q4 2014. This compares to $3.7 million or $0.17 per share (fully diluted) for Q4 2013.

## Review of FY2014 Financial Results from Continuing Operations

The Corporation's consolidated revenue for FY2014 was $542.5 million, up 7% from FY2013. Consolidated EBITDA for FY2014 was $94.3 million, up 15% for FY2013. The growth was largely driven by the performances of Regional One, Calm Air and WesTower Canada, but offset by the impact of adverse winter conditions that affected a number of the Company's Canadian subsidiaries, particularly those operating in the Aviation segment. The Corporation's performance for 2014 includes an additional three months of operations from Regional One as it was acquired part way through the comparative year.

The Corporation generated adjusted net earnings from continuing operations of $14.8 million, or $0.66 per share (fully diluted) for FY2014. This compares to $13.1 million or $0.61 per share (fully diluted) for FY2013.

## Working Capital

As at December 31, 2014, the Company's continuing operations had a net cash position of $15.0 million (December 31, 2013 of $23.2 million). The Company's working capital was significantly impacted by the disposition of WesTower US in 2014. The comparable balance sheet for December 31, 2013 includes WesTower US with working capital of $180.9 million. The Company's net working capital as at December 31, 2014 is $95.8 million, representing a decrease of $160.9 million from the prior year. Outside of the sale of WesTower US, there are a number of factors impacting the change, including the growth of Regional One's business, changes in the taxes owing by the Company and current portions of the Company's Series F and Series G convertible debentures that matured during 2014. As well, the conversion rate of the Company's US based businesses at year-end 2014 was higher based on the weakening of the Canadian dollar near the end of 2014. The Company's current ratio for year-end 2014 is 1.93 to 1 as compared to 2.23 to 1 for the prior year which included WesTower US.

**Selected Key Performance Indicators from Continuing Operations**
(All amounts in thousands except % and share data)

| - from continuing operations | Q4 2014 | Q4 2013 | Change | FY2014 | FY2013 | Change |
|---|---|---|---|---|---|---|
| Free Cash Flow[6] | $22,480 | $17,830 | +26% | $76,980 | $64,372 | +20% |
| Free Cash Flow per basic share | $1.00 | $0.82 | +22% | $3.48 | $3.00 | +16% |
| Total Maintenance Capex[7] | $10,762 | $11,319 | -5% | $41,861 | $37,311 | +12% |
| Free Cash Flow less Maintenance Capex[8] | $11,718 | $6,511 | +80% | $35,119 | $27,061 | +30% |
| Free Cash Flow less Maintenance Capex per basic share | $0.52 | $0.30 | +73% | $1.59 | $1.26 | +26% |

The basic per share payout ratio for the Q4 2014 is 83% for Free Cash Flow less maintenance capital expenditures (2013 – 143%).The improvement is reflective of growth capital invested in previous periods, particularly at Regional One and Calm Air, as well as to the profitability improvements resulting from the restructuring of Bearskin.

The Company's Board of Directors regularly examines the dividends paid to shareholders. As a result of improvements to the Corporation's payout ratio, the divestiture of WesTower US, and the acquisition of Provincial, which is expected to be immediately and significantly accretive to earnings and Free Cash Flow, the Board of Directors approved an increase in the dividend rate per share from $0.14 per month to $0.145 per month effective for the November 2014 dividend paid in mid-December.

**Outlook**

"The resiliency that we showed in 2014 demonstrates the strength of our business model. Our conservative leverage and disciplined acquisition strategy afforded us the time to resolve our challenges. This led to the two significant transactions during the year that restored our diversity and improved our profitability. In the meantime, we reaped the benefits of our past growth investments in Calm Air and Regional One, whose operations led the way to significant increases in EBITDA and Free Cash Flow," said Mr. Pyle.

"Given these recent events, we are well positioned in the near term to take advantage of growth opportunities and, at the same time, withstand economic challenges or seasonality factors. Regional One, particularly as a result of its agreement with Lufthansa CityLine, is expected to continue its track record of organic growth. Provincial will bring accretive growth effective with Q1 results. And WesTower Canada is expected to see continued strong demand for its cell phone towers due to increase use of mobile devices requiring wireless capabilities.

Mr. Pyle added, "Over the longer term, we are very bullish on Provincial's ability to continue to grow in the maritime surveillance market, especially given the increased level of political instability and terrorist threats around the world.

"The recent expansion of our credit facility to $450 million provides us the capability to grow accretively by capitalizing on acquisition opportunities as they emerge."

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[6]Free Cash Flow is a financial metric used by Management to assess the Company's performance and assess its ability to sustain its dividend policy. Free Cash Flow for the period is equal to the cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and any unusual non-operating one-time items. It is not a recognized measure under IFRS.

[7] Maintenance Capex 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 Company at its current level and includes principal payments made on finance leases.

[8] Free Cash Flow less Maintenance Capex is not an IFRS measure.

The Company's complete financial statements and management's discussion and analysis for the three and 12 months ended December 31, 2014 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

**Conference Call Notice**

Exchange Income Corporation will hold a conference call on February 20, at 10:00 a.m. ET with key members of senior management to discuss 2014 fourth quarter and year-end financial results.

All interested parties can join the conference call by dialing 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 Friday February 27, 2015 at midnight. To access the archived conference call, please dial 1-855-859-2056 or 416-849-0833 and enter the reservation code 69424805.

A live audio webcast of the Q4 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 365 days.

**About Exchange Income Corporation**

Exchange Income Corporation is a diversified acquisition-oriented company, focused in two sectors: 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: Aviation and Manufacturing. The Aviation segment consists of the operations by Perimeter Aviation, Keewatin Air, Calm Air International, Bearskin Lake Air Service, Custom Helicopters, Regional One and Provincial Aerospace. The Manufacturing segment consists of the operations by Jasper Tank, Overlanders Manufacturing, Water Blast Manufacturing, Stainless Fabrication and WesTower Communications in Canada. 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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