

# VECTRUS THIRD QUARTER 2014 EARNINGS PRESENTATION

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NOVEMBER 11, 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", "MAY", "COULD", AND OTHER TERMS OF SIMILAR MEANING ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS ARE UNCERTAIN AND TO SOME EXTENT UNPREDICTABLE, AND INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN, OR REASONABLY INFERRED FROM, SUCH FORWARD-LOOKING STATEMENTS.

SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE COMPANY'S HISTORICAL EXPERIENCE AND ANTICIPATED RESULTS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO: RISKS AND UNCERTAINTIES RELATING TO THE SEPARATION, INCLUDING WHETHER THOSE 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 SEPARATION, 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; 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 IN OUR REGISTRATION STATEMENT ON FORM 10 DECLARED EFFECTIVE BY THE SECURITIES AND EXCHANGE COMMISSION ("SEC") ON SEPTEMBER 8, 2014 AND OUR OTHER FILINGS WITH THE SEC.

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



# VECTRUS INVESTMENT HIGHLIGHTS

## Strong Core Business

- > \$1B business supporting customers' mission
- Long-term foundational contracts with \$2.2B<sup>(1)</sup> in backlog<sup>(2)</sup>
- Accomplished management team

## Enduring Customer Relationships

- More than 50-year legacy supporting customers' key missions
- Recent expansion into Marine and Navy customers
- Further penetration with Air Force

## Significant Market Opportunity

- Proven ability to win and execute large-scale, mission critical global programs involving complex logistics and supply chains
- Opportunity to capture larger share of a ~\$100B addressable market

## Large Pipeline and Proven Growth Strategy

- ~\$10B 3-year pipeline of qualified contract opportunities
- Won ~\$2.4B of new awards and seven new IDIQ contracts in the last 20 months

## Solid Financial Position

- Free cash flow conversion<sup>(3)</sup> ~100% of annual net income
- Scalable cost structure

(1) As of September 30, 2014.

(2) Total backlog represents firm orders and potential options on multi-year contracts, excluding potential orders under indefinite delivery and indefinite quantity (IDIQ) contracts.

(3) Free Cash Flow Conversion is calculated as Generally Accepted Accounting Principles in the U.S. (GAAP) net cash provided by operating activities less capital expenditures, divided by net income.



# THIRD QUARTER HIGHLIGHTS

- Vectrus successfully completed the spin-off from Exelis on September 27, 2014
- New contract wins are expected to add \$1.4B to backlog in Q4
  - U.S. Army Corps of Engineers Information Technology (ACE-IT) Contract<sup>(1)</sup> total contract value \$517M, 5 years
  - U.S. Air Forces in Europe Turkey Spain Base Maintenance Contract, total contract value \$458M, 7 years
  - Thule Base Maintenance Contract<sup>(2)</sup> awarded on October 31, 2014, total contract value \$411M, 7 years
- Third quarter results are consistent with full year 2014 guidance

(1) This contract was awarded on August 15, 2014. The incumbent contractor filed a protest with the U.S. Government Accounting Office (GAO) on September 2, 2014. Under the Competition in Contracting Act, the protest triggered a stay of the contract pending the results of the protest. Generally, a GAO decision on a protest is due within 100 days of the protest's submission.

(2) Subsequent to the quarter, on October 31, a Danish company owned by Vectrus was awarded the Thule Base Maintenance Contract.



# THIRD QUARTER AWARDS

## U.S. Army Corps of Engineers (USACE) Information Technology (ACE-IT) Contract <sup>(1)</sup>

Total Contract Value \$517M



Contract Length: 5 years

### Scope of Work:

Provide information management and information technology support services to more than 37,000 USACE customers. Work will be performed in multiple locations that include USACE headquarters in Washington, D.C. and Puerto Rico; nine separate Engineer divisions, 44 Engineer districts -- and their associated field and area project offices -- and two data centers located in Mississippi and Oregon. The effort will also include rapid response and flexible support for emergency operations.

## U.S. Air Forces in Europe Turkey Spain Base Maintenance Contract II

Total Contract Value \$458M



Contract Length: 7 years; through Sept. 2021

### Scope of Work:

Provide the full spectrum of day-to-day base operations and maintenance services including program management, force support services, emergency services, logistics support and transient alert operations. We will additionally provide contingency and exercise support with all Department of Defense, Joint Chiefs of Staff, U.S. Air Force, and government-supported allied operations. Work will be performed in Turkey at Incirlik Air Base, Izmir Air Station, Ankara Support Facility and the Office of Defense Cooperation, and in Spain at Morón Air Base.

(1) This contract was awarded on August 15, 2014. The incumbent contractor filed a protest with the GAO on September 2, 2014. Under the Competition in Contracting Act, the protest triggered a stay of the contract pending the results of the protest. Generally, a GAO decision on a protest is due within 100 days of the protest's submission.



# AWARDS SUBSEQUENT TO Q3

## U.S. Air Force Thule Base Maintenance Contract (TBMC) <sup>(1)</sup>

Total Contract Value \$411M



Contract Length: 7 years, through Sept. 2022

### Scope of Work:

Operations and maintenance services at Thule Air Base to include: civil engineering, airfield and water port operations, fuels management, transportation, non-secure communications, environmental management, food services, medical/public health, supply, recreation and community services. The location of performance is Thule Air Base, Greenland.

(1) This contract was awarded on October 31, 2014 to a Danish company owned by Vectrus.



# Q3 2014 FINANCIAL RESULTS

Third Quarter Results		
\$ millions, except Adj. Operating Margin	Q3 2014	vs. 2013
Orders <sup>(1)</sup>	\$ 703	\$ (219)
Adjusted Revenue <sup>(1)</sup>	\$ 288	\$ (54)
Adjusted Operating Income <sup>(1)</sup>	\$ 9	\$ (19)
Adjusted Operating Margin <sup>(1)</sup>	3.1%	(510) bps
Adjusted EPS <sup>(1)(3)</sup>	\$ 0.59	\$ (1.12)

## -24% ORDERS



Timing of Afghanistan & Middle East orders in 2013



Q3 book-to-bill<sup>(2)</sup> of 2.4x provides near-term cash flow visibility

## -16% ADJUSTED REVENUE <sup>(1)</sup>



Afghanistan contracts down \$ 56M due to U.S. troop withdrawals in line with expectations



Base business programs (Non-Afghanistan) stabilize quarter over quarter

## -68% ADJUSTED OPERATING INCOME <sup>(1)</sup>



Lower service volumes on Afghanistan contracts & prior year cumulative catch-up

(1) Excludes historical results relating to Tethered Aerostat Radar System (TARS) business 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) Book-to-bill is the amount of funded orders divided by adjusted revenue for the reporting period.

(3) Basic and diluted common shares reflect the number of Vectrus common shares outstanding, 10,474,268, on September 27, 2014, the date on which Vectrus common shares were distributed to the shareholders of Exelis Inc.



# YTD 2014 FINANCIAL RESULTS

Year-to-Date Results		
\$ millions, except Adj. Operating Margin	YTD 2014	vs. 2013
Orders <sup>(1)</sup>	\$ 1,168	\$ (384)
Adjusted Revenue <sup>(1)</sup>	\$ 887	\$ (272)
Adjusted Operating Income <sup>(1)</sup>	\$ 41	\$ (62)
Adjusted Operating Margin <sup>(1)</sup>	4.6%	(430) bps
Adjusted EPS <sup>(1)(4)</sup>	\$ 2.54	\$ (3.80)
Year-to-Date Free Cash Flow <sup>(3)</sup>	\$ 38	\$ 39

## -25% ORDERS



Lower service volume on Afghanistan & Middle East orders



YTD Book-to-Bill <sup>(2)</sup> 1.3x

## -23% ADJUSTED REVENUE <sup>(1)</sup>



Afghanistan contracts down \$ 200M due to U.S. troop withdrawals in line with expectations

## -60% ADJUSTED OPERATING INCOME <sup>(1)</sup>



Lower service volume on Afghanistan contracts & prior year cumulative catch-up

## Free Cash Flow <sup>(3)</sup>



Strong cash flows through September



Q4 cash flow expected to be lower compared to Q3 due to early cash receipts

(1) Excludes historical results relating to Tethered Aerostat Radar System (TARS) business 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) Book-to-Bill is the amount of funded orders divided by adjusted revenue for the reporting period.

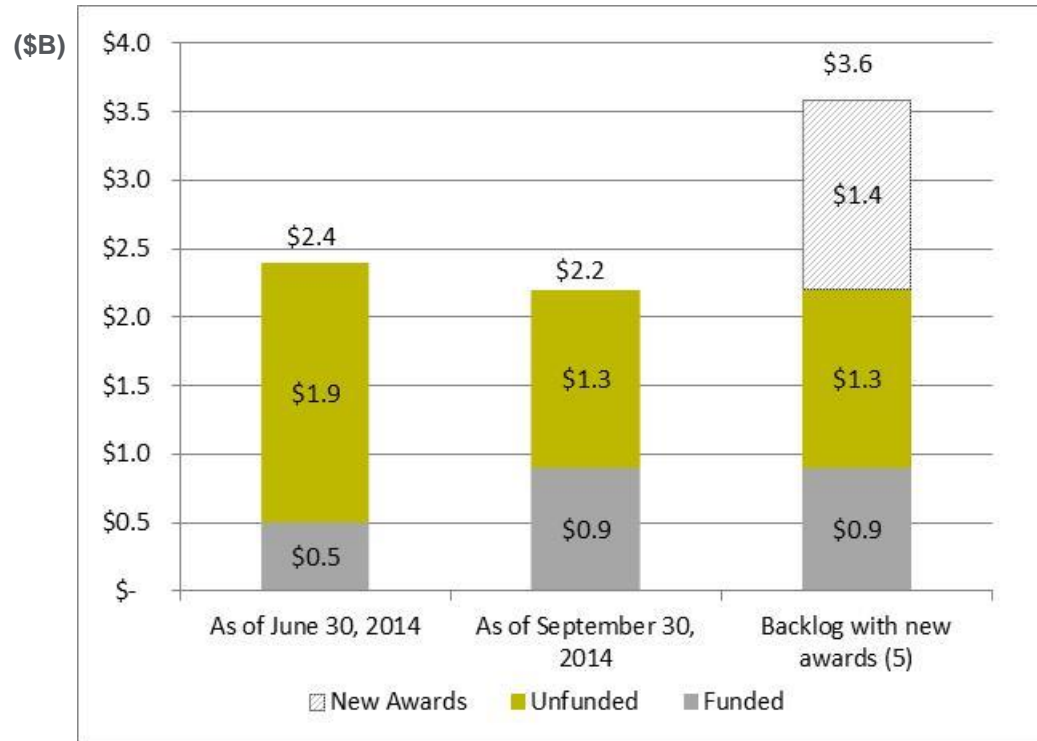
(3) Free cash flow is defined as GAAP net cash provided by operating activities less capital expenditures. See Appendix for reconciliation.

(4) Basic and diluted common shares reflect the number of Vectrus common shares outstanding, 10,474,268, on September 27, 2014, the date on which Vectrus common shares were distributed to the shareholders of Exelis Inc.





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



- Year-to-Date Book-to-Bill<sup>(2)</sup> 1.3x and Full Year expected to exceed 1.0x
- Total Backlog<sup>(1)</sup> as of September 30, 2014 of \$2.2B (excludes ACE-IT<sup>(3)</sup>, Turkey Spain and Thule<sup>(4)</sup>)
- September 30, 2014 backlog, adjusted to include the three recent wins is \$3.6B

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

(2) Book-to-Bill is the amount of funded orders divided by adjusted revenue for the reporting period.

(3) This contract was awarded on August 15, 2014. The incumbent contractor filed a protest with the GAO on September 2, 2014. Under the Competition in Contracting Act, the protest triggered a stay of the contract pending the results of the protest. Generally, a GAO decision on a protest is due within 100 days of the protest's submission.

(4) On October 31, this contract was awarded to a Danish company owned by Vectrus.

(5) Backlog with the three new awards includes: August 15, 2014 ACE-IT \$517M, September 18, 2014 Turkey Spain Base Maintenance \$458M, and October 31, 2014 Thule Base Maintenance \$411M.



# UPDATED 2014 GUIDANCE AND SUMMARY

	<b>Adjusted Revenue<sup>(1)</sup></b> \$ millions	<b>Adjusted Operating Margin<sup>(2)</sup></b>	<b>Free Cash Flow<sup>(3)</sup></b> \$ millions	<b>Adjusted EPS<sup>(4)</sup></b> <i>fully diluted</i>
<b>Guidance<sup>(1)</sup></b>	<b>\$ 1,150 to \$ 1,200</b>	<b>4.0% to 4.5%</b>	<b>\$ 23 to \$ 26</b>	<b>\$ 2.70 to \$ 2.90</b>

## SUMMARY

- Three recent awards are expected to add ~\$1.4B of total backlog in the fourth quarter
- 2014 adjusted revenue<sup>(1)</sup> is expected to be between \$1,150M to \$1,200M
- 2014 adjusted operating margin<sup>(2)</sup> is expected to range from 4.0% to 4.5%
- Expected effective Tax Rate 35.7%

(1) Adjusted Revenue excludes the impact of Tethered Aerostat Radar System (TARS) business historical revenue of \$31M.

(2) Adjusted Operating Margin excludes the pretax impact of TARS business operating income of \$2M and the impact of separation costs incurred to become a stand-alone public company of \$13M.

(3) Free Cash Flow is defined as GAAP net cash provided by operating activities less expected capital expenditures of \$3M.

(4) Adjusted EPS reflects the impact, net of tax, of: (i) TARS business operating income (net of tax) of \$1M or \$0.09 per share, and (ii) separation costs incurred to become a stand-alone public company (net of tax) of \$8M or \$0.75 per share. The total number of outstanding diluted shares are estimated to be 10.6M at 12/31/14.

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NOVEMBER 11, 2014





# 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 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 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, 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 business 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, TARS business operating income, and separation costs incurred to become a public company.*

*“Adjusted operating margin” is defined as net income, adjusted to exclude income taxes, TARS business 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 business operating income, and separation costs incurred to become a public company (net of taxes).*

*“Adjusted Earnings Per Share” is defined as net income, adjusted to exclude TARS business operating income, and separation costs incurred to become a public company (net of taxes), divided by the outstanding number of shares.*

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

\$ millions	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<b>Adjusted Revenue (Non-GAAP Measure)</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenue	\$ 301	\$ 349	\$ 918	\$ 1,185
TARS Revenue <sup>(1)</sup>	(13)	(7)	(31)	(26)
Adjusted Revenue	<u>\$ 288</u>	<u>\$ 342</u>	<u>\$ 887</u>	<u>\$ 1,159</u>

(1) Tethered Aerostat Radar System (TARS) business historical revenue, which has been retained by Exelis.



# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

\$ millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Adjusted Operating Income (Non-GAAP Measure)</b>				
Net Income	\$ 2	\$ 19	\$ 19	\$ 68
Income Taxes	1	10	11	38
Operating Income	3	29	30	106
Operating Margin	1.0%	8.3%	3.3%	8.9%
TARS Operating income <sup>(1)</sup> (pretax)	(1)	(1)	(2)	(3)
Separation Costs <sup>(2)</sup> (pretax)	7	-	13	-
Adjusted Operating Income	\$ 9	\$ 28	\$ 41	\$ 103
Adjusted Operating Margin	3.1%	8.2%	4.6%	8.9%

(1) Tethered Aerostat Radar System (TARS) business historical operating income, which has been retained by Exelis.

(2) Costs incurred to become a stand-alone public company.

\$ millions	Nine Months Ended September 30,	
	2014	2013
<b>Free Cash Flow (Non-GAAP measure)</b>		
Net cash provided by operating activities	\$ 40	\$ -
Subtract:		
Capital Expenditures	(2)	(1)
Free Cash Flow	\$ 38	\$ (1)



# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

\$ millions, except EPS and outstanding shares <b>Adjusted Net Income (non-GAAP Measure)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net Income	\$ 2.1	\$ 18.6	\$ 19.5	\$ 68.2
TARS Operating income (net of tax)	(0.6)	(0.7)	(1.0)	(1.8)
Separation costs (net of tax)	4.6	-	8.2	-
Adjusted Net Income	<u>\$ 6.1</u>	<u>\$ 17.9</u>	<u>\$ 26.6</u>	<u>\$ 66.4</u>
Adjusted EPS	\$ 0.59	\$ 1.71	\$ 2.54	\$ 6.34
Shares Outstanding as of 9/27/14	10,474,268	10,474,268	10,474,268	10,474,268
Net Income	\$ 2.1	\$ 18.6	\$ 19.5	\$ 68.2
Earnings Per Share (EPS)	0.20	1.77	1.86	6.51
Shares Outstanding as of 9/27/14	10,474,268	10,474,268	10,474,268	10,474,268