



NEWS RELEASE

Exchange Income Corporation Delivers Strong Cash Performance in Second Quarter

Strengthens Balance Sheet, Reduces Net Debt, Payout Ratio 78%

WINNIPEG, Manitoba – August 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 six month period ended June 30, 2020. All amounts are in Canadian currency.

Q2 Financial Highlights

- Revenue decreased 25% to \$244 million
- Consolidated EBITDA decreased \$25.2 million or 29% to \$62.1 million
- Adjusted Net Earnings per share remains positive at \$0.16, down 81% from prior year
- Free Cash Flow less Maintenance Capital Expenditures quarterly payout ratio was 78%, trailing twelve month payout ratio was 76%
- Reduced secured debt, net of cash, by \$40 million to \$736 million

Highlights Subsequent to Quarter End

- Closed acquisition of Window Installation Specialists, Inc. for US \$45 million
- Preliminary notification of PAL Aerospace award of 10 year Netherlands Defence Contract
- Amended Banking Facility

CEO Commentary

Mike Pyle, CEO of EIC, said, “I am very pleased with EIC’s second quarter results. The last three months have been the most turbulent and challenging societal and economic period in our lifetimes. In particular, the aerospace and aviation industry, which represents the majority of our normalized earnings, has been significantly impacted. I have long-stated our unique, niche airline and aerospace markets and manufacturing diversification differentiate us from other, traditional aviation and aerospace companies, but the proof is in the pudding and it has never been more obvious than it is this quarter. While traditional air carriers have been devastated by the decline in demand for air services and have described results in terms of how many millions of dollars per day are lost, we executed on our business model, paid our shareholders our monthly \$0.19 dividend while reducing our net debt and funding all capital investments.”

Mr. Pyle added, “As further evidence of our aviation and aerospace division’s resiliency and difference from other companies, our passenger operations have bounced back and are operating at 40% to 60% capacity, rebounding from the 10% to 15% they were at during the latter half of March. We fully anticipate these capacity levels will continue to increase as travel restrictions ease. The breadth and depth of our management team, our ability to block out the confusion and chaos caused by the pandemic, and our unwavering focus on execution have propelled us forward throughout the last several months. Our confidence in the ability of our subsidiary businesses to rebound from the depths of the pandemic has enabled us to retain as many employees as possible, utilizing the Canada Emergency Wage Subsidy from the Federal Government, and to invest in continuing to service customers on routes that were clearly uneconomic but which fulfilled critical needs of the communities. Investing these funds now will bear fruit when the pandemic draws to a close in the future.”

“The recent announcements of the acquisition of Window Installation Specialists, Inc. (“WIS”) in Seattle, Washington to strengthen and support Quest’s operations and PAL’s preliminary notification of the 10-year Netherlands Defence Contract are concrete examples of our commitment to continued growth of our business and long-term strategic focus,” said Adam Terwin, EIC’s Chief Corporate Development Officer. “EIC’s focus



on maintaining our balance sheet at all times gave us the ability to close these strategic, accretive transactions even in the midst of a pandemic.”

Selected Financial Highlights

(All amounts in thousands except % and per share data)

	Q2 2020	Q2 2019	% Change	YTD 2020	YTD 2019	% Change
Revenue	\$243,657	\$325,907	-25%	\$550,633	\$622,923	-12%
EBITDA ¹	\$62,075	\$87,237	-29%	\$119,329	\$151,063	-21%
Net Earnings	\$2,630	\$21,875	-88%	\$(2,668)	\$29,363	-109%
per share (basic)	\$0.08	\$0.68	-88%	\$(0.08)	\$0.93	-109%
Adjusted Net Earnings ²	\$5,645	\$26,573	-79%	\$7,703	\$39,297	-80%
per share (basic)	\$0.16	\$0.83	-81%	\$0.22	\$1.24	-82%
Trailing Twelve Month Adjusted Net Earnings Payout Ratio (basic)	110%	74%				
Free Cash Flow ³	\$42,268	\$65,729	-36%	\$81,017	\$109,975	-26%
per share (basic)	\$1.21	\$2.05	-41%	\$2.33	\$3.47	-33%
Free Cash Flow less Maintenance Capital Expenditures ⁴	\$25,412	\$34,533	-26%	\$27,711	\$52,255	-47%
per share (basic)	\$0.73	\$1.08	-32%	\$0.80	\$1.65	-52%
Trailing Twelve Month Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic)	76%	54%				
Dividends declared	\$19,867	\$17,646	+13%	\$39,668	\$34,833	+14%

Review of Q2 Financial Results

Consolidated revenue for the quarter was \$243.7 million, which was a decrease of \$82.3 million or 25% from the comparative period. A decrease of \$99.0 million in the Aerospace & Aviation segment was partially offset by an increase of \$16.7 million in the Manufacturing segment. Consolidated EBITDA for the quarter was \$62.1 million, which was a decrease of \$25.2 million or 29% compared to the second quarter of last year. The Corporation’s results were materially impacted by the COVID-19 pandemic during both the three and six month periods ending June 30, 2020. Travel restrictions and required quarantine periods reduced the demand for the Aerospace & Aviation segment’s products & services. The Manufacturing segment experienced some

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.



temporary plant shut downs as a result of COVID-19 protocols put in place and also experienced a reduction in manufacturing efficiency as employees were responsibly spaced further apart to ensure the health and safety of our employees. In both the Aerospace & Aviation and the Manufacturing segments, increased costs associated with keeping our employees and customers safe negatively impacted margins in the current year.

Revenue generated by the Aerospace & Aviation segment decreased by \$99.0 million to \$139.9 million and EBITDA decreased by \$32.3 million or 41%. Passenger volumes declined by as much as 90% at one point but have rebounded to 40% to 60% depending on the geographic area and loosening of travel restrictions. This decreased passenger volume was partially mitigated by strong cargo volumes. Medevac and charter operations were impacted early in the quarter but have gradually normalized. The aerospace division was minimally impacted by COVID-19 owing to the contractual nature of the work, except for the Force Multiplier aircraft which was idle during the quarter as governments focused on fighting the pandemic, but has several missions scheduled for the remainder of the year. Regional One's revenue for the current period decreased by \$38.5 million or 57%. Regional One's business is dependent on traditional regional air carriers and lower travel throughout the world has put pressure on all of its lines of business.

The Manufacturing segment revenue increased 19% to \$103.8 million for the quarter and EBITDA increased by \$6.0 million to \$21.7 million. All of the Corporation's subsidiaries within the Manufacturing segment were deemed essential businesses during the COVID-19 pandemic and have been operating. The acquisitions of AWI and L.V. Control in the fourth quarter of last year are the primary drivers of the higher results.

In the second quarter, EIC recorded Adjusted Net Earnings of \$5.6 million, or \$0.16 per share, compared to \$26.6 million, or \$0.83 per share, in the second quarter of last year.

The Corporation generated Free Cash Flow of \$42.3 million, a decrease from \$65.7 million in the prior year as a result of this quarter's lower EBITDA. Free Cash Flow less Maintenance Capital Expenditures is \$25.4 million compared to \$34.5 million in the second quarter of last year. The reduction in EBITDA was partially offset by a \$14.3 million decrease in Maintenance Capital Expenditures which was caused by the significant reduction in flight hours during the quarter. The Corporation's Free Cash Flow less Maintenance Capital Expenditures payout ratio was 78% for the second quarter of 2020. While the payout ratio is higher than normal during a typical second quarter for the Corporation, it was a significant achievement during one of the most challenging quarters the Corporation has ever faced. During a global pandemic where passenger volumes initially fell up to 90%, the Corporation was still able to fund its Maintenance Capital Expenditures, its dividends in full, all of its Growth Capital Expenditures and have cash flow left over to pay down debt.

"The strength of EIC's business model and its strong balance sheet have been hallmarks of the company since its inception," stated Carmele Peter, President of EIC. "We have prudently grown our dividend over the years without taking undue risk. Dividend resiliency and the ability to continue to pay the dividend during difficult economic times have always been at the forefront of our decision-making. The results reported today clearly show the success of our plans and strategies."

Darryl Bergman, EIC's CFO noted, "Opportunities will continue to present themselves to grow and strengthen the business. We have increased covenants for the sole purpose of allowing us to seize future opportunities, not to fund existing operations. In fact, based on our current operation and recent announcements we expect to stay well below the previous covenant level. While this provides EIC with additional financial flexibility, it will in no way reduce the diligence we apply when managing our balance sheet. We will continue to employ the same discipline as we have in the past that has allowed us to reduce debt while maintaining our dividend and funding capital requirements. As our businesses normalize over ensuing quarters, our leverage will return to historical levels."



Outlook

Mr. Pyle concluded by saying, “The uncertainties and upheaval of the second quarter will persist for some time to come. The world continues its fight against COVID-19; the U.S. Presidential election is drawing closer; and social unrest around the world, the subsequent protests and the reactions to the demonstrations by political leaders endures with no end in sight. Through all of this, I expect third quarter results will improve upon those of this recent quarter even as government assistance draws to a close. EIC and its management team will do what it has always done. We will remain focused on the tasks at hand and on the daily execution of our business plan to drive performance. This performance will not come at the expense of the health and safety of our customers and employees, as the stringent protocols we have enacted to deal with COVID-19 will remain.”

EIC’s complete interim financial statements and management’s discussion and analysis for the three and six month period ended June 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 second quarter financial results on Thursday, August 13, 2020 at 8:30am 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 20, 2020 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 1760753.

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 cyclical nature 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.

For further information, please contact:

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

Pam Plaster
Vice President, Investor Development
Exchange Income Corporation
(204) 953-1314
PPlaster@eig.ca