

# VECTRUS FOURTH QUARTER AND FULL YEAR 2014 EARNINGS PRESENTATION

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MARCH 17, 2014





# SAFE HARBOR STATEMENT

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (THE "ACT"): CERTAIN MATERIAL PRESENTED HEREIN INCLUDES FORWARD-LOOKING STATEMENTS INTENDED TO QUALIFY FOR THE SAFE HARBOR FROM LIABILITY ESTABLISHED BY THE ACT. THESE FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS ABOUT THE SPIN-OFF OF VECTRUS, INC. (THE "COMPANY") FROM EXELIS INC. ("THE SEPARATION"), THE TERMS AND THE EFFECT OF THE SEPARATION, THE NATURE AND IMPACT OF SUCH A SEPARATION, CAPITALIZATION OF THE COMPANY, FUTURE STRATEGIC PLANS AND OTHER STATEMENTS THAT DESCRIBE THE COMPANY'S BUSINESS STRATEGY, OUTLOOK, OBJECTIVES, PLANS, INTENTIONS OR GOALS, AND ANY DISCUSSION OF GUIDANCE OR FUTURE OPERATING OR FINANCIAL PERFORMANCE. WHENEVER USED, WORDS SUCH AS "MAY," "WILL," "LIKELY," "ANTICIPATE," "ESTIMATE," "EXPECT," "PROJECT," "INTEND," "PLAN," "BELIEVE," "TARGET," "COULD," "POTENTIAL," "CONTINUE," OR SIMILAR TERMINOLOGY. THESE STATEMENTS ARE BASED ON THE BELIEFS AND ASSUMPTIONS OF THE MANAGEMENT OF THE COMPANY BASED ON INFORMATION CURRENTLY AVAILABLE TO MANAGEMENT. FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE RESULTS CONTEMPLATED BY THE FORWARD-LOOKING STATEMENTS.

SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE COMPANY'S HISTORICAL EXPERIENCE AND OUR PRESENT EXPECTATIONS OR PROJECTIONS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO: RISKS AND UNCERTAINTIES RELATING TO THE SPIN-OFF, INCLUDING WHETHER THE SPIN-OFF AND THE RELATED TRANSACTIONS WILL RESULT IN ANY TAX LIABILITY, THE OPERATIONAL AND FINANCIAL PROFILE OF THE COMPANY OR ANY OF ITS BUSINESSES AFTER GIVING EFFECT TO THE SPIN-OFF, AND THE ABILITY OF THE COMPANY TO OPERATE AS AN INDEPENDENT ENTITY; ECONOMIC, POLITICAL AND SOCIAL CONDITIONS IN THE COUNTRIES IN WHICH WE CONDUCT OUR BUSINESSES; CHANGES IN U.S. OR INTERNATIONAL GOVERNMENT DEFENSE BUDGETS; GOVERNMENT REGULATIONS AND COMPLIANCE THEREWITH, INCLUDING CHANGES TO THE DEPARTMENT OF DEFENSE PROCUREMENT PROCESS; PROTESTS OF NEW AWARDS; OUR ABILITY TO SUBMIT AND/OR WIN ALL POTENTIAL OPPORTUNITIES IN OUR PIPELINE, CHANGES IN TECHNOLOGY; INTELLECTUAL PROPERTY MATTERS; GOVERNMENTAL INVESTIGATIONS, REVIEWS, AUDITS AND COST ADJUSTMENTS; CONTINGENCIES RELATED TO ACTUAL OR ALLEGED ENVIRONMENTAL CONTAMINATION, CLAIMS AND CONCERNS; DELAYS IN COMPLETION OF THE U.S. GOVERNMENT'S BUDGET; OUR SUCCESS IN EXPANDING OUR GEOGRAPHIC FOOTPRINT OR BROADENING OUR CUSTOMER BASE; OUR ABILITY TO REALIZE THE FULL AMOUNTS REFLECTED IN OUR BACKLOG; IMPAIRMENT OF GOODWILL; MISCONDUCT OF OUR EMPLOYEES, SUBCONTRACTORS, AGENTS AND BUSINESS PARTNERS; OUR ABILITY TO CONTROL COSTS; OUR LEVEL OF INDEBTEDNESS; SUBCONTRACTOR PERFORMANCE; ECONOMIC AND CAPITAL MARKETS CONDITIONS; ABILITY TO RETAIN AND RECRUIT QUALIFIED PERSONNEL; SECURITY BREACHES AND OTHER DISRUPTIONS TO OUR INFORMATION TECHNOLOGY AND OPERATIONS; CHANGES IN OUR TAX PROVISIONS OR EXPOSURE TO ADDITIONAL INCOME TAX LIABILITIES; CHANGES IN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; AND OTHER FACTORS SET FORTH IN ITEM 1A, "RISKS FACTORS," AND ELSEWHERE IN OUR FORM 10-K AND DESCRIBED IN OUR FUTURE REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC).

THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS REQUIRED BY LAW.



# Q4 AND FULL YEAR 2014 HIGHLIGHTS

- Significant wins add \$975 million to backlog
- Free cash flow<sup>(1)</sup> finished strong at \$39 million; cash provided by operating activities \$43 million
  - Revenue \$1,203 million, adjusted revenue<sup>(2)</sup> \$1,172 million
  - Operating margin 3.2%; adjusted operating margin<sup>(2)</sup> 4.3%
  - Diluted earnings per share (EPS)<sup>(3)</sup> \$2.13; adjusted diluted EPS<sup>(2)(3)</sup> \$2.80 per share
- Core business stabilizing over the last two quarters

(1) Free cash flow is defined as Generally Accepted Accounting Principles in the United States of America (GAAP) net cash provided by operating activities less capital expenditures. See Appendix for reconciliation.

(2) Excludes historical results relating to Tethered Aerostat Radar System (TARS) program which was retained by Exelis Inc. in connection with the spin-off and the impact of separation costs incurred to become a stand-alone public company. See Appendix for reconciliation.

(3) Reflects weighted average diluted common shares outstanding of 10,691,703 for the year ended December 31, 2014. See Appendix for reconciliation.



# CEO OVERVIEW

- DoD budgetary environment
  - Budgetary situation remains fluid; however, during the fiscal 2013 sequestration, we did not layoff or furlough any employees
- Procurement environment
  - Seeing movement in awards but protests are prevalent and lengthen the new business cycle
- Worldwide support to our customers
  - At present there are high tensions in the Middle East and Eastern Europe and we stand ready to support our government customers



# THE VECTRUS ENVIRONMENT

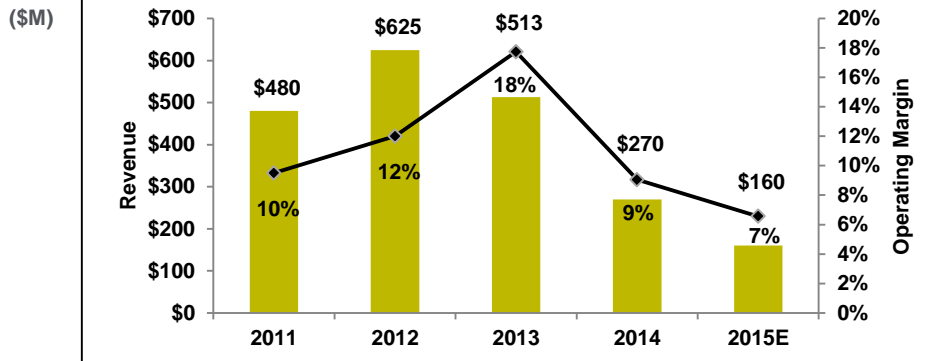
- Re-competes a focus in 2015
- Successful phase-ins are a 2015 priority
  - Three large contracts will phase-in
  - 2015 revenue from new program wins is estimated to be approx. \$150 million
  - Annualized revenue run rate from new programs subsequent to 2015 is expected to exceed \$200 million
- Solid foundation and anticipate robust new business pipeline
  - Strong backlog and contract funding position
  - Approx. \$1 billion of proposals submitted and pending potential awards,<sup>(1)</sup> 100% for new business
  - \$3 billion in potential new business opportunities identified for 2015
- Operating margins expected to be under pressure in 2015
- Operational Excellence
- Core business expected to grow and replace declining Afghanistan revenue

(1) IDIQ prime contracts carry no value in pipeline

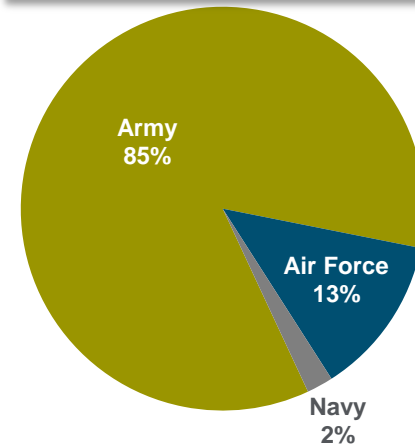


# REVENUE MIX EVOLVES WITH STRATEGY

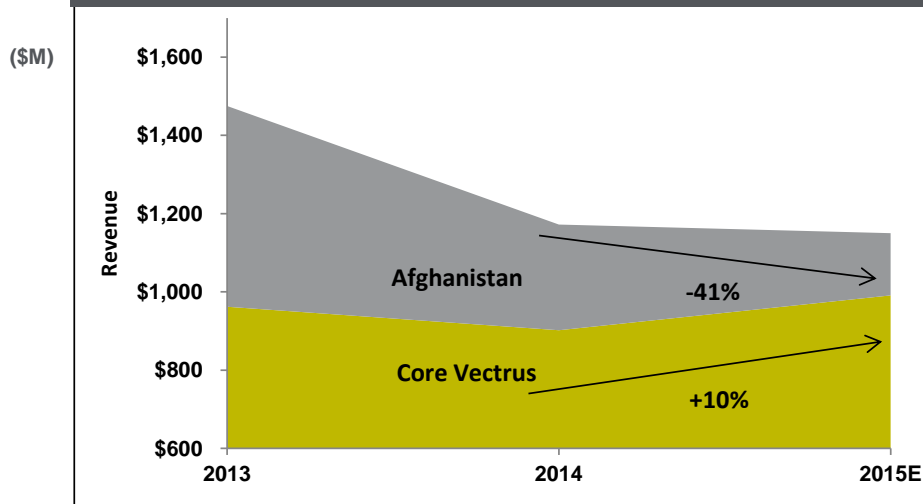
## Afghanistan Contracts



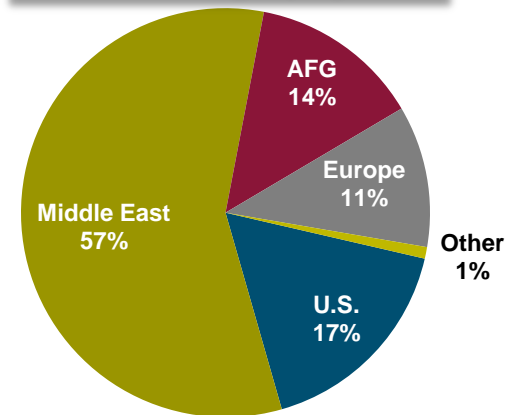
## 2015E Customer Mix



## Revenue Mix Aligns to Strategy



## 2015E Geography Mix





# 2014 FINANCIAL RESULTS

| Fourth Quarter 2014                  |            |            |           |
|--------------------------------------|------------|------------|-----------|
|                                      | Q4<br>2014 | Q4<br>2013 | vs. 2013  |
| \$ millions, except Operating Margin |            |            |           |
| Funded Orders                        | \$ 177.7   | \$ 155.7   | \$ 22.0   |
| Revenue                              | \$ 285.8   | \$ 327.1   | \$ (41.3) |
| Operating Income                     | \$ 8.1     | \$ 25.2    | \$ (17.1) |
| Operating Margin                     | 2.9%       | 7.7%       | (480) bps |
| Diluted Earnings Per Share           | \$ 0.31    | \$ 1.54    | \$ (1.23) |

| Full Year 2014                            |            |            |            |
|---|------------|------------|------------|
|   | 2014       | 2013       | vs. 2013   |
| \$ millions, except Operating Margin      |            |            |            |
| Funded Orders                             | \$ 1,370.6 | \$ 1,732.4 | \$ (361.8) |
| Revenue                                   | \$ 1,203.3 | \$ 1,511.6 | \$ (308.4) |
| Operating Income                          | \$ 38.4    | \$ 131.3   | \$ (92.9)  |
| Operating Margin                          | 3.2%       | 8.7%       | (550) bps  |
| Diluted Earnings Per Share                | \$ 2.13    | \$ 8.06    | \$ (5.93)  |
| Net cash provided by operating activities | \$ 43.0    | \$ 92.8    | \$ (49.8)  |



# ADJUSTED Q4 2014 FINANCIAL RESULTS<sup>(1)</sup>

| Fourth Quarter 2014                  |            |            |           |
|--------------------------------------|------------|------------|-----------|
|                                      | Q4<br>2014 | Q4<br>2013 | vs. 2013  |
| \$ millions, except Operating Margin |            |            |           |
| Funded Orders                        | \$ 177.7   | \$ 157.0   | \$ 20.7   |
| Revenue                              | \$ 285.8   | \$ 316.4   | \$ (30.6) |
| Operating Income                     | \$ 8.6     | \$ 25.8    | \$ (17.2) |
| Operating Margin                     | 3.0%       | 8.2%       | (520) bps |
| Diluted Earnings Per Share           | \$ 0.33    | \$ 1.58    | \$ (1.25) |

| <u>-9.7% REVENUE</u> |  | <u>-66.6% OPERATING INCOME</u> |  |
|----------------------|--|--------------------------------|--|
|                      | Core business programs (Non-AFG) stabilize |                                | Core business programs (Non-AFG) stabilize       |
|                      | Afghanistan contracts volume down          |                                | Afghanistan contracts volume and profit mix down |

(1) Excludes historical results relating to TARS program which was retained by Exelis Inc. in connection with the spin-off and the impact of separation costs incurred to become a stand-alone public company. See Appendix for reconciliation.





# ADJUSTED FY 2014 FINANCIAL RESULTS<sup>(1)</sup>

## Full Year 2014

| \$ millions, except Operating Margin       | 2014       | 2013       | vs. 2013   |
|--|------------|------------|------------|
| Funded Orders                              | \$ 1,345.6 | \$ 1,708.6 | \$ (363.0) |
| Revenue                                    | \$ 1,172.0 | \$ 1,474.6 | \$ (302.7) |
| Operating Income                           | \$ 50.0    | \$ 129.1   | \$ (79.1)  |
| Operating Margin                           | 4.3%       | 8.8%       | (450) bps  |
| Diluted Earnings Per Share                 | \$ 2.80    | \$ 7.92    | \$ (5.12)  |
| Year-to-Date Free Cash Flow <sup>(2)</sup> | \$ 39.1    | \$ 90.4    | \$ (51.2)  |

### -20.5% REVENUE



Afghanistan contracts down \$243M for the full year 2014 to \$270 million



Lower activity in the Middle East down \$86M million in 2013 partially offset by an increase in domestic construction projects and new Navy contract

### -61.3% OPERATING INCOME



Afghanistan contracts down due to volume and profit mix



Lower activity in the Middle East

### Free Cash Flow<sup>(2)</sup>



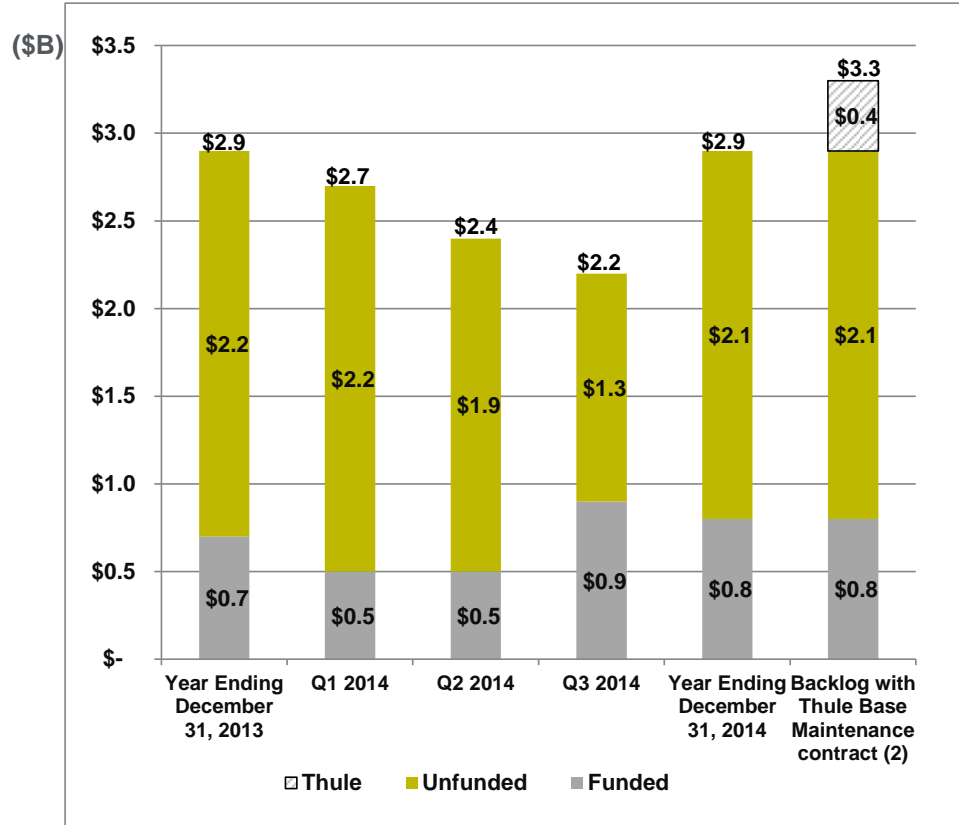
Strong 2014 cash flows

(1) Excludes historical results relating to TARS program which was retained by Exelis Inc. in connection with the spin-off and the impact of separation costs incurred to become a stand-alone public company. See Appendix for reconciliation.

(2) Free cash flow is defined as GAAP net cash provided by operating activities less capital expenditures. See Appendix for reconciliation.



# BACKLOG<sup>(1)</sup>



- Total Backlog<sup>(1)</sup> as of year ending December 31, 2014 of \$2.9B (excludes Thule Base Maintenance contract award<sup>(2)</sup> until all protests are resolved)
- December 31, 2014 backlog adjusted to include the Thule Base Maintenance contract award<sup>(2)</sup> of \$3.3B

(1) Total backlog represents firm orders and potential options on multi-year contracts, excluding potential orders under Indefinite Delivery Indefinite Quantity (IDIQ) contracts.

(2) On October 31, the Thule contract was awarded to a Danish company owned by Vectrus. The backlog associated with this \$411M award is \$3.3B.



# 2015 ASSUMPTIONS

- Top line expected to stabilize
  - 2015 anticipated revenue composition:
    - 65% Existing Business
    - 21% Re-competes (decisions expected in Q4 2015)
    - 14% Afghanistan contracts (includes expected declines)
- New wins expected to generate approx. \$150 million of partial year revenue
- Margin pressures in 2015; expected to rebound in 2016
- New business pipeline strong with proposals submitted for over \$1 billion of potential awards
- 2015 mandatory principal payments of \$11.4 million and anticipate additional voluntary payments
- Equity based founders grants drive non-cash expense totaling \$2.4 million
- Interest expense approx. \$6 million and 2015 effective tax rate approx. 36%



# 2015 GUIDANCE SUMMARY

|  | 2015 Guidance        |
|--|----------------------|
| \$ millions, except per share amounts          |                      |
| <b>Revenue</b>                                 | \$ 1,100 to \$ 1,200 |
| <b>Adjusted Operating Margin<sup>(2)</sup></b> | 3.2% to 3.6%         |
| <b>Adjusted Diluted EPS<sup>(3)</sup></b>      | \$ 1.76 to \$ 2.23   |
| <b>Free Cash Flow<sup>(4)</sup></b>            | \$ 15 to \$ 19       |

| 2014 <sup>(1)</sup> | 2015 Mid | \$Var     | % Var  |
|---------------------|----------|-----------|--------|
| \$ 1,172            | \$ 1,150 | \$ (22)   | -1.9%  |
| 4.3%                | 3.4%     | (90) BPS  |        |
| \$ 2.80             | \$ 1.99  | \$ (0.81) | -28.9% |
| \$ 39.1             | \$ 17.0  | \$ (22.1) | -56.5% |

(1) Excludes TARS program historical results and separation costs. See Appendix for reconciliation.

(2) Guidance excludes the pretax impact of 2015 separation costs, in the amount of \$500K.

(3) Guidance excludes the impact of 2015 separation costs, net of taxes, in the amount \$320K or \$.03 per share. EPS is calculated using the estimated weighted average diluted common shares outstanding for the year ended December 31, 2015 of 10.8 million.

(4) Free Cash Flow is calculated as GAAP net cash provided by operating activities less capital expenditures. Estimated 2015 capital expenditures of \$2M.

- 2015 adjusted operating margin guidance less equity based founders grants expense approx. 3.5% to 3.8%
- 2015 adjusted diluted EPS guidance less equity based founders grants expense approx. \$1.91 to \$2.38



# VECTRUS INVESTMENT HIGHLIGHTS

Strong Core Business

Enduring Customer Relationships

Significant Market Opportunity

Large Pipeline of Potential Opportunities and  
Sound Growth Strategy

Solid Financial Position

# VECTRUS FOURTH QUARTER AND FULL YEAR 2014 EARNINGS PRESENTATION

MARCH 17, 2015





# APPENDIX



# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

The primary financial performance measures Vectrus uses to manage its business and monitor results of operations are revenue trends and operating income trends. In addition, we consider adjusted revenue, adjusted operating income, adjusted operating margin, adjusted net income, adjusted diluted earnings per share, and free cash flow to be useful to management and investors in evaluating our operating performance for the periods presented, and to provide a tool for evaluating our ongoing operations. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives. Adjusted revenue, adjusted operating income, adjusted operating margin, adjusted net income, adjusted diluted earnings per share, and free cash flow, however, are not measures of financial performance under generally accepted accounting principles in the United States of America (GAAP) and should not be considered a substitute for revenue, operating income, net income, diluted earnings per share or net cash provided by operating activities as determined in accordance with GAAP. Reconciliations of adjusted revenue, adjusted operating income and free cash flow are provided below.

*“Adjusted revenue” is defined as revenue adjusted to exclude historical results relating to the TARS program which was retained by Exelis Inc. in connection with the spin-off.*

*“Adjusted operating income” is defined as net income, adjusted to exclude income taxes, interest expense, TARS program operating income, and separation costs incurred to become a public company.*

*“Adjusted operating margin” is defined as net income, adjusted to exclude income taxes, interest expense, TARS program operating income, and separation costs incurred to become a public company, divided by adjusted revenue.*

*“Adjusted Net Income” is defined as net income, adjusted to exclude TARS program operating income and separation costs incurred to become a public company, net of taxes.*

*“Adjusted Diluted Earnings Per Share” is defined as net income, adjusted to exclude TARS program operating income and separation costs incurred to become a public company, net of taxes, divided by the weighted average diluted common shares outstanding.*

*“Free cash flow” is defined as GAAP net cash provided by operating activities less capital expenditures.*

| <i>(In thousands)</i>                      | Three Months Ended<br>December 31, |                   | Year Ended<br>December 31, |                     |
|--|------------------------------------|-------------------|----------------------------|---------------------|
|  | 2014                               | 2013              | 2014                       | 2013                |
| <b>Adjusted Revenue (Non-GAAP Measure)</b> |                                    |                   |                            |                     |
| Revenue                                    | \$ 285,765                         | \$ 327,074        | \$ 1,203,269               | \$ 1,511,638        |
| TARS revenue <sup>1</sup>                  | \$ -                               | \$ (10,724)       | \$ (31,315)                | \$ (37,018)         |
| Adjusted revenue                           | <u>\$ 285,765</u>                  | <u>\$ 316,350</u> | <u>\$ 1,171,954</u>        | <u>\$ 1,474,620</u> |

<sup>1</sup> TARS program historical revenue, which has been retained by Exelis





# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

| <i>(In thousands)</i>                               | Three Months Ended<br>December 31, |                  | Year Ended<br>December 31, |                   |
|---|------------------------------------|------------------|----------------------------|-------------------|
|   | 2014                               | 2013             | 2014                       | 2013              |
| <b>Adjusted Operating Income (Non-GAAP Measure)</b> |                                    |                  |                            |                   |
| Net income  | \$ 3,331                           | \$ 16,163        | \$ 22,812                  | \$ 84,392         |
| Income taxes  | 3,264                              | 9,007            | 14,079                     | 47,041            |
| Interest income (expense)                           | (1,554)                            | 19               | (1,526)                    | 111               |
| Income from operations                              | 8,149                              | 25,151           | 38,417                     | 131,322           |
| Operating margin                                    | 2.9%                               | 7.7%             | 3.2%                       | 8.7%              |
| TARS operating income <sup>1</sup> (pretax)         | (116)                              | (30)             | (1,623)                    | (2,909)           |
| Separation costs <sup>2</sup> (pretax)              | 566                                | 705              | 13,237                     | 705               |
| Adjusted operating income                           | <u>\$ 8,599</u>                    | <u>\$ 25,826</u> | <u>\$ 50,031</u>           | <u>\$ 129,118</u> |
| Adjusted operating margin                           | <u>3.0 %</u>                       | <u>8.2 %</u>     | <u>4.3 %</u>               | <u>8.8 %</u>      |

| <i>(In thousands), except EPS</i>                             | Three Months Ended December<br>31, |                  | Year Ended<br>December 31, |                  |
|---|------------------------------------|------------------|----------------------------|------------------|
|   | 2014                               | 2013             | 2014                       | 2013             |
| <b>Adjusted Diluted Earnings Per Share (Non-GAAP Measure)</b> |                                    |                  |                            |                  |
| Net income  | \$ 3,331                           | \$ 16,163        | \$ 22,812                  | \$ 84,392        |
| TARS operating income <sup>1</sup> (pretax)                   | (116)                              | (30)             | (1,623)                    | (2,909)          |
| Separation costs <sup>2</sup> (pretax)                        | 566                                | 705              | 13,237                     | 705              |
| Tax impact of adjustments                                     | (223)                              | (242)            | (4,437)                    | 789              |
| Adjusted net income   | <u>\$ 3,558</u>                    | <u>\$ 16,596</u> | <u>\$ 29,989</u>           | <u>\$ 82,977</u> |
| EPS, diluted  | \$0.31                             | \$1.54           | \$2.13                     | \$8.06           |
| Adjusted EPS, diluted   | \$0.33                             | \$1.58           | \$2.80                     | \$7.92           |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Weighted average common shares outstanding - diluted | 10,696 | 10,474 | 10,692 | 10,474 |
|--|--------|--------|--------|--------|

<sup>1</sup> TARS program historical operating income, which has been retained by Exelis.

<sup>2</sup> Costs incurred to become a stand-alone public company



# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

| <i>(In thousands)</i>                     | Year Ended<br>December 31, |           |
|---|----------------------------|-----------|
|   | 2014                       | 2013      |
| <b>Free Cash Flow (Non-GAAP Measure)</b>  |                            |           |
| Net cash provided by operating activities | \$ 42,979                  | \$ 92,792 |
| Subtract:                                 |                            |           |
| Capital expenditures                      | (3,847)                    | (2,429)   |
| Free cash flow                            | \$ 39,132                  | \$ 90,363 |

| <i>(In thousands)</i>                            | Three Months Ended<br>December 31, |          | Year Ended<br>December 31, |            |
|--|------------------------------------|----------|----------------------------|------------|
|  | 2014                               | 2013     | 2014                       | 2013       |
| <b>Adjusted Funded Orders (Non-GAAP Measure)</b> |                                    |          |                            |            |
| \$ millions                                      |                                    |          |                            |            |
| Orders   | \$ 177.7                           | \$ 155.7 | \$ 1,370.6                 | \$ 1,732.4 |
| TARS Orders <sup>(1)</sup>                       | \$ -                               | \$ 1.3   | \$ (25.0)                  | \$ (23.8)  |
| Adjusted Orders                                  | \$ 177.7                           | \$ 157.0 | \$ 1,345.6                 | \$ 1,708.6 |

(1) TARS program historical revenue, which has been retained by Exelis